

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Garner-Hayfield Community School District, Garner, Iowa, as of and for the year ended June 30, 2010, 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 financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Garner-Hayfield Community School District at June 30, 2010, 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 February 22, 2011, on our consideration of Garner-Hayfield Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Garner-Hayfield Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009, (which are not presented herein). Our opinions for 2009, 2008, 2007 and 2006 were unqualified. For 2005 and 2004 we expressed unqualified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information and we did not issue an opinion on the discretely presented component unit. Other supplementary information included in Schedules 1 through 8, 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.

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

February 22, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Garner-Hayfield Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,801,569 in fiscal 2009 to \$7,002,961 in fiscal 2010, while General Fund expenditures decreased from \$7,065,362 in fiscal 2009 to \$6,897,244 in fiscal 2010. The District's General Fund balance increased from \$467,224 in fiscal 2009 to \$573,391 in fiscal 2010, a 23% increase.
- General Fund revenues increases are attributable to revenues from the American Recovery and Reinvestment Act, an increase in property tax receipts, as well as from unanticipated gifts and donations in fiscal year 2010. The decrease in expenditures was due primarily to personnel changes including the reduction of one principal position replaced by reassignment of the superintendent duties to include half-time elementary principal responsibilities. One high school teaching position was reduced as well as three teaching positions at the K-8 building. While making staff reductions is never an easy thing to do, without this action the district would not have seen an increase in the General Fund balance.
- 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 Garner-Hayfield Community School District as a whole and present an overall view of the District's finances.

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

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

**Figure A-1**  
**Garner-Hayfield Community School District Annual Financial Report**

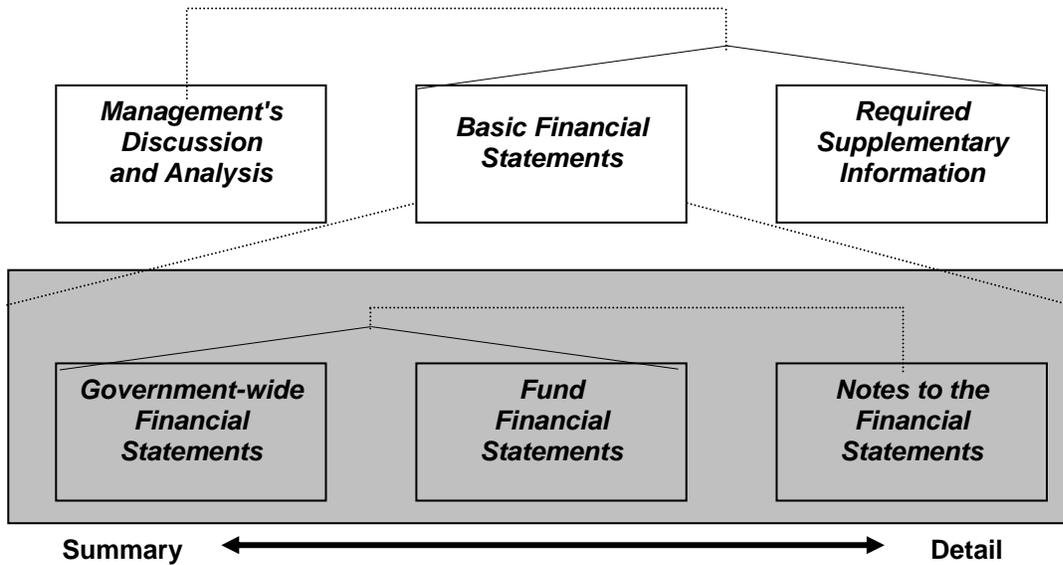


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

2) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency 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, 2010 compared to June 30, 2009.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2009-2010 %
	Governmental Activities		Business-type Activities		Total School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Current and other assets	4,898,389	5,237,518	209,543	207,090	5,107,932	5,444,608	+6.6%
Capital assets	4,863,126	5,225,783	15,219	18,511	4,878,345	5,244,294	+7.5%
<b>Total assets</b>	<b>9,761,515</b>	<b>10,463,301</b>	<b>224,762</b>	<b>225,601</b>	<b>9,986,277</b>	<b>10,688,902</b>	<b>+7.0%</b>
Long-term liabilities	1,059,681	742,810	0	0	1,059,681	742,810	-29.9%
Other liabilities	2,854,737	3,147,236	7,006	25,877	2,861,743	3,173,113	+10.9%
<b>Total liabilities</b>	<b>3,914,418</b>	<b>3,890,046</b>	<b>7,006</b>	<b>25,877</b>	<b>3,921,424</b>	<b>3,915,923</b>	<b>-1%</b>
Net Assets:							
Invested in capital assets, net of related debt	4,330,419	4,953,315	15,219	18,511	4,345,638	4,971,826	+14.4%
Restricted	1,189,624	1,213,236	0	0	1,189,624	1,213,236	+2.0%
Unrestricted	327,054	406,704	202,537	181,213	529,591	587,917	+11.0%
<b>TOTAL NET ASSETS</b>	<b>5,847,097</b>	<b>6,573,255</b>	<b>217,756</b>	<b>199,724</b>	<b>6,064,853</b>	<b>6,772,979</b>	<b>+11.7%</b>

The District's combined total net assets increased by nearly 11.7%, or approximately \$708,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The biggest items to impact this amount were succeeding year property taxes, delinquent property taxes, and amounts due from other government bodies (tuition, etc.).

The debt related to the investment in capital assets is liquidated with sources other than capital assets. Investment in capital assets increased by 14.4% due to renovation at the K-8 building, the construction of a new press box, and other projects during the course of the year.

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 by 11% as a result of revenues exceeding expenditures.

Figure A-4 shows the change in net assets for the years ended June 30, 2010 and 2009.

Figure A-4

	Change in Net Assets						Percentage Change 2009-2010 %
	Governmental Activities		Business-type Activities		Total School District		
	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	
Revenues							
Program Revenues:							
Charges for services	993,905	993,548	376,352	362,347	1,370,257	1,355,895	-1.0%
Operating grants & contributions	1,172,714	1,698,024	158,631	176,629	1,331,345	1,874,653	+40.8%
Capital grants & contributions	208,730	21,886			208,730	21,886	-89.5%
General Revenues:							
Property taxes	2,124,417	2,409,918			2,124,417	2,409,918	+13.4%
Income Surtax	360,101	357,496			360,101	357,496	-.7%
Statewide sales tax	440,963	438,832			440,963	438,832	-.5%
Unrestricted state grants	3,084,901	2,527,862			3,084,901	2,527,862	-18.1%
Unrestricted investment earnings	21,529	18,168	106	113	21,635	18,281	-15.5%
Other revenue	21,141	10,145			21,141	10,145	-52.0%
<b>Total Revenues</b>	<b>8,428,401</b>	<b>8,475,879</b>	<b>535,089</b>	<b>539,089</b>	<b>8,963,490</b>	<b>9,014,968</b>	<b>+6.6%</b>
Expenses:							
Instruction	5,388,722	5,164,912			5,388,722	5,164,912	-4.2%
Support services	2,063,814	1,990,655			2,063,814	1,990,655	-3.5%
Non-instructional programs	0	0	486,405	557,121	486,405	557,121	+14.5%
Other expenditures	601,243	594,154			601,243	594,154	-1.2%
<b>Total expenses</b>	<b>8,053,779</b>	<b>7,749,721</b>	<b>486,405</b>	<b>557,121</b>	<b>8,540,184</b>	<b>8,306,842</b>	<b>-2.7%</b>
<b>CHANGE IN NET ASSETS</b>	<b>374,622</b>	<b>726,158</b>	<b>48,684</b>	<b>-18,032</b>	<b>423,306</b>	<b>708,126</b>	<b>+67.3%</b>
Net assets beginning of year	5,472,475	5,847,097	169,072	217,756	5,641,547	6,064,853	+7.5%
Net assets end of year	5,847,097	6,573,255	217,756	199,724	6,064,853	6,772,979	+11.7%

In fiscal year 2010 property tax and unrestricted state grants account for 55% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% of the total expenses.

As shown in figure A-4, the District as a whole experienced a .6% increase in revenues and a 2.7% decrease in expenses. Property tax increased \$195,501 to offset the decrease in state aide to fund expenses. The decrease in expenses shows that the reduction in staff made a significant difference in total expenditures.

## Governmental Activities

Revenues for governmental activities were \$8,475,879 expenses were \$7,749,721. In a difficult budget year, the District was able to balance the budget by trimming expenses in the general fund to increase the ending fund balance to a more fiscally responsible level.

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

Figure A-5

	Total Cost of Services			Net Cost of Services		
	2009	2010	Percent Change 2009-2010	2009	2010	Percent Change 2009-2010
	\$		%	\$	\$	
Instruction	5,388,722	5,164,912	-4.2%	3,549,589	2,871,493	-19.1%
Support Services	2,063,814	1,990,655	-3.5%	2,007,836	1,909,566	-4.9%
Other Expenses	601,243	594,154	-1.2%	121,005	255,258	+100.1%
<b>TOTAL</b>	<b>8,053,779</b>	<b>7,749,721</b>	<b>-3.8%</b>	<b>5,678,430</b>	<b>5,036,317</b>	<b>-11.3%</b>

For the year ended June 30, 2010:

- The cost of all governmental activities this year was \$7,749,721.
- The cost financed by users of the District's programs was \$993,548. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,698,024.
- The net cost of governmental activities was financed with \$3,206,246 in property and local other taxes and \$2,527,862 in unrestricted state grants.

## Business Type Activities

Revenues for business type activities were \$539,089 and expenses were \$557,121. The District's business type activities include the School Nutrition Fund and the House Construction Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income. As of June 30, 2010, the house built by the Carpentry students in 2010 remained unsold.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,631,623, above last year's ending fund balances of \$1,601,951 but not significantly so.

## **Governmental Fund Highlights**

- The District's General Fund financial position is improving and is the result of many factors. The board and administration continually look for ways to provide a quality educational experience to the students of this District in a fiscally responsible manner. A major restructuring of how services are being provided to students was implemented in 2008-2009 and more changes were implemented in 2009-2010. The Board and Administration is looking at ways to best provide services during times of economic downturns and yet still meet the requirements of No Child Left Behind and other state, federal, and local expectations. The administration of the Garner-Hayfield Community School District feels that our enrollment is stabilizing and the District should not see large swings in either direction in coming years.
- The General Fund balance increased from \$467,224 to \$573,391, due in large part to the staff reductions previously mentioned that took place in 2010. The increase in revenue experienced by the District also is reflected in this increase.
- The Capital Projects Fund balance decreased due to the extensive renovation and the construction of the press box in 2010. The District ended fiscal 2010 with a balance of \$732,808 which will be used for further renovations and roof replacements as deemed necessary.

## **Proprietary Fund Highlights**

The School Nutrition Fund and the House Construction fund net assets decreased from \$217,716 at June 30, 2009 to \$199,724 at June 30, 2010, representing a decrease of approximately 8%. The decrease was due in large part to having money borrowed to finance the construction of the student house project that had not sold as of June 30, 2010. Nutrition Fund accounts receivables also increased by approximately \$2,500. The Board of Education has directed the Superintendent to pursue alternate channels to aid in the collection of negative lunch account dollars to improve this situation.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Garner-Hayfield Community School District receipts were \$149,215 less than budgeted receipts, a variance of 1.7%. The most significant variance resulted from the District receiving less in state aid than originally anticipated, while this was somewhat offset by an increase in federal funding due to the monies received from the American Recovery and Reinvestment Act, the receipts were still less than budgeted.

Total expenditures were \$433,269 less than budgeted, due primarily to the reduction in personnel that the District implemented during the 2009-2010 fiscal year. The District manages or controls General Fund spending through its line-item budget. The District's certified budget should always exceed actual expenditures for the year and we budget between what we think we will actually spend and the maximum authorized spending authority for the General Fund. In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures area. This was due to projects that began and were billed before June 30, 2010 that had been anticipated to start in July 2010. The District will amend future budgets in anticipation that this scenario could occur again if large projects are planned.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2010, the District had invested \$5,244,295, 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 7.5% from last year. More detailed information about the District's capital assets is presented in Note 7 to the financial statements. Depreciation expense for the year was \$286,687.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$4,305,325 at June 30, 2010 compared to \$3,916,507 reported at June 30, 2009. This increase resulted from renovation activity financed by SILO funds at the K-8 building as well as the construction of a new press box at the football/track complex.

**Figure A-6**

**Capital Assets (net of depreciation)**

	Governmental		Business type		Total		Percentage Change 2009-2010
	Activities		Activities		School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	%
Land	48,803	48,803	0	0	48,803	48,803	0%
Construction in progress	109,456	81,634	0	0	109,456	81,634	-25.4%
Buildings	3,916,507	4,305,325	0	0	3,916,507	4,305,325	+9.9%
Improvements	487,443	537,017	0	0	487,443	537,017	+10.2%
Equipment & furniture	300,917	253,004	15,219	18,512	316,136	271,516	-14.1%
<b>TOTAL</b>	<b>4,863,126</b>	<b>5,225,783</b>	<b>15,219</b>	<b>18,512</b>	<b>4,878,345</b>	<b>5,244,295</b>	<b>+7.5%</b>

**Long-Term Debt**

At June 30, 2010 the District had \$742,810 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 30% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

There is a Capital Lease outstanding in the amount of \$32,468 for the new computers leased from Apple Computer.

The early retirement debt decreased by \$66,770 due to the completion of early retirement benefits for some participants. The District did offer an early retirement benefit during the 2009-2010 fiscal year. The benefit consisted of the school paying \$15,000 of health insurance premiums over a five year period.

The District's obligation for compensated absences increased slightly (\$2,319). This small change was due to the staff reductions implemented over the 2008-2009 and 2009-2010 fiscal years.

**Figure A-7**

**Outstanding Long-Term Obligations**

	Total School District		Percentage
	2009	2010	Change
	\$	\$	2009-2010
			%
General obligation bonds	470,000	240,000	-48.9%
Equipment Loans - Computers	22,131	11,950	-46%
Capital leases	62,707	32,468	-48.2%
Early retirement	367,240	300,470	-18.2%
Compensated absences	137,603	139,922	+1.7%
Net OPEB liability	0	18,000	0.0%
	<b>1,059,681</b>	<b>742,810</b>	<b>-29.9%</b>

## **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 October 2010 enrollment increased by 22.1 students. The District is in the second year of a sharing agreement for the services of the Transportation Director with the Forest City Community School District that will provide supplemental weighting to our District. With the District projecting enrollment to stabilize, the District is not anticipating a large increase as was seen in 2010, the largest negative factor continues to be the economic downturn in the nation's and state's economies.
- The District will negotiate a new contract with the Garner-Hayfield Education Association (GHEA) and the Garner-Hayfield Education Services Association (GHESA) during fiscal 2011. 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 appreciated the low negotiated settlements reached with both unions for the 2011 fiscal year.
- The District will be implementing a 1 to 1 computer program for students in the high school beginning in the 2012 fiscal year. Infrastructure will need to be updated to accommodate this system as well as the purchase of approximately 300 laptop computers. These expenses will affect the PPEL and SILO fund balances as well as General fund for any software purchases related to this program.
- The current bond issue will be retired on June 30, 2011, and would be an improvement to our Long-Term Obligations at this time.

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

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

## BASIC FINANCIAL STATEMENTS

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total	Garner- Hayfield Community School District Education Foundation
	\$	\$	\$	\$
<b>Assets</b>				
Cash and cash equivalents	1,864,276	43,433	1,907,709	13,581
Investments	-	-	-	499,633
Receivables:				
Property tax:				
Delinquent	60,691	-	60,691	-
Succeeding year	2,594,875	-	2,594,875	-
Accounts	41,467	6,329	47,796	-
Due from other governments	663,371	-	663,371	-
Internal balances	888	(888)	-	-
Inventories	-	158,216	158,216	-
Notes receivable	11,950	-	11,950	-
Capital assets, net of accumulated depreciation	5,225,783	18,511	5,244,294	-
<b>Total assets</b>	<b>10,463,301</b>	<b>225,601</b>	<b>10,688,902</b>	<b>513,214</b>
<b>Liabilities</b>				
Accounts payable	451,577	1,507	453,084	-
Salaries and benefits payable	49,533	173	49,706	-
Bank loan payable	-	18,500	18,500	-
Accrued interest payable	2,405	-	2,405	-
Deferred revenue:				
Succeeding year property tax	2,594,875	-	2,594,875	-
Other	48,846	5,697	54,543	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	240,000	-	240,000	-
Capital lease	32,468	-	32,468	-
Equipment note payable	8,366	-	8,366	-
Termination benefits	94,021	-	94,021	-
Compensated absences	51,634	-	51,634	-
Portion due after one year:				
Equipment note payable	3,584	-	3,584	-
Termination benefits	206,449	-	206,449	-
Compensated absences	88,288	-	88,288	-
Net OPEB liability	18,000	-	18,000	-
<b>Total liabilities</b>	<b>3,890,046</b>	<b>25,877</b>	<b>3,915,923</b>	<b>-</b>

See notes to financial statements.

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total	Garner- Hayfield Community School District Education Foundation
	\$	\$	\$	\$
<b>Net assets</b>				
Invested in capital assets, net of related debt	4,953,315	18,511	4,971,826	-
Restricted for:				
Endowment by donors	-	-	-	499,633
Categorical funding	218,423	-	218,423	-
Physical plant and equipment levy	114,872	-	114,872	-
Other special revenue purposes	139,683	-	139,683	-
Sales tax capital projects	732,808	-	732,808	-
Debt service	7,450	-	7,450	-
Unrestricted	406,704	181,213	587,917	13,581
<b>Total net assets</b>	<u>6,573,255</u>	<u>199,724</u>	<u>6,772,979</u>	<u>513,214</u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

<b>Functions/Programs</b>	<u>Program Revenues</u>			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
<b>Governmental activities:</b>				
<b>Instruction:</b>				
Regular	3,130,566	508,199	1,045,586	-
Special	795,306	59,341	146,973	-
Other	1,239,040	424,765	108,609	-
	<u>5,164,912</u>	<u>992,305</u>	<u>1,301,168</u>	<u>-</u>
<b>Support services:</b>				
Student	358,165	-	79,846	-
Instructional staff	104,122	-	-	-
Administration	616,290	-	-	-
Operation and maintenance of plant	690,812	1,243	-	-
Transportation	221,266	-	-	-
	<u>1,990,655</u>	<u>1,243</u>	<u>79,846</u>	<u>-</u>
<b>Other expenditures:</b>				
Facilities acquisition	71,470	-	-	21,886
Long-term debt interest	21,463	-	148	-
AEA flowthrough	316,862	-	316,862	-
Depreciation (unallocated)*	184,359	-	-	-
	<u>594,154</u>	<u>-</u>	<u>317,010</u>	<u>21,886</u>
<b>Total governmental activities</b>	<u>7,749,721</u>	<u>993,548</u>	<u>1,698,024</u>	<u>21,886</u>
<b>Business type activities:</b>				
<b>Non-instructional programs:</b>				
Food service operations	388,635	232,408	176,629	-
Student house construction project	168,486	129,939	-	-
<b>Total business-type activities</b>	<u>557,121</u>	<u>362,347</u>	<u>176,629</u>	<u>-</u>
<b>Total primary government</b>	<u>8,306,842</u>	<u>1,355,895</u>	<u>1,874,653</u>	<u>21,886</u>
<b>Component Units</b>				
Garner-Hayfield Community School				
District Education Foundation	22,064	-	2,410	-
<b>Total</b>	<u>8,328,906</u>	<u>1,355,895</u>	<u>1,877,063</u>	<u>21,886</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
<b>Total general revenues</b>				

**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.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business Type Activities	Total	Component Unit
\$	\$	\$	\$
(1,576,781)	-	(1,576,781)	-
(588,992)	-	(588,992)	-
(705,666)	-	(705,666)	-
(2,871,439)	-	(2,871,439)	-
(278,319)	-	(278,319)	-
(104,122)	-	(104,122)	-
(616,290)	-	(616,290)	-
(689,569)	-	(689,569)	-
(221,266)	-	(221,266)	-
(1,909,566)	-	(1,909,566)	-
(49,584)	-	(49,584)	-
(21,315)	-	(21,315)	-
-	-	-	-
(184,359)	-	(184,359)	-
(255,258)	-	(255,258)	-
(5,036,263)	-	(5,036,263)	-
-	20,402	20,402	-
-	(38,547)	(38,547)	-
-	(18,145)	(18,145)	-
(5,036,263)	(18,145)	(5,054,408)	-
-	-	-	(19,654)
(5,036,263)	(18,145)	(5,054,408)	(19,654)
2,181,420	-	2,181,420	-
126,512	-	126,512	-
101,986	-	101,986	-
357,496	-	357,496	-
438,832	-	438,832	-
2,527,862	-	2,527,862	-
18,168	113	18,281	72,423
10,145	-	10,145	-
5,762,421	113	5,762,534	72,423
726,158	(18,032)	708,126	52,769
5,847,097	217,756	6,064,853	460,445
6,573,255	199,724	6,772,979	513,214

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2010

	General Fund	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	505,497	767,239	318,926	1,591,662
Receivables:				
Property tax:				
Delinquent	49,528	-	11,163	60,691
Succeeding year	2,127,410	-	467,465	2,594,875
Accounts	4,865	-	29,515	34,380
Interfund receivable	888	-	-	888
Due from other governments	506,585	61,439	95,347	663,371
Notes receivable	11,950	-	-	11,950
<b>Total assets</b>	<u>3,206,723</u>	<u>828,678</u>	<u>922,416</u>	<u>4,957,817</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	141,336	95,870	34,180	271,386
Salaries and benefits payable	49,533	-	-	49,533
Deferred revenue:				
Succeeding year property tax	2,127,410	-	467,465	2,594,875
Income surtax	254,257	-	95,347	349,604
Other	60,796	-	-	60,796
Total liabilities	<u>2,633,332</u>	<u>95,870</u>	<u>596,992</u>	<u>3,326,194</u>
Fund balances:				
Reserved for:				
Categorical funding	218,423	-	-	218,423
Debt service	-	-	9,855	9,855
Unreserved reported in:				
General fund	354,968	-	-	354,968
Special revenue funds	-	-	315,569	315,569
Capital projects funds	-	732,808	-	732,808
Total fund balances	<u>573,391</u>	<u>732,808</u>	<u>325,424</u>	<u>1,631,623</u>
<b>Total liabilities and fund balances</b>	<u>3,206,723</u>	<u>828,678</u>	<u>922,416</u>	<u>4,957,817</u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	1,631,623
<b><i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	5,225,783
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	361,554
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.	(2,405)
An internal service fund is used by the District's management to charge the costs health insurance and health insurance deductible reimbursements to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	99,510
Long-term liabilities, including bonds payable, notes payable, capital leases, termination benefits, compensated absences and other postemployment benefits are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(742,810)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>6,573,255</u></u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General Fund	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,168,563	438,832	548,940	3,156,335
Tuition	507,394	-	-	507,394
Other	135,304	3,074	420,211	558,589
State sources	3,484,030	-	281	3,484,311
Federal sources	707,670	-	19,099	726,769
Total revenues	<u>7,002,961</u>	<u>441,906</u>	<u>988,531</u>	<u>8,433,398</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,017,121	-	123,081	3,140,202
Special	793,146	-	-	793,146
Other	859,450	-	373,099	1,232,549
	<u>4,669,717</u>	<u>-</u>	<u>496,180</u>	<u>5,165,897</u>
Support services:				
Student	357,445	-	-	357,445
Instructional staff	101,943	-	-	101,943
Administration	587,873	-	26,241	614,114
Operation and maintenance of plant	655,174	-	30,297	685,471
Transportation	208,230	-	12,400	220,630
	<u>1,910,665</u>	<u>-</u>	<u>68,938</u>	<u>1,979,603</u>
Other expenditures:				
Facilities acquisition	-	477,150	189,249	666,399
Long-term debt:				
Principal	-	-	260,239	260,239
Interest and fiscal charges	-	-	24,176	24,176
AEA flowthrough	316,862	-	-	316,862
	<u>316,862</u>	<u>477,150</u>	<u>473,664</u>	<u>1,267,676</u>
Total expenditures	<u>6,897,244</u>	<u>477,150</u>	<u>1,038,782</u>	<u>8,413,176</u>
Excess (deficiency) of revenues over (under) expenditures	<u>105,717</u>	<u>(35,244)</u>	<u>(50,251)</u>	<u>20,222</u>
Other financing sources (uses):				
Sales of materials and equipment	450	-	-	450
Operating transfers in	-	-	157,295	157,295
Operating transfers out	-	(124,827)	(32,468)	(157,295)
Total other financing sources (uses)	<u>450</u>	<u>(124,827)</u>	<u>124,827</u>	<u>450</u>
Net change in fund balances	106,167	(160,071)	74,576	20,672
Fund balances beginning of year	<u>467,224</u>	<u>892,879</u>	<u>250,848</u>	<u>1,610,951</u>
Fund balances end of year	<u>573,391</u>	<u>732,808</u>	<u>325,424</u>	<u>1,631,623</u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		20,672
<b>Amounts reported for governmental activities in the Statement of Activities are different because:</b>		
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	644,954	
Depreciation expense	<u>(282,297)</u>	362,657
Income surtaxes and other revenues 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.		
		42,031
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.		
		260,239
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.		
		2,713
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	66,770	
Compensated absences	(2,319)	
Other postemployment benefits	<u>(18,000)</u>	46,451
An internal service fund is used by the District's management to charge the costs of the health insurance premiums and health insurance deductible reimbursements to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		
		<u>(8,605)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>726,158</u></u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2010

	Nonmajor Enterprise Funds \$	Governmental Activities - Internal Service Fund \$
<b>Assets</b>		
Cash and cash equivalents	43,433	272,614
Accounts receivable	6,329	7,087
Inventories	158,216	-
Capital assets, net of accumulated depreciation	18,511	-
	<u>226,489</u>	<u>279,701</u>
<b>Total assets</b>		
<b>Liabilities</b>		
Accounts payable	1,507	180,191
Interfund payables	888	-
Bank loan payable	18,500	-
Salaries and benefits payable	173	-
Deferred revenue	5,697	-
	<u>26,765</u>	<u>180,191</u>
<b>Total liabilities</b>		
<b>Net assets</b>		
Invested in capital assets	18,511	-
Unrestricted	181,213	99,510
	<u>199,724</u>	<u>99,510</u>
<b>Total net assets</b>		

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Operating revenue:		
Local sources:		
Sale of student constructed home	129,939	-
Charges for service	232,408	1,032,093
Total operating revenue	<u>362,347</u>	<u>1,032,093</u>
Operating expenses:		
Non-instructional programs:		
Salaries	147,659	-
Benefits	21,058	1,040,698
Purchased services	921	-
Supplies	382,635	-
Depreciation	4,391	-
Other	457	-
Total operating expenses	<u>557,121</u>	<u>1,040,698</u>
Operating gain (loss)	<u>(194,774)</u>	<u>(8,605)</u>
Non-operating revenues:		
State sources	4,153	-
Federal sources	172,476	-
Interest income	113	-
Total non-operating revenues	<u>176,742</u>	<u>-</u>
Change in net assets	(18,032)	(8,605)
Net assets beginning of year	<u>217,756</u>	<u>108,115</u>
Net assets end of year	<u>199,724</u>	<u>99,510</u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2010

	Enterprise Funds Nonmajor Enterprise Funds \$	Governmental Activities - Internal Service Fund \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	235,493	-
Cash payments from sale of house	129,939	-
Cash payments from services to other funds	-	1,025,253
Cash payments to employees for services	(168,544)	(1,040,086)
Cash payments to suppliers for goods or services	(354,448)	-
Net cash used by operating activities	<u>(157,560)</u>	<u>(14,833)</u>
Cash flows from non-capital financing activities:		
Loan from (repaid to) General Fund	888	-
State grants received	4,153	-
Federal grants received	142,543	-
Net cash provided by non-capital financing activities	<u>147,584</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Proceeds from bank loan	18,500	-
Acquisition of capital assets	(7,683)	-
Net cash provided by capital and related financing activities	<u>10,817</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	113	-
Net increase (decrease) in cash and cash equivalents	954	(14,833)
Cash and cash equivalents at beginning of year	42,479	287,447
Cash and cash equivalents at end of year	<u>43,433</u>	<u>272,614</u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(194,774)	(8,605)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	29,933	-
Depreciation	4,391	-
Decrease (increase) in inventories	2,042	-
Decrease (increase) in accounts receivable	477	(6,840)
(Decrease) increase in accounts payable	(2,410)	612
(Decrease) increase in salaries and benefits payable	173	-
(Decrease) increase in deferred revenue	2,608	-
Net cash used by operating activities	<u>(157,560)</u>	<u>(14,833)</u>

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

During the year ended June 30, 2010, the District received \$29,933 of federal commodities.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2010

	Private Purpose Trust Scholarship
	<u>\$</u>
<b>Assets</b>	
Cash and pooled investments	14,780
Accrued interest receivable	<u>29</u>
<b>Total Assets</b>	14,809
<b>Liabilities</b>	
Accounts payable	<u>29</u>
<b>Net Assets</b>	
Reserved for scholarships	<u><u>14,780</u></u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2010

	Private Purpose Trust Scholarship <u>          </u> \$
Additions:	
Local sources:	
Gifts and contributions	6,050
Interest	<u>145</u>
Total additions	6,195
Deductions:	
Support services:	
Scholarships awarded	<u>3,000</u>
Change in net assets	3,195
Net assets beginning of year	<u>11,585</u>
Net assets end of year	<u><u>14,780</u></u>

# GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2010

### 1. Summary of Significant Accounting Policies

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

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

#### A. Reporting Entity

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

The Garner-Hayfield Community School District Education Foundation has been included in the financial statements as required by Chapters 11.6 and 279.62 of the Code of Iowa. It is included as a discretely presented component unit. The Garner-Hayfield Community School District Education Foundation was established, by the District, for charitable, educational, and scientific purposes which benefit the Garner-Hayfield Community School District. Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns.

Also, the All Sports Booster Club was established by the District during fiscal year 2007 under Chapter 279.62 of the Code of Iowa. As required by Chapter 11.6 of the Code of Iowa, the booster club has been audited as part of the District's annual audit and is blended as part of the Nonmajor Student Activity Fund.

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 non-fiduciary 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 attributable 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 instructional, support and other costs.

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

The District's had two proprietary enterprise funds during the year ended June 30, 2010. The School Nutrition Fund is used to account for the food service operations of the District. The Student Construction Fund is used to account for the proceeds from the sale of and the costs of the construction of a house.

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

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

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

### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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 the lower of cost or market, 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. Proprietary fund inventories include \$144,000 for a house constructed by students that is being held for resale.

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	3,000
Improvements other than buildings	3,000
Intangibles	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50 years
Improvements other than buildings	20 years
Intangibles	3-10 years
Furniture and equipment	5-12 years

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave for subsequent use. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for vacation and sick leave time that has been used. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts 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, 2010, expenditures in the other expenditures functional area exceeded the amount budgeted.

**2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2010 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.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 661

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

**3. Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
General Fund	Nonmajor Enterprise – Student Construction Fund	888

The General Fund has loaned the Student Construction Fund money for cash flow.

**4. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer To	Transfer From	Amount
		\$
Nonmajor Debt Service	Capital Projects Sales Tax Fund	124,827
Nonmajor Debt Service	Nonmajor Physical Plant and Equipment Levy Fund	32,468

The transfers moved revenues from the fund statutorily required to collect the resources to the funds statutorily required to expend the resources.

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

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. N.A. is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.50%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co., NA prime rate plus 50 basis points with a minimum interest rate of 4.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010, is as follows:

Series	Warrant Date	Final Warrant Maturity Date	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
			\$	\$	\$	\$
2009-10B	2/1/10	1/21/11	-	-	-	-

The District did not pay any interest during the year ended June 30, 2010.

## 6. Anticipatory Warrants

The District's nonmajor enterprise Student Construction Fund has financed the construction of a house with a line of credit at a local bank. The District may borrow up to \$150,000 at 2.75%. The balance is due January 27, 2011. Transactions during the year were as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	98,580	80,080	18,500

## 7. Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	48,803	-	-	48,803
Construction in progress	109,456	81,634	109,456	81,634
Total capital assets not being depr.	158,259	81,634	109,456	130,437

Capital assets being depreciated:				
Buildings	6,704,022	535,002	-	7,239,024
Improvements other than buildings	681,738	87,749	-	769,487
Furniture and equipment	1,170,483	50,025	29,520	1,190,988
Total capital assets being deprec.	<u>8,556,243</u>	<u>672,776</u>	<u>29,520</u>	<u>9,199,499</u>
Less accumulated depreciation for:				
Buildings	2,787,515	146,184	-	2,933,699
Improvements other than buildings	194,295	38,175	-	232,470
Furniture and equipment	869,566	97,938	29,520	937,984
Total accumulated depreciation	<u>3,851,376</u>	<u>282,297</u>	<u>29,520</u>	<u>4,104,153</u>
Total capital assets being depreciated, net	<u>4,704,867</u>	<u>390,479</u>	<u>-</u>	<u>5,095,346</u>
Governmental activities capital assets, net	<u>4,863,126</u>	<u>472,113</u>	<u>109,456</u>	<u>5,225,783</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	137,059	7,683	-	144,742
Less accumulated depreciation	<u>121,840</u>	<u>4,390</u>	<u>-</u>	<u>126,230</u>
Business type activities capital assets, net	<u>15,219</u>	<u>3,293</u>	<u>-</u>	<u>18,512</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	44,029
Other	4,811
Support services:	
Instructional support	1,939
Operation and maintenance of plant services	24,483
Transportation	<u>22,676</u>
	97,938
Unallocated depreciation	<u>184,359</u>
Total depreciation expense – governmental activities	<u>282,297</u>
Business type activities:	
Food services	<u>4,390</u>

## 8. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
General obligation bonds	470,000	-	230,000	240,000	240,000
Capital lease	62,707	-	30,239	32,468	32,468
Equipment loans	22,131	-	10,181	11,950	8,366
Termination benefits	367,240	30,000	96,770	300,470	94,021
Compensated absences	137,603	9,309	6,990	139,922	51,634
Net OPEB liability	-	18,000	-	18,000	-
<b>Total</b>	<b>1,059,681</b>	<b>57,309</b>	<b>374,180</b>	<b>742,810</b>	<b>426,489</b>

#### Termination Benefits

The District offered a voluntary early retirement plan to its employees in fiscal year 2010 and in several prior years. Eligible employees must be at least age fifty-five on or before July 1, in the calendar year in which early retirement commenced.

Fiscal year 2010 early retirement benefits consist of the school paying up to \$15,000 of health insurance premiums over a five year period.

At June 30, 2010, the District has obligations to 18 participants with a total liability of \$300,470. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$96,770.

#### General Obligation Bonds Payable

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of December 1, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2011	4.10	240,000	9,840	249,840

#### Capital Leases

The District has leased computers under a capital lease. The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2010.

	Year Ending June 30,	Amount
		\$
Minimum lease payments	2011	34,860
Less amount representing interest		2,392
Present value of minimum lease payments		32,468

### Equipment Loans

The District has borrowed money, at interest rates of 2.99% to 3.90%, to purchase computers for resale to teachers. The District also has notes receivable from the teachers in the same amounts and at the same interest rates as the notes payable. The teachers have agreed to have the monthly payments withheld from their payroll checks. Payment details are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	\$	\$	\$
2011	8,366	262	8,628
2012	3,584	64	3,648
	<u>11,950</u>	<u>326</u>	<u>12,276</u>

### **9. 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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$275,592, \$271,136 and \$241,977 respectively, equal to the required contributions for each year.

### **10. Other Postemployment Benefits (OPEB)**

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 93 active and 19 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	\$
Annual required contribution	248,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>248,000</u>
Contributions made	<u>230,000</u>
Increase in net OPEB obligation	18,000
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>18,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$230,000 to the medical plan. Plan members eligible for benefits contributed \$44,102, or 16% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u> %	<u>Net OPEB Obligation</u> \$
June 30, 2010	248,000	93%	18,000

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$2,860,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,860,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,574,000, and the ratio of the UAAL to covered payroll was 80%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced .5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$11,676 per capita for individuals age 60. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**11. Risk Management**

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

**12. 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 \$316,862 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**13. Construction Commitment**

The District has entered into a \$118,103 contract for roofing. At June 30, 2010, costs of \$81,634 had been incurred against the contract. The balance remaining at June 30, 2010 will be paid as work on the project progresses.

**14. Lease Commitment**

The District entered into a four year contract to lease copiers in fiscal year 2009. The payments the District will make over the next two years are as follows:

Year Ended June 30	Lease Payment
	\$
2011	12,072
2012	10,060

**15. Categorical Funding**

The District's reserved fund balance for categorical funding at June 30, 2010 is comprised of the following programs:

Program	Amount
	\$
Preschool	46,136
Mentoring	2,968
Gifted and Talented	10,953
Returning dropout and dropout prevention program	88,914
Teacher salary supplement	33,950
Core curriculum	26,004
Educator quality, professional development	2,792
Market factor	6,003
Other reserved balances	703
	218,4233

REQUIRED SUPPLEMENTARY INFORMATION

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2010

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	4,222,318	362,460	4,584,778	4,472,977	4,472,977	111,801
State sources	3,484,311	4,153	3,488,464	4,298,725	4,298,725	(810,261)
Federal sources	726,769	172,476	899,245	350,000	350,000	549,245
Total revenues	<u>8,433,398</u>	<u>539,089</u>	<u>8,972,487</u>	<u>9,121,702</u>	<u>9,121,702</u>	<u>(149,215)</u>
Expenditures/Expenses:						
Instruction	5,165,897	-	5,165,897	5,505,972	5,505,972	340,075
Support services	1,979,603	-	1,979,603	2,100,007	2,100,007	120,404
Non-instructional programs	-	557,121	557,121	590,000	590,000	32,879
Other expenditures	1,267,676	-	1,267,676	1,207,587	1,207,587	(60,089)
Total expenditures/expenses	<u>8,413,176</u>	<u>557,121</u>	<u>8,970,297</u>	<u>9,403,566</u>	<u>9,403,566</u>	<u>433,269</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	20,222	(18,032)	2,190	(281,864)	(281,864)	284,054
Other financing sources (uses) net	<u>450</u>	<u>-</u>	<u>450</u>	<u>-</u>	<u>-</u>	<u>450</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	20,672	(18,032)	2,640	(281,864)	(281,864)	284,504
Balance beginning of year	<u>1,610,951</u>	<u>217,756</u>	<u>1,828,707</u>	<u>1,608,345</u>	<u>1,608,345</u>	<u>220,362</u>
Balance end of year	<u><u>1,631,623</u></u>	<u><u>199,724</u></u>	<u><u>1,831,347</u></u>	<u><u>1,326,481</u></u>	<u><u>1,326,481</u></u>	<u><u>504,866</u></u>

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2010

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, Agency Funds and blended component units. 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 its budget.

During the year ended June 30, 2010, expenditures in the other expenditures function exceeded the amount budgeted.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets ( a ) \$	Actuarial Accrued Liability (AAL) ( b ) \$	Unfunded AAL (UAAL) ( b-a ) \$	Funded Ratio ( a/b ) %	Covered Payroll ( c ) \$	UAAL as a Percentage of Covered Payroll ( (b-a)/c ) %
July 1, 2009	-	2,860,000	2,860,000	0.0%	3,574,000	80.0%

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2010

Assets	Special Revenue Funds					Total \$
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust Funds	Debt Service	
	\$	\$	\$	\$	\$	
Cash and pooled investments	150,921	120,471	33,781	6,941	6,812	318,926
Receivables:						
Property tax:						
Delinquent	5,440	-	2,680	-	3,043	11,163
Succeeding year	225,000	-	117,295	-	125,170	467,465
Accounts	-	29,515	-	-	-	29,515
Due from other governments	-	-	95,347	-	-	95,347
<b>Total assets</b>	<b>381,361</b>	<b>149,986</b>	<b>249,103</b>	<b>6,941</b>	<b>135,025</b>	<b>922,416</b>
<b>Liabilities &amp; Fund Balances</b>						
Liabilities:						
Accounts payable	-	17,244	16,936	-	-	34,180
Deferred revenue:						
Succeeding year property tax	225,000	-	117,295	-	125,170	467,465
Income surtax	-	-	95,347	-	-	95,347
Total liabilities	225,000	17,244	229,578	-	125,170	596,992
Fund balances:						
Reserved for debt service	-	-	-	-	9,855	9,855
Unreserved reported in:						
Special revenue funds	156,361	132,742	19,525	6,941	-	315,569
Total fund balances	156,361	132,742	19,525	6,941	9,855	325,424
<b>Total liabilities and fund balances</b>	<b>381,361</b>	<b>149,986</b>	<b>249,103</b>	<b>6,941</b>	<b>135,025</b>	<b>922,416</b>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Special Revenue Funds					Total
	Management	Student	Physical	District	Debt	
	Levy	Activity	Plant and	Support	Service	
		Equipment	Trust Funds			
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	228,167	-	194,261	-	126,512	548,940
Other	12,545	395,472	10,668	1,378	148	420,211
State sources	144	-	61	-	76	281
Federal sources	-	-	19,099	-	-	19,099
Total revenues	<u>240,856</u>	<u>395,472</u>	<u>224,089</u>	<u>1,378</u>	<u>126,736</u>	<u>988,531</u>
Expenditures:						
Current:						
Instruction:						
Regular	122,154	-	-	927	-	123,081
Other	-	373,099	-	-	-	373,099
Support services:						
Administration	26,241	-	-	-	-	26,241
Operation and maintenance of plant	30,297	-	-	-	-	30,297
Transportation	12,400	-	-	-	-	12,400
Other expenditures:						
Facilities acquisition	-	-	189,249	-	-	189,249
Long-term debt:						
Principal	-	-	-	-	260,239	260,239
Interest and fiscal charges	-	-	-	-	24,176	24,176
Total expenditures	<u>191,092</u>	<u>373,099</u>	<u>189,249</u>	<u>927</u>	<u>284,415</u>	<u>1,038,782</u>
Excess (deficiency) of revenues over (under) expenditures	<u>49,764</u>	<u>22,373</u>	<u>34,840</u>	<u>451</u>	<u>(157,679)</u>	<u>(50,251)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	157,295	157,295
Operating transfers out	-	-	(32,468)	-	-	(32,468)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(32,468)</u>	<u>-</u>	<u>157,295</u>	<u>124,827</u>
Net change in fund balance	49,764	22,373	2,372	451	(384)	74,576
Fund balances beginning of year	<u>106,597</u>	<u>110,369</u>	<u>17,153</u>	<u>6,490</u>	<u>10,239</u>	<u>250,848</u>
Fund balances end of year	<u><u>156,361</u></u>	<u><u>132,742</u></u>	<u><u>19,525</u></u>	<u><u>6,941</u></u>	<u><u>9,855</u></u>	<u><u>325,424</u></u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets  
Nonmajor Enterprise Funds

June 30, 2010

	Enterprise Funds		
	School Nutrition	Student Construction	Total Nonmajor Funds
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	43,433	-	43,433
Accounts receivable	6,329	-	6,329
Inventories	14,216	144,000	158,216
Capital assets, net of accumulated depreciation	18,511	-	18,511
<b>Total assets</b>	<b>82,489</b>	<b>144,000</b>	<b>226,489</b>
<b>Liabilities</b>			
Accounts payable	-	1,507	1,507
Interfund payables	-	888	888
Bank loan payable	-	18,500	18,500
Salaries and benefits payable	173	-	173
Deferred revenue	5,697	-	5,697
<b>Total liabilities</b>	<b>5,870</b>	<b>20,895</b>	<b>26,765</b>
<b>Net assets</b>			
Invested in capital assets	18,511	-	18,511
Unrestricted	58,108	123,105	181,213
<b>Total net assets</b>	<b>76,619</b>	<b>123,105</b>	<b>199,724</b>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Enterprise Funds		
	School Nutrition	Student Construction	Total Nonmajor Funds
	\$	\$	\$
Operating revenue:			
Local sources:			
Sale of student constructed home	-	129,939	129,939
Charges for service	232,408	-	232,408
Total operating revenue	<u>232,408</u>	<u>129,939</u>	<u>362,347</u>
Operating expenses:			
Non-instructional programs:			
Salaries	147,659	-	147,659
Benefits	21,058	-	21,058
Purchased services	921	-	921
Supplies	214,606	168,029	382,635
Depreciation	4,391	-	4,391
Other	-	457	457
Total operating expenses	<u>388,635</u>	<u>168,486</u>	<u>557,121</u>
Operating gain (loss)	<u>(156,227)</u>	<u>(38,547)</u>	<u>(194,774)</u>
Non-operating revenues:			
State sources	4,153	-	4,153
Federal sources	172,476	-	172,476
Interest income	113	-	113
Total non-operating revenues	<u>176,742</u>	<u>-</u>	<u>176,742</u>
Change in net assets	20,515	(38,547)	(18,032)
Net assets beginning of year	<u>56,104</u>	<u>161,652</u>	<u>217,756</u>
Net assets end of year	<u>76,619</u>	<u>123,105</u>	<u>199,724</u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows  
Nonmajor Enterprise Funds

Year ended June 30, 2010

	Enterprise Funds		
	School Nutrition	Student Construction	Total Nonmajor Funds
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	235,493	-	235,493
Cash payments from sale of house	-	129,939	129,939
Cash payments to employees for services	(168,544)	-	(168,544)
Cash payments to suppliers for goods or services	(183,133)	(171,315)	(354,448)
Net cash used by operating activities	(116,184)	(41,376)	(157,560)
Cash flows from non-capital financing activities:			
Loan from (repaid to) General Fund	-	888	888
State grants received	4,153	-	4,153
Federal grants received	142,543	-	142,543
Net cash provided by non-capital financing activities	146,696	888	147,584
Cash flows from capital and related financing activities:			
Proceeds from bank loan	-	18,500	18,500
Acquisition of capital assets	(7,683)	-	(7,683)
Net cash (used) provided by capital and related financing activities	(7,683)	18,500	10,817
Cash flows from investing activities:			
Interest on investments	113	-	113
Net increase (decrease) in cash and cash equivalents	22,942	(21,988)	954
Cash and cash equivalents at beginning of year	20,491	21,988	42,479
Cash and cash equivalents at end of year	43,433	-	43,433
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>			
Operating gain (loss)	(156,227)	(38,547)	(194,774)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	29,933	-	29,933
Depreciation	4,391	-	4,391
Decrease (increase) in inventories	2,461	(419)	2,042
Decrease (increase) in accounts receivable	477	-	477
(Decrease) increase in accounts payable	-	(2,410)	(2,410)
(Decrease) increase in salaries and benefits payable	173	-	173
(Decrease) increase in deferred revenue	2,608	-	2,608
Net cash used by operating activities	(116,184)	(41,376)	(157,560)

See accompanying independent auditor's report.

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Athletics	26,862	33,905	59,429	15,000	16,338
Athletic towel service	5,050	4,298	5,744	-	3,604
HS boys track	1,051	659	331	-	1,379
HS girls golf	968	950	1,719	-	199
HS wrestling	381	1,048	1,386	390	433
Girls basketball	(126)	8,195	7,905	-	164
HS boys basketball	(2,311)	4,814	1,941	-	562
Girls volleyball	(75)	3,953	1,003	-	2,875
Football	(249)	1,250	1,170	-	(169)
Girls track	1,774	2,548	2,403	-	1,919
HS baseball	(1,065)	1,575	1,912	-	(1,402)
HS boys golf	772	705	917	-	560
Softball concessions	(290)	3,651	3,452	-	(91)
Cross country	1,103	1,610	2,436	-	277
All school sports boosters	977	-	-	-	977
Middle school athletics	(213)	1,827	1,398	1,601	1,817
Athletic uniforms	12,452	-	9,615	10,399	13,236
Coach's apparel	-	1,500	1,035	1,500	1,965
Cheerleading fund	(1,879)	6,162	536	-	3,747
Pep club	650	-	-	-	650
Student council	2,305	4,070	2,623	(390)	3,362
Jr. Hi. student council	3,383	12,235	8,731	-	6,887
Curtain club	5	-	-	-	5
Peer helper association	395	284	186	-	493
Que pasa	877	-	-	-	877
Class of 2004	920	-	-	-	920
Class of 2005	1,217	-	50	-	1,167
Class of 2006	266	-	-	-	266
Class of 2007	342	-	-	-	342
Class of 2008	101	-	-	-	101
Class of 2009	157	-	214	-	(57)
Class of 2010	531	2,265	2,101	-	695
Class of 2011	875	1,799	3,011	2,000	1,663
Investments	10,677	425	-	-	11,102
N.O.W. interest	12,780	335	25	-	13,090
FFA	1,523	34,359	32,532	-	3,350
FCCLA	2,487	3,551	3,873	-	2,165
National Honor Society	914	708	843	-	779
Retail marketing	685	-	-	-	685
NCIBA honor band	16	-	-	-	16

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Band trip	585	-	-	-	585
Flag & rifle	(200)	3,242	2,263	-	779
HS solo & ensemble contest	1,819	3,570	3,523	-	1,866
Jr. Hi. solo & ens. contest	21	-	117	-	(96)
Impulse dance club	(1,539)	2,977	1,349	-	89
Annual	2,156	7,616	8,690	-	1,082
MS annual	753	1,260	1,411	-	602
HS concessions	195	1,952	619	-	1,528
K-8 concessions	163	2,252	2,448	-	(33)
Speech & drama	11,668	5,100	3,062	-	13,706
Musical productions	6,153	-	845	-	5,308
PSAT testing	139	485	473	-	151
Video yearbook	698	-	-	-	698
Washington DC trip	6,797	97,509	95,330	-	8,976
Sports Boosters Blended Component Unit	3,549	130,828	86,080	(30,500)	17,797
June 30, 2010 accounts payable	-	-	17,244	-	(17,244)
June 30, 2009 accounts payable	(8,876)	-	(8,876)	-	-
Total	110,369	395,472	373,099	-	132,742

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

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

For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$
Revenues:							
Local sources:							
Local tax	3,156,335	2,916,015	3,136,980	2,932,241	2,650,276	2,412,741	2,459,892
Tuition	507,394	514,318	541,096	559,543	466,075	523,800	559,121
Other	558,589	756,176	588,427	503,640	443,198	349,782	359,797
State sources	3,484,311	4,037,150	4,026,531	3,681,329	3,646,422	3,579,099	3,138,599
Federal sources	726,769	183,449	178,780	198,829	173,573	116,954	103,229
Total revenues	<u>8,433,398</u>	<u>8,407,108</u>	<u>8,471,814</u>	<u>7,875,582</u>	<u>7,379,544</u>	<u>6,982,376</u>	<u>6,620,638</u>
Expenditures:							
Instruction:							
Regular	3,140,202	3,316,379	3,155,814	2,967,579	2,849,038	3,067,644	2,849,646
Special	793,146	927,512	906,536	786,133	809,777	769,429	779,172
Other	1,232,549	1,104,618	1,122,800	1,003,514	903,305	782,127	770,275
Support services:							
Student	357,455	401,811	284,844	272,471	246,198	116,368	98,749
Instructional staff	101,943	143,993	113,639	88,734	86,194	63,959	103,534
Administration	614,114	678,584	645,190	811,925	728,692	662,677	621,615
Operation and maintenance	685,471	647,492	663,853	625,808	710,105	708,915	589,586
Transportation	220,630	181,881	206,869	234,521	172,865	181,687	158,696
Other expenditures:							
Facilities acquisition	666,399	399,762	600,991	204,914	173,524	321,837	165,657
Long-term debt:							
Principal	260,239	249,984	243,741	333,089	324,565	289,992	180,092
Interest and other charges	24,176	33,231	41,672	52,874	63,180	67,942	67,607
AEA flowthrough	316,862	271,295	266,662	248,462	238,664	230,357	225,158
Total expenditures	<u>8,413,186</u>	<u>8,356,542</u>	<u>8,252,611</u>	<u>7,630,024</u>	<u>7,306,107</u>	<u>7,262,934</u>	<u>6,609,787</u>

## GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures \$</u>
Direct:			
U.S. Department of Health and Human Services:			
Drug Free Communities Support Program Grants	93.276	5H79SP013540-05	61,969
Subtotal Direct			<u>61,969</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	18,784
National School Lunch Program (non-cash)	10.555	FY10	29,933
National School Lunch Program	10.555	FY10	123,759
			<u>172,476</u>
Team Nutrition Grant	10.574	FY10	100
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY10	63,408
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	34,471
			<u>97,879</u>
Special Education - Grants to States	84.027	FY10	1,779 *
Fund for the Improvement of Education	84.215	FY10	11,219
Improving Teacher Quality State Grants	84.367	FY10	17,165
Grants for State Assessments and Related Activities	84.369	FY10	5,187
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY10	356,314
Area Education Agency #267:			
Special Education - Grants to States	84.027	FY10	38,881 *
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	106,313 *
Mason City Community School District:			
Career and Technical Education - Basic Grants to States	84.048	FY10	4,306
Iowa Department of Public Health:			
Safe and Drug Free Schools and Communities - State Grants	84.186B	FY10	17,877
Subtotal Indirect			<u>829,496</u>
Total			<u><u>891,465</u></u>

\* Total for Special Education Cluster (IDEA) is \$146,973

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Garner-Hayfield 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 Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Garner-Hayfield Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 22, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Garner-Hayfield Community School District's internal control over financial reporting 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 an opinion on the effectiveness of Garner-Hayfield Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Garner-Hayfield 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items 10-II-A, 10-II-B and 10-II-C to be material weaknesses.

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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.

Garner-Hayfield Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Garner-Hayfield 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 Garner-Hayfield Community School District and other parties to whom Garner-Hayfield Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

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

February 22, 2011

Gary E. Horton CPA

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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

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

Compliance

We have audited Garner-Hayfield Community School District's compliance with the types of compliance requirements described in the (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Garner-Hayfield Community School District's major federal programs for the year ended June 30, 2010. Garner-Hayfield 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 grants applicable to each of its major federal programs is the responsibility of Garner-Hayfield Community School District's management. Our responsibility is to express an opinion on Garner-Hayfield 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 Garner-Hayfield 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 Garner-Hayfield Community School District's compliance with those requirements.

In our opinion, Garner-Hayfield 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, 2010.

Internal Control Over Compliance

Management of Garner-Hayfield Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Garner-Hayfield Community School District's internal control over compliance with requirements that could have a

direct and material effect on a major federal program 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Garner-Hayfield Community School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

February 22, 2011

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements. No significant deficiencies were reported.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weakness or significant deficiencies in internal control over the major programs were reported.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are 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 84.394 – ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
  - Special Education Cluster (IDEA)
    - CFDA Number 84.027 – Special Education – Grants to States
    - CFDA Number 84.391 – ARRA - Special Education Grants to States, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Garner-Hayfield Community School District did not qualify as a low-risk auditee.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

10-II-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation and posting of 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: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

10-II-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.

10-II-C Signature Stamp: We noted that a stamp bearing the signatures of the Board President and Board Secretary is used to sign checks. The Board Secretary prints the checks and uses the stamp to sign the checks.

Recommendation: This practice negates the control established by requiring two signatures on the checks. The Board Secretary should not have access to or use a stamp with the Board President's signature.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

District Response: We have discussed the control of the signature stamp and have decided that the current procedures allow the office to operate more efficiently.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

No matters were reported.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

10-IV-A Certified Budget: Expenditures for the year ended June 30, 2010 in the other expenditures function exceeded the amount budgeted.

Recommendation: The certified 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: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

10-IV-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.

10-IV-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.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>
William Paulus, school board member and VP at local bank	School banking
David Zrostlik, school board member and board member of local bank	School banking

Recommendation: The District should consult with its attorney before entering into any banking agreements with the above banks.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

10-IV-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.

10-IV-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

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

10-IV-H Supplementary Weighting: No variances regarding supplementary weighting certified to the Department of Education were noted.

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

- 10-IV-I 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.
- 10-IV-J Certified Annual Report (CAR): The Certified Annual Report was certified to the Iowa Department of Education timely.
- 10-IV-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- 10-IV-L Statewide Sales, Services and Use Tax: No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

	\$	\$
Beginning balance		892,879
Statewide sales, services and use tax	438,832	
Interest revenue	<u>3,074</u>	441,906
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements	477,150	
Debt service for school infrastructure:		
General obligation debt	<u>124,827</u>	<u>601,977</u>
Ending balance		<u>732,808</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
	\$	\$
Debt service levy	.63770	124,827
Physical plant and equipment levy	1.10616	314,005

GARNER-HAYFIELD COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

10-IV-M Old Outstanding Checks: We noted that the District's bank reconciliations included approximately \$3,000 of old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

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

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

Conclusion: Response accepted.

10-IV-N Capital Improvements: The Code of Iowa requires that schools follow Chapters 26.2 through 26.13 when the cost of a capital improvement exceeds \$100,000. These chapters require that the District advertise for sealed bids, hold a public hearing, and have the project designed by a licensed engineer or architect. A capital improvement project may not be split into smaller projects to avoid these requirements. During fiscal year 2010 the District completed various elementary school renovations totaling \$264,494 without obtaining sealed bids, holding a public hearing or having the project designed by an engineer or architect.

Recommendation: The District should review future capital improvement projects with its attorney to determine if Code of Iowa Chapters 26.2 through 26.13 apply.

District Response: We will do this in the future.

Conclusion: Response accepted.