

MORNING SUN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

MORNING SUN COMMUNITY SCHOOL DISTRICT  
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June 30, 2005

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MORNING SUN COMMUNITY SCHOOL DISTRICT  
OFFICIALS  
June 30, 2005

Name	Board of Education	Term Expires
	(Before September 2004 Election)	
Andy Meader	Board President	2005
Brenda Harris	Board Member	2004
Jason Hagge	Board Member	2005
Roxanne Bappe	Board Member	2006
Robert Fletcher	Board Member	2006
	(After September 2004 Election)	
Andy Meader	Board President (resigned December 2004)	2005
Robert Fletcher	Board President (elected BP January 2005)	2006
Jason Hagge	Board Member	2005
Roxanne Bappe	Board Member	2006
Will Buster	Board Member (appointed January 2005)	2006
Jon Malone	Board Member	2007
	<b>School Officials</b>	
Doug Graber	Superintendent	2005
Kim Booth	District Secretary	2005
Sue Bryant	District Treasurer	2005
Gruhn Law Firm	Attorney	2005

**KAY L. CHAPMAN, CPA PC**

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

Independent Auditor's Report

To the Board of Education  
Morning Sun Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District, Morning Sun, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Morning Sun Community School District as of June 30, 2005, 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, I have also issued my report dated August 9, 2005 on my consideration of Morning Sun Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morning Sun Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC  
August 9, 2005

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

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Morning Sun 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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2005 Financial Highlights**

- General Fund revenues increased from \$2,315,127 in fiscal 2004 to \$2,370,640 in fiscal 2005, also General Fund expenditures increased from \$2,151,086 in fiscal 2004 to \$2,362,083 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$758,423 in fiscal 2004 to \$697,168 in fiscal 2005, an 8 percent decrease from the prior year.
- The increase in General Fund revenues was attributable to increased property tax collections, tuition received and state funding in fiscal year 2005. The increase in expenditures was due primarily to a decrease in the employee benefits and purchased services.

### **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 Morning Sun 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 Morning Sun 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 Morning Sun Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the non-major Governmental Funds.

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

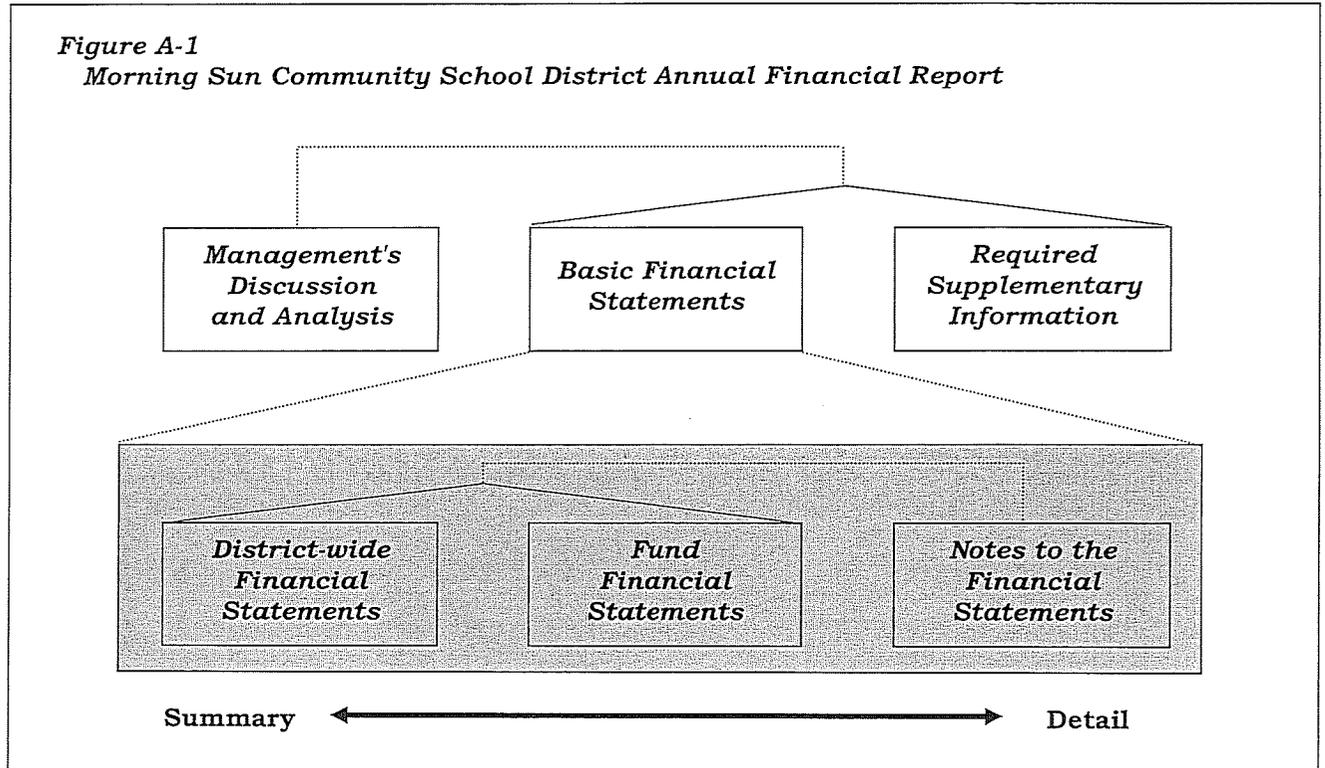


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## **Reporting the District's Financial Activities**

### *Government-wide Financial Statements*

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

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 and preschool/daycare programs are included here.

#### *Fund Financial Statements*

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

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

The District has two 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 and Capital Projects Fund.

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

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

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

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, 2005 compared to June 30, 2004.

Figure A-3

Condensed Statement of Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2004-2005</u>
Current and other assets	\$ 2,093,647	\$ 1,826,804	\$ 23,191	\$ 25,453	\$ 2,116,838	\$ 1,852,257	14.28%
Capital assets	<u>394,600</u>	<u>410,461</u>	<u>2,762</u>	<u>3,256</u>	<u>397,362</u>	<u>413,717</u>	-3.95%
Total assets	<u>2,488,247</u>	<u>2,237,265</u>	<u>25,953</u>	<u>28,709</u>	<u>2,514,200</u>	<u>2,265,974</u>	10.95%
Long-term obligations	-	-	-	-	-	-	0.00%
Other liabilities	<u>1,217,050</u>	<u>951,036</u>	<u>585</u>	<u>-</u>	<u>1,217,635</u>	<u>951,036</u>	28.03%
Total liabilities	<u>1,217,050</u>	<u>951,036</u>	<u>585</u>	<u>-</u>	<u>1,217,635</u>	<u>951,036</u>	28.03%
Net assets							
Invested in capital assets, net of related debt	394,600	410,461	2,762	3,256	397,362	413,717	-3.95%
Restricted	179,429	117,345	-	-	179,429	117,345	52.91%
Unrestricted	<u>697,168</u>	<u>758,423</u>	<u>22,606</u>	<u>25,453</u>	<u>719,774</u>	<u>783,876</u>	-8.18%
Total net assets	<u>\$ 1,271,197</u>	<u>\$ 1,286,229</u>	<u>\$ 25,368</u>	<u>\$ 28,709</u>	<u>\$ 1,296,565</u>	<u>\$ 1,314,938</u>	-1.40%

The District's combined net assets decreased by approximately 1.4%, or \$18,373, from 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.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased by \$62,084, or approximately 53% over the prior year. The increase was primarily a result of the PPEL levy being implemented in FY04, resulting in revenue that has yet to be expended.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased by \$64,102, or approximately 8%. This decrease in unrestricted net assets was a result of the District receiving less revenue than expenditures for the fiscal year.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets					
	Governmental Activities		Business Type Activities		Total District	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Charges for service and sales	\$ 713,004	\$ 679,709	\$ 60,477	\$ 56,053	\$ 773,481	\$ 735,762
Operating grants, contributions and restricted interest	210,296	140,188	31,413	34,360	241,709	174,548
Capital grants, contributions and restricted interest	-	50,000	-	-	-	50,000
General revenues						
Property tax	707,193	663,123	-	-	707,193	663,123
Unrestricted state grants	865,916	858,101	-	-	865,916	858,101
Unrestricted investment earnings	16,365	1,940	167	110	16,532	2,050
Other	<u>1,100</u>	<u>50,008</u>	<u>-</u>	<u>67,395</u>	<u>1,100</u>	<u>117,403</u>
Total revenues	<u>2,513,874</u>	<u>2,443,069</u>	<u>92,057</u>	<u>157,918</u>	<u>2,605,931</u>	<u>2,600,987</u>
Program expenses						
Governmental activities						
Instruction	1,733,208	1,666,150	-	-	1,733,208	1,666,150
Support services	619,534	433,303	-	-	619,534	433,303
Non-instructional programs	-	-	165,210	158,401	165,210	158,401
Other expenses	<u>106,352</u>	<u>188,762</u>	<u>-</u>	<u>-</u>	<u>106,352</u>	<u>188,762</u>
Total expenses	<u>2,459,094</u>	<u>2,288,215</u>	<u>165,210</u>	<u>158,401</u>	<u>2,624,304</u>	<u>2,446,616</u>
Change in net assets	<u>\$ 54,780</u>	<u>\$ 154,854</u>	<u>\$ (73,153)</u>	<u>\$ (483)</u>	<u>\$ (18,373)</u>	<u>\$ 154,371</u>

Property tax and unrestricted state grants account for approximately 60 percent of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 90 percent of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$2,513,874 and expenses were \$2,459,094. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

	Total and Net Cost of Governmental Activities	
	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,733,208	\$ 882,946
Support services	619,534	611,057
Other expenses	<u>106,352</u>	<u>41,791</u>
Total expenses	<u>\$ 2,459,094</u>	<u>\$ 1,535,794</u>

- The cost financed by users of the District's programs was \$713,004.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$210,296.
- The net cost of governmental activities was financed with \$707,193 in property tax, \$865,916 in unrestricted state grants.

### **Business Type Activities**

Revenues of the District's business type activities were \$92,057 and expenses were \$165,210. The District's business type activities include the School Nutrition Fund and Daycare/Preschool Program. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During 2005 the District had fewer preschool students included in the certified enrollment count than in 2004; therefore, the District received less state aid funding for students included in the preschool program.

### **Individual Fund Analysis**

As previously noted, the Morning Sun 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 \$876,597, slightly above last year's ending fund balances of \$875,768.

### **Governmental Fund Highlights**

- The District's decline in General Fund financial position is the product of many factors. The District was very conservative with expenditures knowing that revenues would be down in FY05.
- The General Fund balance decreased from \$758,423 to \$697,168 due in part to the increased expenditures.

### **Proprietary Fund Highlights**

The Proprietary Funds balances decreased from \$28,709 at June 30, 2004 to \$25,368 at June 30, 2005, representing a decrease of approximately 12 percent. Revenues decreased slightly while expenditures increased slightly during the year ended June 30, 2005.

### **Budgetary Highlights**

Over the course of the year, the Morning Sun Community School District amended its annual budget one time to reflect additional revenue and expenditures associated other necessary expenditures.

The District's revenues were \$112,385 less than budgeted receipts, a variance of 4%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

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

The District's expenditures did not exceed the certified budget in any of the functional areas, nor did expenditures exceed the District's authorized spending authority.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2005, the District had invested \$397,362, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of approximately 4 percent from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$34,358.

The original cost of the District's capital assets was \$1,343,984. Governmental funds account for \$1,278,839 with the remainder of \$65,145 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings and improvements and other improvements categories. These increases resulted from various building projects done during 2005.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2003</u>	<u>2004-2005</u>
Land	\$227,000	\$227,000	\$ -	\$ -	\$227,000	\$227,000	0.00%
Buildings and improvements	141,620	132,622	-	-	141,620	132,622	6.78%
Improvements, other than buildings	5,425	3,001	-	-	5,425	3,001	80.77%
Furniture and equipment	<u>20,555</u>	<u>47,838</u>	<u>2,762</u>	<u>3,256</u>	<u>23,317</u>	<u>51,094</u>	-54.36%
Totals	<u>\$394,600</u>	<u>\$410,461</u>	<u>\$2,762</u>	<u>\$3,256</u>	<u>\$397,362</u>	<u>\$413,717</u>	-3.95%

### **Long-Term Debt**

At June 30, 2005, the District did not have any outstanding debt.

### **Economic Factors Bearing on the District's Future**

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

- The passing of the SILO Tax on March 2, 2004 was a positive fiscal highlight for FY04 and subsequent years for the Morning Sun Community School District. Bringing in revenue for the Capital Project Fund of approximately \$15,000 each year. Because the election was held after May 30, 2004, funds can be used according to PPEL Guidelines.
- The District has experienced stable enrollment for the past several years and expects this to continue.

### **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 Kim Booth, District Secretary/ Business Manager, Morning Sun Community School District, 311 Division Street, Morning Sun, Iowa 52640.

## Basic Financial Statements

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2005

Exhibit A

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents			
ISCAP	\$ 576,185	\$ -	\$ 576,185
Other	824,104	18,732	842,836
Receivables			
Property tax			
Delinquent	9,226	-	9,226
Succeeding year	604,382	-	604,382
Accrued interest			
ISCAP	134	-	134
Other	134	6	140
Accounts receivable	1,277	3,207	4,484
Local option sales and services tax	70,769	-	70,769
Due from other governments	7,436	-	7,436
Inventories	-	1,246	1,246
Capital assets, net of accumulated depreciation	394,600	2,762	397,362
Total assets	2,488,247	25,953	2,514,200
<b>LIABILITIES</b>			
Accounts payable	10,960	585	11,545
Deferred revenue - succeeding year property tax	604,382	-	604,382
Due to other governments	22,859	-	22,859
ISCAP warrants payable	574,000	-	574,000
ISCAP accrued interest payable	3,470	-	3,470
ISCAP unamortized premium	1,379	-	1,379
Total liabilities	1,217,050	585	1,217,635
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	394,600	2,762	397,362
Restricted for			
Management levy	19,558	-	19,558
Physical plant and equipment levy	39,210	-	39,210
Capital projects	120,661	-	120,661
Unrestricted	697,168	22,606	719,774
Total net assets	\$ 1,271,197	\$ 25,368	\$ 1,296,565

See notes to financial statements and Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2005

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b><u>Functions/Programs</u></b>						
Governmental activities						
Instruction						
Regular instruction	\$ 1,685,040	\$ 491,271	\$ 99,104	\$ (1,094,665)	\$ -	\$ (1,094,665)
Special instruction	48,168	216,883	43,004	211,719	-	211,719
	1,733,208	708,154	142,108	(882,946)	-	(882,946)
Support services						
Student services	89,124	-	-	(89,124)	-	(89,124)
Instructional staff services	25,013	-	-	(25,013)	-	(25,013)
Administration services	309,111	-	-	(309,111)	-	(309,111)
Operation and maintenance of plant services	154,935	4,850	3,627	(146,458)	-	(146,458)
Transportation services	41,351	-	-	(41,351)	-	(41,351)
	619,534	4,850	3,627	(611,057)	-	(611,057)
Other expenditures						
Facilities acquisition	34,946	-	-	(34,946)	-	(34,946)
AEA flowthrough	64,561	-	64,561	-	-	-
Depreciation (unallocated) *	6,845	-	-	(6,845)	-	(6,845)
	106,352	-	64,561	(41,791)	-	(41,791)
Total governmental activities	2,459,094	713,004	210,296	(1,535,794)	-	(1,535,794)

See notes to financial statements and Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2005

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Business Type Activities	Total
Business Type activities						
Non-instructional programs						
Food service operations	\$ 57,851	\$ 20,383	\$ 31,413	\$ -	\$ (6,055)	\$ (6,055)
Daycare and preschool operations	107,359	40,094	-	-	(67,265)	(67,265)
Total business type activities	165,210	60,477	31,413	-	(73,320)	(73,320)
Total	\$ 2,624,304	\$ 773,481	\$ 241,709	\$ -	(1,535,794)	(1,609,114)
<b>General Revenues</b>						
Property tax levied for						
General purposes						
Capital outlay						589,039
Unrestricted state grants						118,154
Unrestricted investment earnings						865,916
Transfers						16,532
Gain on sale of capital assets						-
Other						-
Total general revenues						1,100
						1,520,762
Change in net assets						(15,032)
Net assets, beginning of year						1,286,229
Net assets, end of year						\$ 1,271,197
						\$ 25,368
						\$ 1,296,565

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.  
See notes to financial statements and Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Balance Sheet  
Governmental Funds  
June 30, 2005

Exhibit C

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP	\$ 576,185	\$ -	\$ 576,185
Other	716,083	108,021	824,104
Receivables			
Property tax			
Delinquent	8,599	627	9,226
Succeeding year	489,596	114,786	604,382
Accounts receivable	1,277	-	1,277
Accrued interest			
ISCAP	134	-	134
Other	122	12	134
Local option sales and services tax	-	70,769	70,769
Due from other governments	7,436	-	7,436
Total assets and other debits	<u>\$ 1,799,432</u>	<u>\$ 294,215</u>	<u>\$ 2,093,647</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 10,960	\$ -	\$ 10,960
ISCAP warrants payable	574,000	-	574,000
ISCAP accrued interest payable	3,470	-	3,470
ISCAP unamortized premium	1,379	-	1,379
Due to other governments	22,859	-	22,859
Deferred revenue - Succeeding year property tax	489,596	114,786	604,382
Total liabilities	<u>1,102,264</u>	<u>114,786</u>	<u>1,217,050</u>
 Fund balances			
Unreserved, undesignated			
Special revenue fund types	-	58,768	58,768
Other governmental fund types	697,168	120,661	817,829
Total fund balances	<u>697,168</u>	<u>179,429</u>	<u>876,597</u>
Total liabilities and fund balances	<u>\$ 1,799,432</u>	<u>\$ 294,215</u>	<u>\$ 2,093,647</u>

See notes to financial statements and Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2005

Exhibit D

Total fund balances of governmental funds	\$ 876,597
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	<u>394,600</u>
Net assets of governmental activities	<u>\$ 1,271,197</u>

See notes to financial statements and Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2005

Exhibit E

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Revenues			
Local sources			
Local tax	\$ 564,126	\$ 38,133	\$ 602,259
Local option sales and services tax	-	104,934	104,934
Tuition	588,995	-	588,995
Other	141,307	167	141,474
State sources	999,550	-	999,550
Federal sources	76,662	-	76,662
Total revenues	<u>2,370,640</u>	<u>143,234</u>	<u>2,513,874</u>
Expenditures			
Current			
Instruction			
Regular instruction	1,658,148	7,130	1,665,278
Special instruction	48,168	-	48,168
	<u>1,706,316</u>	<u>7,130</u>	<u>1,713,446</u>
Support services			
Student services	89,124	-	89,124
Instructional staff services	25,013	-	25,013
Administration services	305,029	4,082	309,111
Operation and maintenance of plant services	139,937	14,998	154,935
Transportation services	32,103	1,991	34,094
	<u>591,206</u>	<u>21,071</u>	<u>612,277</u>
Other expenditures			
Facilities acquisition	-	52,949	52,949
AEA flowthrough	64,561	-	64,561
	<u>64,561</u>	<u>52,949</u>	<u>117,510</u>
Total expenditures	<u>2,362,083</u>	<u>81,150</u>	<u>2,443,233</u>
Excess of revenues over expenditures	8,557	62,084	70,641
Other financing sources (uses)			
Interfund operating transfers	(69,812)	-	(69,812)
Net change in fund balances	(61,255)	62,084	829
Fund balance, beginning of year	758,423	117,345	875,768
Fund balance, end of year	<u>\$ 697,168</u>	<u>\$ 179,429</u>	<u>\$ 876,597</u>

See notes to financial statements and Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT Exhibit F  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ 829

Amounts reported for governmental activities in the Statement of Activities  
 are different because:

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

Capital outlays	\$ 18,003	
Depreciation expense	<u>(33,864)</u>	<u>(15,861)</u>
 Change in net assets of governmental activities		 <u>\$ (15,032)</u>

See notes to financial statements and Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2005

Exhibit G

	Nonmajor Enterprise Funds
<b>ASSETS</b>	
Cash and cash equivalents	\$ 18,732
Accounts receivable	3,207
Accrued interest receivable	6
Inventories	1,246
Capital assets, net of accumulated depreciation	<u>2,762</u>
Total assets	<u>25,953</u>
 <b>LIABILITIES</b>	
Accounts payable	<u>585</u>
 <b>NET ASSETS</b>	
Invested in capital assets	2,762
Unrestricted	<u>22,606</u>
Total net assets	<u><u>\$ 25,368</u></u>

See notes to financial statements and Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2005

Exhibit H

	<u>Nonmajor Enterprise Funds</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 60,477</u>
Operating expenses	
Non-instructional programs	
Food service operations	
Salaries	24,519
Benefits	3,274
Purchased services	7,349
Supplies	22,215
Depreciation	494
	<u>57,851</u>
Daycare/preschool operations	
Salaries	84,470
Benefits	21,281
Supplies	1,608
	<u>107,359</u>
Total operating expenses	<u>165,210</u>
Operating loss	<u>(104,733)</u>
Non-operating revenues	
Interest income	167
Interfund operating transfer	69,812
State sources	836
Federal sources	30,577
Total non-operating revenues	<u>101,392</u>
Change in net assets	(3,341)
Net assets, beginning of year	<u>28,709</u>
Net assets, end of year	<u><u>\$ 25,368</u></u>

See notes to financial statements and Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2005

Exhibit I

	Nonmajor Enterprise Funds
Cash flows from operating activities	
Cash received from sale of lunches and breakfasts	\$ 20,383
Cash received from sale of other services	37,397
Cash payments to employees for services	(133,544)
Cash payments to suppliers for goods and services	<u>(25,349)</u>
Net cash used in operating activities	<u>(101,113)</u>
Cash flows from non-capital financing activities	
State grants received	836
Federal grants received	<u>25,875</u>
Net cash provided by non-capital financing activities	<u>26,711</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interfund operating transfers	69,812
Interest on investments	<u>161</u>
Net cash provided by investing activities	<u>69,973</u>
Net decrease in cash and cash equivalents	(4,429)
Cash and cash equivalents, beginning of year	<u>23,161</u>
Cash and cash equivalents, end of year	<u><u>\$ 18,732</u></u>
 <b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (104,733)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	494
Commodities used	4,702
(Increase) in accounts receivable	(2,697)
Decrease in inventories	536
Increase in accounts payable	<u>585</u>
Net cash used in operating activities	<u><u>\$ (101,113)</u></u>

**Non-cash investing, capital and financing activities:** During the year ended June 30, 2005, the District received Federal commodities valued at \$4,702.

See notes to financial statements and Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2005

**Note 1. Summary of Significant Accounting Policies**

The Morning Sun Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Students in grades 7-12 attend other local school districts under whole-grade sharing agreements. The geographic area served includes the City of Morning Sun, Iowa, and the agricultural territory in Des Moines and Louisa Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Morning Sun 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 Morning Sun Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The District reports no major proprietary funds. However, it reports the following nonmajor enterprise funds: School Nutrition Fund and Daycare and Preschool Fund. These funds are used to account for the student nutrition program and the daycare/preschool programs operated by the District.

### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary funds 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 balance sheet:

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year 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 property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

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

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

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements to buildings	20-50 years
Furniture and equipment	4-12 years

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 property tax receivables not collected within sixty days after year end.

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

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

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

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, expenditures did not exceed the amounts budgeted nor did the District exceed its General Fund unspent authorized budget.

**Note 2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 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, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	<u>\$ 501,098</u>

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

**Note 3. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise, Daycare & Preschool	General	\$ 69,812

These transfers were to move state foundation aid received for preschool students from the General Fund to the Enterprise Fund where expenditures for these students were recorded.

**Note 4. Iowa Schools Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2004-05B	1/28/05	1/27/05	\$232,670	\$ 61	\$232,000	\$3,404	\$1,379
2005-06A	6/30/05	6/30/06	<u>343,515</u>	<u>73</u>	<u>342,000</u>	<u>66</u>	<u>-</u>
			<u>\$576,185</u>	<u>\$134</u>	<u>\$574,000</u>	<u>\$3,470</u>	<u>\$1,379</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity for the year ended June 30, 2005.

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2004-05A	3.000%	2.4630%
2004-05B	3.500%	2.2800%
2005-06A	3.500%	3.9030%

## Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 227,000	\$ -	\$ -	\$ 227,000
Total capital assets, not being depreciated	<u>227,000</u>	<u>-</u>	<u>-</u>	<u>227,000</u>
Capital assets being depreciated:				
Buildings and improvements	610,250	13,003	-	623,253
Improvements other than buildings	102,868	5,000	-	107,868
Furniture and equipment	<u>320,718</u>	<u>-</u>	<u>-</u>	<u>320,718</u>
Total capital assets being depreciated	<u>1,033,836</u>	<u>18,003</u>	<u>-</u>	<u>1,051,839</u>
Less accumulated depreciation for:				
Buildings and improvements	477,628	4,005	-	481,633
Improvements other than buildings	99,867	2,576	-	102,443
Furniture and equipment	<u>272,880</u>	<u>27,283</u>	<u>-</u>	<u>300,163</u>
Total accumulated depreciation	<u>850,375</u>	<u>33,864</u>	<u>-</u>	<u>884,239</u>
Total capital assets being depreciated, net	<u>183,461</u>	<u>(15,861)</u>	<u>-</u>	<u>167,600</u>
Governmental activities capital assets, net	<u>\$ 410,461</u>	<u>\$ (15,861)</u>	<u>\$ -</u>	<u>\$ 394,600</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 65,145	\$ -	\$ -	65,145
Less accumulated depreciation	<u>61,889</u>	<u>494</u>	<u>-</u>	<u>62,383</u>
Business type activities capital assets, net	<u>\$ 3,256</u>	<u>\$ (494)</u>	<u>\$ -</u>	<u>\$ 2,762</u>

Depreciation expense was charged to the following functions:

### Governmental activities

Instruction	
Regular	\$ 19,762
Support services	
Transportation	7,257
Unallocated depreciation	<u>6,845</u>
Total governmental activities depreciation expense	<u>\$ 33,864</u>

### Business-type activities

Food services	<u>\$ 494</u>
---------------	---------------

#### **Note 6. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$72,854, \$72,012 and \$57,238 respectively, equal to the required contributions for each year.

#### **Note 7. Risk Management**

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

#### **Note 8. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$64,561 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual  
 All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 For the Year Ended June 30, 2005

	Governmental Funds		Proprietary Funds		Total		Budgeted Amounts		Final to	
	Actual		Actual		Actual		Original	Final	Actual	Variance
<b>Revenues</b>										
Local sources	\$ 1,437,662	\$ 60,644	\$ 1,498,306	\$ 1,570,259	\$ 1,570,259				\$ (71,953)	
State sources	999,550	836	1,000,386	1,021,057	1,021,057				(20,671)	
Federal sources	76,662	30,577	107,239	127,000	127,000				(19,761)	
Total revenues	<u>2,513,874</u>	<u>92,057</u>	<u>2,605,931</u>	<u>2,718,316</u>	<u>2,718,316</u>				<u>(112,385)</u>	
<b>Expenditures</b>										
Instruction	1,713,446	-	1,713,446	2,509,643	2,700,000				986,554	
Support services	612,277	-	612,277	651,576	800,000				187,723	
Non-instructional programs	-	165,210	165,210	181,112	250,000				84,790	
Other expenditures	117,510	-	117,510	70,171	175,000				57,490	
Total expenditures	<u>2,443,233</u>	<u>165,210</u>	<u>2,608,443</u>	<u>3,412,502</u>	<u>3,925,000</u>				<u>1,316,557</u>	
Excess (deficiency) of revenues over (under) expenditures	70,641	(73,153)	(2,512)	(694,186)	(1,206,684)				1,204,172	
Other financing sources, net	<u>(69,812)</u>	<u>69,812</u>	-	60,000	60,000				<u>(60,000)</u>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	829	(3,341)	(2,512)	(634,186)	(1,146,684)				1,144,172	
Balance, beginning of year	875,768	28,709	904,477	792,320	792,320				112,157	
Balance, end of year	<u>\$ 876,597</u>	<u>\$ 25,368</u>	<u>\$ 901,965</u>	<u>\$ 158,134</u>	<u>\$ (354,364)</u>				<u>\$ 1,256,329</u>	

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2005

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$512,498.

During the year ended June 30, 2005, District expenditures did not exceed the amounts budgeted in any of the four functions, nor did the General Fund expenditures exceed the unspent authorized budget.

## Other Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005

Schedule 1

	Special Revenue			
	Management <u>Levy</u>	Physical Plant and Equipment <u>Levy</u>	Capital Projects	<u>Total</u>
<b>ASSETS</b>				
Cash and pooled investments	\$ 19,148	\$ 38,981	\$ 49,892	\$ 108,021
Receivables				
Property tax				
Current year delinquent	410	217	-	627
Succeeding year	100,000	14,786	-	114,786
Local option sales and services tax	-	-	70,769	70,769
Accrued interest	-	12	-	12
Total assets	<u>\$ 119,558</u>	<u>\$ 53,996</u>	<u>\$ 120,661</u>	<u>\$ 294,215</u>
 <b>LIABILITIES AND FUND EQUITY</b>				
Liabilities				
Deferred revenue				
Succeeding year property tax	\$ 100,000	\$ 14,786	\$ -	\$ 114,786
Fund Equity				
Unreserved fund balances	19,558	39,210	120,661	179,429
Total liabilities and fund equity	<u>\$ 119,558</u>	<u>\$ 53,996</u>	<u>\$ 120,661</u>	<u>\$ 294,215</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2005

Schedule 2

	Special Revenue			
	Management	Physical Plant and Equipment	Capital Projects	Total
	<u>Levy</u>	<u>Levy</u>	<u>Projects</u>	<u>Total</u>
Revenues				
Local sources				
Local taxes	\$ 24,913	\$ 13,220	\$ -	\$ 38,133
Local sales and services tax	-	-	104,934	104,934
Other	41	126	-	167
Total revenues	24,954	13,346	104,934	143,234
Expenditures				
Current				
Instruction				
Regular program instruction	7,130	-	-	7,130
Support services				
Administration services	4,082	-	-	4,082
Operation and maintenance of plant	14,998	-	-	14,998
Transportation services	1,991	-	-	1,991
Other expenditures				
Facilities acquisition and construction	-	5,109	47,840	52,949
Total expenditures	28,201	5,109	47,840	81,150
Excess (deficiency) of revenue over (under) expenditures	(3,247)	8,237	57,094	62,084
Fund balances, beginning of year	22,805	30,973	63,567	117,345
Fund balances, end of year	\$ 19,558	\$ 39,210	\$ 120,661	\$ 179,429

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Combining Statement of Net Assets  
Nonmajor Proprietary Funds  
June 30, 2005

Schedule 3

	School Nutrition	Daycare & Preschool	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$13,268	\$ 5,464	\$18,732
Accounts receivable	-	3,207	3,207
Accrued interest receivable	3	3	6
Inventories	1,246	-	1,246
Capital assets, net of accumulated depreciation	2,762	-	2,762
Total assets	17,279	8,674	25,953
 <b>LIABILITIES</b>			
Accounts payable	340	245	585
 <b>NET ASSETS</b>			
Invested in capital assets	2,762	-	2,762
Unrestricted	14,177	8,429	22,606
Total net assets	\$16,939	\$ 8,429	\$25,368

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2005

Schedule 4

	<u>School Nutrition</u>	<u>Daycare &amp; Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$ 20,383	\$ 40,094	\$ 60,477
Operating expenses			
Non-instructional programs			
Food service operations			
Salaries	24,519	-	24,519
Benefits	3,274	-	3,274
Purchased services	7,349	-	7,349
Supplies	22,215	-	22,215
Depreciation	494	-	494
	<u>57,851</u>	<u>-</u>	<u>57,851</u>
Daycare/preschool operations			
Salaries	-	84,470	84,470
Benefits	-	21,281	21,281
Supplies	-	1,608	1,608
	<u>-</u>	<u>107,359</u>	<u>107,359</u>
Total operating expenses	<u>57,851</u>	<u>107,359</u>	<u>165,210</u>
Operating loss	<u>(37,468)</u>	<u>(67,265)</u>	<u>(104,733)</u>
Non-operating revenue			
Interest income	119	48	167
Interfund transfers	-	69,812	69,812
State sources	836	-	836
Federal sources	30,577	-	30,577
Total non-operating revenue	<u>31,532</u>	<u>69,860</u>	<u>101,392</u>
Change in net assets	(5,936)	2,595	(3,341)
Net assets, beginning of year	<u>22,875</u>	<u>5,834</u>	<u>28,709</u>
Net assets, end of year	<u>\$ 16,939</u>	<u>\$ 8,429</u>	<u>\$ 25,368</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2005

Schedule 5

	School Nutrition	Daycare & Preschool	Total
Cash flows from operating activities			
Cash received from sale of meals	\$ 20,383	\$ -	\$ 20,383
Cash received from sale of services	-	37,397	37,397
Cash payments to employees for services	(27,793)	(105,751)	(133,544)
Cash payments to suppliers for goods and services	(23,986)	(1,363)	(25,349)
Net cash used in operating activities	(31,396)	(69,717)	(101,113)
Cash flows from non-capital financing activities			
State grants received	836	-	836
Federal grants received	25,875	-	25,875
Net cash provided by non-capital financing activities	26,711	-	26,711
Cash flows from investing activities			
Interfund operating transfers	-	69,812	69,812
Interest on investments	116	45	161
Net cash provided by investing activities	116	69,857	69,973
Net increase (decrease) in cash and cash equivalents	(4,569)	140	(4,429)
Cash and cash equivalents, beginning of year	17,837	5,324	23,161
Cash and cash equivalents, end of year	\$ 13,268	\$ 5,464	\$ 18,732
 <b>Reconciliation of operating loss to net cash used in operating activities</b>			
Operating loss	\$(37,468)	\$(67,265)	\$(104,733)
Adjustments to reconcile operating loss to net cash used in operating activities			
Commodities used	4,702	-	4,702
Depreciation	494	-	494
(Increase) in accounts receivable	-	(2,697)	(2,697)
Decrease in inventories	536	-	536
Increase in accounts payable	340	245	585
Net cash used in operating activities	\$(31,396)	\$(69,717)	\$(101,113)

Non-cash investing, capital and financing activities: During the year ended June 30, 2005, the District received Federal commodities valued at \$4,702.

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Four Years

Schedule 6

	Modified Accrual Basis			
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues				
Local sources				
Local tax	\$ 602,259	\$ 645,121	\$ 679,406	\$ 591,745
Local option sales and services tax	104,934	17,511	14,461	15,156
Tuition	588,995	529,136	674,768	521,082
Other	141,474	105,148	54,122	48,563
State sources	999,550	1,045,986	1,009,235	987,457
Federal sources	76,662	74,167	78,084	44,457
 Total revenues	 <u>\$ 2,513,874</u>	 <u>\$ 2,417,069</u>	 <u>\$ 2,510,076</u>	 <u>\$ 2,208,460</u>
 Expenditures				
Instruction				
Regular instruction	\$ 1,665,278	\$ 1,596,738	\$ 1,681,820	\$ 1,424,017
Special instruction	48,168	49,226	51,849	52,011
Support services				
Student services	89,124	87,282	98,222	92,030
Instructional staff services	25,013	21,409	17,465	19,291
Administration services	309,111	212,033	204,532	153,741
Operation and maintenance of plant services	154,935	120,761	110,803	102,835
Transportation services	34,094	28,044	25,007	22,246
Other expenditures				
Facilities acquisition	52,949	84,958	23,055	21,331
AEA flowthrough	64,561	66,021	70,551	71,675
 Total expenditures	 <u>\$ 2,443,233</u>	 <u>\$ 2,266,472</u>	 <u>\$ 2,283,304</u>	 <u>\$ 1,959,177</u>

See accompanying Independent Auditor's Report.

**KAY L. CHAPMAN, CPA PC**

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563-264-1385

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  
Morning Sun Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated August 9, 2005. I conducted my 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 my audit, I considered Morning Sun Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morning Sun Community School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Morning Sun Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Kay L. Chapman, CPA PC  
August 9, 2005

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2005

**Part I. Findings Related to the Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

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

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

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- B. Signature Card at Bank - It was noted that the signature cards at the bank were not changed when the Board President and Vice President changed during the fiscal year.

Recommendation - The District should have ensured that the new Board President signed the signature cards at the bank when the change in officers occurred during the year. The checks were signed by the Board President and Board Secretary, even though the new Board President was not listed as an authorized signer on the bank signature cards.

Response - We have changed the signature cards for the bank accounts to reflect the proper authorized signatures and will be more attentive of this in the future.

Conclusion - Response accepted.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2005

**Part II. Other Findings Related to Statutory Reporting:**

1. Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
2. Certified Budget - Expenditures for the year ended June 30, 2005 did not exceed the amounts budgeted.
3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
5. Business Transactions - I noted no business transactions between the District and District officials.
6. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
8. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I 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. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2005

This audit was performed by

Kay Chapman, CPA  
Christina Chamberlin, staff accountant