

**MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
MOULTON, IOWA**

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

**June 30, 2005**

**Peak & Gerdes, LLP  
Certified Public Accountants  
1051 Office Park Road  
West Des Moines, IA 50265**

TABLE OF CONTENTS

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-16
Basic Financial Statements:		
	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	B	19-20
Governmental Fund Financial Statements:		
Balance Sheet	C	21
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	22
Statement of Revenues, Expenditures and Changes in Fund Balances	E	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	24
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	25
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	26
Statement of Cash Flows	I	27
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	28
Statement of Changes in Fiduciary Net Assets	K	29
Notes to Financial Statements		30-39
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		41
Notes to Required Supplementary Information - Budgetary Reporting		42
	<u>Schedule</u>	
Other Supplementary Information:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	44
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	45
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	46
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	47
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		48-49
Schedule of Findings		50-54

Moulton-Udell Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
<u>Board of Education</u> (Before September, 2004 Election)		
Marlan Korthaus	President	2005
Rodger Kaster	Vice-President	2004
Randy Welch	Board Member	2005
Dan Jay	Board Member	2006
Jerilyn Inman	Board Member	2006
<u>Board of Education</u> (After September, 2004 Election)		
Marlan Korthaus	President	2005
Rodger Kaster	Vice-President	2007
Randy Welch	Board Member	2005
Dan Jay	Board Member	2006
Jerilyn Inman	Board Member	2006
<u>School Officials</u>		
Rich Turner	Superintendent	2005
Marilyn Wood	District Secretary/Treasurer/ Business Manager	2005
Richard Gaumer	Attorney	2005

Moulton-Udell Community School District

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1051 OFFICE PARK ROAD  
WEST DES MOINES, IA 50265

(515) 277-3077

Independent Auditor's Report

To the Board of Education of  
Moulton-Udell Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Moulton-Udell Community School District, Moulton, 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. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Moulton-Udell Community School District at 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 principals.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2005 on our consideration of Moulton-Udell Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 41 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Moulton-Udell 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 two 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 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP  
Certified Public Accountants

September 2, 2005

---

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

---

Moulton-Udell 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 \$2,235,190 in fiscal 2004 to \$2,260,617 in fiscal 2005, while General Fund expenditures decreased from \$2,239,353 in fiscal 2004 to \$2,179,246 in fiscal 2005.
- The District's General Fund balance increased from \$335,418 in fiscal 2004 to \$416,789 in fiscal 2005, a 24.3% increase.
- The increase in General Fund revenues was primarily due to an increase in state funding and to the state meeting its school funding commitments. Revenue from local property taxes and from federal sources decreased while revenue from state sources increased over \$87,000 from the previous budget year. A state law which reduces the budget guarantee for students with declining enrollment by 10% each year and Moulton-Udell's decreasing enrollment will continue to pressure any revenue increase for the district. For fiscal 2004, expenditures increased primarily due to purchasing supplies and equipment earlier in the school year and increasing educational programs for the students of Moulton-Udell. Since only one year's worth of supplies was purchased in 2005, General Fund expenditures leveled out, and actually declined by approximately \$60,000 in fiscal 2005. The District is always searching for ways of decreasing expenses and operating with greater efficiency. The District was able to restore some of the funds to the carryover fund balance that had been used the previous year.
- In Iowa, the board of directors of a local school district have more discretion in controlling cash balances through the cash reserve levy than they do the spending authority, therefore in many ways the unused spending authority is a more valid measure of a school district's financial health than the cash reserves. Moulton-Udell's unused spending authority increased almost \$120,000 at the end of fiscal 2005.

### **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 Moulton-Udell Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements report Moulton-Udell Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The governmental fund financial statements tell how well governmental services were financed in the short term as well

as what remains for future spending. The proprietary fund financial statements offer short-term and long-term financial information about activities the District operates like a business. In the Moulton-Udell Community School District, the school nutrition program operations are the only enterprise activity reported as a proprietary fund. The remaining statements provide financial information about activities for which Moulton-Udell 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 non-major funds.

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

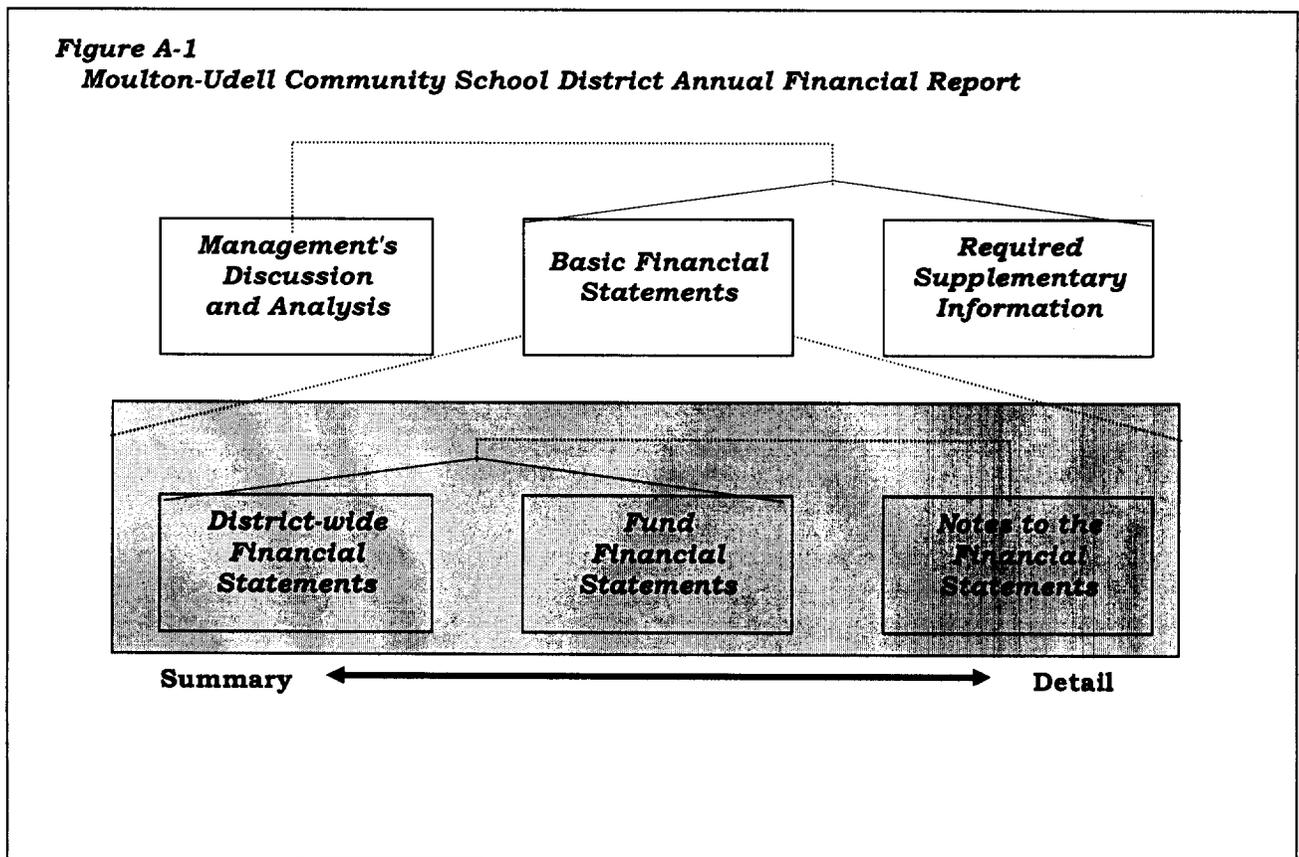


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-wide and Fund Financial Statements**

	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	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 and 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.

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2004.

<b>Figure A-3</b>							
<b>Condensed Statement of Net Assets</b>							
<b>(Expressed in Thousands)</b>							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	\$ 1,969	1,731	11	21	1,980	1,752	13.0%
Capital assets	956	1,018	14	9	970	1,027	-5.6%
Total assets	<u>2,925</u>	<u>2,749</u>	<u>25</u>	<u>30</u>	<u>2,950</u>	<u>2,779</u>	<u>6.2%</u>
Long-term liabilities	27	51	-	-	27	51	-47.1%
Other liabilities	1,382	1,318	-	-	1,382	1,318	4.9%
Total liabilities	<u>1,409</u>	<u>1,369</u>	<u>-</u>	<u>-</u>	<u>1,409</u>	<u>1,369</u>	<u>2.9%</u>
<b>Net assets</b>							
Invested in capital assets							
net of related debt	1,015	966	14	9	1,029	975	5.5%
Restricted	38	34	-	-	38	34	11.8%
Unrestricted	<u>463</u>	<u>380</u>	<u>11</u>	<u>21</u>	<u>474</u>	<u>401</u>	<u>18.2%</u>
Total net assets	<u>\$ 1,516</u>	<u>1,380</u>	<u>25</u>	<u>30</u>	<u>1,541</u>	<u>1,410</u>	<u>9.3%</u>

The District's combined net assets increased by over \$130,000 or slightly more than 9% 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 debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$4,000 or 10% from the prior year. The District accumulated more sales tax revenue but Physical Plant and Equipment Levy Fund expenditures on fire safety projects that would not be reimbursed by a state grant until the next fiscal year, increased a deficit in that fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$73,000 to \$474,000 or an 18% increase. This increase in unrestricted net assets was the result of the District improving its cash flow and reducing expenses where possible.

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

<b>Figure A-4</b>						
<b>Changes in Net Assets</b>						
<b>(Expressed in Thousands)</b>						
	Governmental		Business Type		Total	
	Activities		Activities		District	
	2005	2004	2005	2004	2005	2004
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for service	\$ 249	257	47	34	296	291
Operating grants, contributions and restricted interest	324	329	48	57	372	386
<b>General revenues:</b>						
Property tax	658	705	-	-	658	705
Income surtax	48	46	-	-	48	46
Local option sales and services tax	121	-	-	-	121	-
Unrestricted state grants	1,077	989	-	-	1,077	989
Unrestricted investment earnings	6	12	-	-	6	12
Other	17	16	-	-	17	16
<b>Total revenues</b>	<b>2,500</b>	<b>2,354</b>	<b>95</b>	<b>91</b>	<b>2,595</b>	<b>2,445</b>
<b>Program expenses:</b>						
Instruction	1,559	1,647	-	-	1,559	1,647
Support services	688	644	-	-	688	644
Non-instructional programs	-	-	100	88	100	88
Other expenses	117	108	-	-	117	108
<b>Total expenses</b>	<b>2,364</b>	<b>2,399</b>	<b>100</b>	<b>88</b>	<b>2,464</b>	<b>2,487</b>
<b>Increase (decrease) in net assets</b>	<b>136</b>	<b>(45)</b>	<b>(5)</b>	<b>3</b>	<b>131</b>	<b>(42)</b>
<b>Net assets beginning of year</b>	<b>1,380</b>	<b>1,425</b>	<b>30</b>	<b>27</b>	<b>1,410</b>	<b>1,452</b>
<b>Net assets end of year</b>	<b>\$ 1,516</b>	<b>1,380</b>	<b>25</b>	<b>30</b>	<b>1,541</b>	<b>1,410</b>

Property tax, income surtax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

**Governmental Activities**

Revenues for governmental activities were approximately \$2,500,000 and expenses were approximately \$2,364,000. Following 2004 which was a difficult budget year with state revenue being decreased well into the year, the District was able to recover some in 2005. Expenses were trimmed where possible and state revenue increased as a result of sales tax revenue received in fiscal 2005.

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**  
**(Expressed in Thousands)**

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,559	1,064
Support services	688	687
Other expenses	117	40
Totals	<u>\$ 2,364</u>	<u>1,791</u>

- The cost financed by users of the District's programs was \$248,875.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$324,191.
- The net cost of governmental activities was financed with \$826,451 in property and other tax, including local option sales and services tax, and \$1,077,284 in unrestricted state grants.

**Business Type Activities**

The major business type activity operated by the Moulton-Udell Community School District is the School Nutrition Program. The nutrition program received \$47,862 (down almost \$10,000 from the previous year) in non-operating revenue, mostly federal reimbursements for school breakfast and lunch programs. Local sales accounted for \$46,593.

Revenue from local sales increased almost \$13,000 in fiscal 2005 from fiscal 2004, which had decreased almost \$4,000 in fiscal 2004 from fiscal 2003. The decrease in federal reimbursements received during the year and a major effort to upgrade the equipment in the school kitchen resulted in a \$5,100 decrease in the fund net assets. Total expenditures for the year were \$99,556 up from \$87,907 the previous year.

The continuing effect of enrollment decreases will continue to place pressure on the nutrition program. Breakfast and lunch fees were increased for the 2005 school year.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, Moulton-Udell 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 \$540,824 well above last years ending fund balance of \$369,527. This regained more than the loss reported from 2003 to 2004.

### **Governmental Fund Highlights**

- The District's General Fund financial position is the result of many factors. State aid was fully funded this year. The district attempted to control expenditures and increase efficiencies. As a result, the District was able to restore the carryover fund balance it had used in the prior year when state across the board reductions placed strain on the Moulton-Udell budget.
- The General Fund balance increased from \$335,418 to \$416,789 due to full funding of state aid and increased efficiencies.
- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from a negative balance of (\$4,331) in fiscal 2004 to a negative balance of (\$17,187) in fiscal 2005. While revenues declined due to no property tax levy in fiscal 2005, the District substantially increased spending from the PEEL Fund. Most of these expenditures were for a fire safety grant of \$25,000 which will be reimbursed in fiscal 2006 so that deficit is temporary.
- Voter approval of the SILO or sales tax in the county alleviated pressure on the PEEL Fund and a positive balance in the Local Option Sales Tax Fund exceeded the PEEL fund deficit. In future years, this revenue will be used for major projects to save the high school infrastructure which is suffering from a failing roof.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$29,733 on June 30, 2004 to \$24,630 on June 30, 2005. Major progress was made in fiscal 2005 on upgrading kitchen equipment. This will need to continue. The continued declining enrollment will also continue to pressure this fund.

## **BUDGETARY HIGHLIGHTS**

Fiscal 2005 saw the Moulton-Udell Community School District recover from a negative fiscal year in 2004. The state foundation aid receipts were delivered on time and in full, which allowed the district to develop more accurate revenue and expenditure projections. These more accurate projections allowed the district follow its line item budget more closely.

The District's revenues were \$80,853 less than budgeted revenues, a variance of 3%.

Total expenditures were \$670,653 less than budgeted expenditures, 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 revenue from the Local Option Sales and Service Tax will allow the District to make significant progress on improving its buildings, transportation fleet, and technology equipment in the remaining years of the levy.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2005, the District had invested \$970,000, 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 decrease of almost \$57,000 from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$75,885 for both governmental and business type activities.

The original cost of the District's capital assets was \$2.0 million. Governmental funds account for \$1.9 million, with the remainder of \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

**Figure A-6**  
**Capital Assets, net of Depreciation**  
**(Expressed in Thousands)**

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Land	\$ 2	2	-	-	2	2	-
Buildings	744	773	-	-	744	773	-3.8%
Furniture and equipment	210	243	14	9	224	252	-11.1%
Totals	\$ 956	1,018	14	9	970	1,027	-5.6%

### Long-Term Debt

At June 30, 2005, the District had very little long-term debt and no bonded indebtedness. The District owes \$26,649 for a copier lease. This represents a decrease of approximately 50% from last year. (See Figure A-7) The last payment of the bonds sold to finance the elementary building was made in the 2003 fiscal year. Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

In March 2004, the District's voters authorized the collection of the SILO tax which is a local option sales and use tax. This will help maintaining and repairing the building and grounds and provide property tax relief.

**Figure A-7**  
**Outstanding Long-term Obligations**  
**(Expressed in Thousands)**

	Total District		Total Change
	June 30,		June 30,
	2005	2004	2004-2005
Capitalized lease obligations	\$ 27	37	-27.0%
Installment agreement payable	-	14	-100.0%
Totals	\$ 27	51	-47.1%

### **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 District has experienced declining enrollment for the past four years, the District expects this trend to continue the next few years. The decrease in enrollment even got worse in the fall of 2005.
- The District's voters approved the SILO tax in the late winter of 2003, which will alleviate pressure on the PPEL fund and allow for needed building improvements and equipment purchases.

### **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 Marilyn Wood, District Secretary, Moulton-Udell Community School District, 305 East 8th, Moulton, Iowa, 52572.

Basic Financial Statements

## Moulton-Udell Community School District

Exhibit A

## Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	\$ 561,002	-	561,002
Other	520,564	7,619	528,183
Receivables:			
Property tax:			
Delinquent	22,417	-	22,417
Succeeding year	741,088	-	741,088
Accrued interest:			
ISCAP	4,299	-	4,299
Due from other governments	119,777	-	119,777
Inventories	-	3,450	3,450
Capital assets, net of accumulated depreciation	956,106	13,561	969,667
<b>Total assets</b>	<b>2,925,253</b>	<b>24,630</b>	<b>2,949,883</b>
<b>Liabilities</b>			
Accounts payable	29,378	-	29,378
Salaries and benefits payable	33,993	-	33,993
Due to other governments	9,296	-	9,296
Other payables	5,195	-	5,195
Deferred revenue - succeeding year property tax	741,088	-	741,088
ISCAP warrants payable	559,000	-	559,000
ISCAP accrued interest payable	4,581	-	4,581
Long-term liabilities:			
Portion due within one year:			
Capitalized lease obligation	12,601	-	12,601
Portion due after one year:			
Capitalized lease obligation	14,048	-	14,048
<b>Total liabilities</b>	<b>1,409,180</b>	<b>-</b>	<b>1,409,180</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,014,995	13,561	1,028,556
Restricted for:			
Management levy	4,900	-	4,900
Physical plant and equipment levy	(17,187)	-	(17,187)
Other special revenue purposes	50,784	-	50,784
Unrestricted	462,581	11,069	473,650
<b>Total net assets</b>	<b>\$ 1,516,073</b>	<b>24,630</b>	<b>1,540,703</b>

See notes to financial statements.

Moulton-Udell Community School District

Statement of Activities

Year ended June 30, 2005

<b>Functions / Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Service</b>	<b>Operating Grants, Contributions and Restricted Interest</b>	<b>Capital Grants, Contributions and Restricted Interest</b>
<b>Governmental activities:</b>				
<b>Instruction:</b>				
Regular instruction	\$ 898,425	111,553	106,325	-
Special instruction	320,155	22,368	129,351	-
Other instruction	340,791	114,204	11,229	-
	<u>1,559,371</u>	<u>248,125</u>	<u>246,905</u>	<u>-</u>
<b>Support services:</b>				
Student services	30,054	-	-	-
Instructional staff services	50,997	-	-	-
Administration services	296,966	-	-	-
Operation and maintenance of plant services	173,783	-	-	-
Transportation services	136,100	750	-	-
	<u>687,900</u>	<u>750</u>	<u>-</u>	<u>-</u>
<b>Non-instructional programs</b>	<u>260</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other expenditures:</b>				
Facilities acquisition	9,514	-	-	-
Long-term debt interest	1,147	-	56	-
AEA flowthrough	77,230	-	77,230	-
Depreciation (unallocated)*	29,000	-	-	-
	<u>116,891</u>	<u>-</u>	<u>77,286</u>	<u>-</u>
<b>Total governmental activities</b>	<u>2,364,422</u>	<u>248,875</u>	<u>324,191</u>	<u>-</u>
<b>Business type activities:</b>				
<b>Non-instructional programs:</b>				
Food service operations	99,556	46,593	47,803	-
	<u>99,556</u>	<u>46,593</u>	<u>47,803</u>	<u>-</u>
<b>Total</b>	<u>\$ 2,463,978</u>	<u>295,468</u>	<u>371,994</u>	<u>-</u>

**General Revenues:**

Property tax levied for:  
  General purposes  
  Income surtax  
  Local option sales and services tax  
  Unrestricted state grants  
  Unrestricted investment earnings  
  Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(680,547)	-	(680,547)
(168,436)	-	(168,436)
(215,358)	-	(215,358)
(1,064,341)	-	(1,064,341)
(30,054)	-	(30,054)
(50,997)	-	(50,997)
(296,966)	-	(296,966)
(173,783)	-	(173,783)
(135,350)	-	(135,350)
(687,150)	-	(687,150)
(260)	-	(260)
(9,514)	-	(9,514)
(1,091)	-	(1,091)
-	-	-
(29,000)	-	(29,000)
(39,605)	-	(39,605)
(1,791,356)	-	(1,791,356)
-	(5,160)	(5,160)
(1,791,356)	(5,160)	(1,796,516)
\$ 657,561	-	657,561
48,176	-	48,176
120,714	-	120,714
1,077,284	-	1,077,284
6,592	59	6,651
16,919	-	16,919
1,927,246	59	1,927,305
135,890	(5,101)	130,789
1,380,183	29,733	1,409,916
\$ 1,516,073	24,632	1,540,705

Moulton-Udell Community School District

Exhibit C

Balance Sheet  
Governmental Funds

June 30, 2005

	General	Nonmajor Special Revenue	Total
<b>Assets</b>			
Cash and pooled investments:			
ISCAP	\$ 561,002	-	561,002
Other	389,137	131,427	520,564
Receivables:			
Property tax:			
Delinquent	21,158	1,259	22,417
Succeeding year	678,816	62,272	741,088
Accrued interest:			
ISCAP	4,299	-	4,299
Due from other funds	44,100	-	44,100
Due from other governments	84,328	35,449	119,777
<b>Total assets</b>	<b>\$ 1,782,840</b>	<b>230,407</b>	<b>2,013,247</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	29,378	-	29,378
Salaries and benefits payable	33,993	-	33,993
Due to other governments	9,296	-	9,296
Due to other funds	-	44,100	44,100
Other payables	5,195	-	5,195
ISCAP warrants payable	559,000	-	559,000
ISCAP accrued interest payable	4,581	-	4,581
Deferred revenue:			
Succeeding year property tax	678,816	62,272	741,088
Other	45,792	-	45,792
Total liabilities	1,366,051	106,372	1,472,423
Fund balances:			
Reserved for talented and gifted	7,052	-	7,052
Unreserved	409,737	124,035	533,772
Total fund balances	416,789	124,035	540,824
<b>Total liabilities and fund balances</b>	<b>\$ 1,782,840</b>	<b>230,407</b>	<b>2,013,247</b>

See notes to financial statements.

Moulton-Udell Community School District

Exhibit D

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

June 30, 2005

<b>Total fund balances of governmental funds (page 21)</b>	<b>\$ 540,824</b>
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	956,106
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	45,792
Long-term liabilities, including capitalized lease obligations are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(26,649)</u>
<b>Net assets of governmental activities (page 18)</b>	<b><u><u>\$ 1,516,073</u></u></b>

See notes to financial statements.

Moulton-Udell Community School District

Exhibit E

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

Year ended June 30, 2005

	General	Nonmajor Governmental Funds	Total
<b>Revenues:</b>			
Local sources:			
Local tax	\$ 667,569	157,658	825,227
Tuition	128,700	-	128,700
Other	62,928	80,813	143,741
State sources	1,267,292	-	1,267,292
Federal sources	134,128	-	134,128
Total revenues	<u>2,260,617</u>	<u>238,471</u>	<u>2,499,088</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular instruction	878,969	10,375	889,344
Special instruction	319,103	1,052	320,155
Other instruction	280,491	59,949	340,440
	<u>1,478,563</u>	<u>71,376</u>	<u>1,549,939</u>
Support services:			
Student services	29,898	156	30,054
Instructional staff services	50,806	191	50,997
Administration services	276,541	10,023	286,564
Operation and maintenance of plant services	161,390	10,042	171,432
Transportation services	104,818	8,657	113,475
	<u>623,453</u>	<u>29,069</u>	<u>652,522</u>
Non-instructional programs	-	260	260
Other expenditures:			
Facilities acquisition	-	21,614	21,614
Long-term debt:			
Principal	-	24,740	24,740
Interest and fiscal charges	-	1,486	1,486
AEA flowthrough	77,230	-	77,230
	<u>77,230</u>	<u>47,840</u>	<u>125,070</u>
Total expenditures	<u>2,179,246</u>	<u>148,545</u>	<u>2,327,791</u>
Excess of revenues over expenditures	<u>81,371</u>	<u>89,926</u>	<u>171,297</u>
Other financing sources (uses):			
Operating transfers in	-	29,340	29,340
Operating transfers out	-	(29,340)	(29,340)
Total other financing sources (uses)	-	-	-
Net change in fund balances	81,371	89,926	171,297
Fund balances beginning of year	335,418	34,109	369,527
Fund balances end of year	<u>\$ 416,789</u>	<u>124,035</u>	<u>540,824</u>

See notes to financial statements.

Moulton-Udell Community School District

Exhibit F

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

Year ended June 30, 2005

**Net change in fund balances - total governmental funds (page 23)** **\$ 171,297**

*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 not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures was less than depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 12,100	
Depreciation expense	<u>(73,810)</u>	(61,710)

Income surtax is not collected until several months after year end is not considered available revenue and is deferred in the governmental funds. 1,224

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	-	
Repaid	<u>24,740</u>	24,740

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. 339

**Change in net assets of governmental activities (page 20)** **\$ 135,890**

See notes to financial statements.

Moulton-Udell Community School District

Exhibit G

Statement of Net Assets  
Proprietary Fund

June 30, 2005

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 7,619
Inventories	3,450
Capital assets, net of accumulated depreciation	<u>13,561</u>
<b>Total assets</b>	<u>24,630</u>
<b>Liabilities</b>	
None	<u>-</u>
<b>Total liabilities</b>	<u>-</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	13,561
Unrestricted	<u>11,069</u>
<b>Total net assets</b>	<u>\$ 24,630</u>

See notes to financial statements.

Moulton-Udell Community School District

Exhibit H

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

Year ended June 30, 2005

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 46,593</u>
Operating expenses:	
Non-instructional programs:	
Food service programs:	
Salaries	38,016
Benefits	4,873
Purchased services	1,123
Supplies	53,469
Depreciation	<u>2,075</u>
Total operating expenses	<u>99,556</u>
Operating loss	<u>(52,963)</u>
Non-operating revenues:	
State sources	1,519
Federal sources	46,284
Interest income	59
Total non-operating revenues	<u>47,862</u>
Change in net assets	(5,101)
Net assets beginning of year	<u>29,733</u>
Net assets end of year	<u>\$ 24,632</u>

See notes to financial statements.

Moulton-Udell Community School District

Exhibit I

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2005

	<u>School Nutrition</u>
<b>Cash flows from operating activities:</b>	
Cash received from sale of lunches and breakfasts	\$ 46,593
Cash paid to employees for services	(38,016)
Cash paid to suppliers for goods and services	<u>(48,195)</u>
Net cash used by operating activities	<u>(39,618)</u>
<b>Cash flows from non-capital financing activities:</b>	
State grants received	1,519
Federal grants received	<u>39,431</u>
Net cash provided by non-capital financing activities	<u>40,950</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets	<u>(6,370)</u>
Net cash used by capital and related financing activities	<u>(6,370)</u>
<b>Cash flows from investing activities:</b>	
Interest on investments	<u>59</u>
Net decrease in cash and cash equivalents	(4,979)
Cash and cash equivalents at beginning of year	<u>12,598</u>
Cash and cash equivalents at end of year	<u>\$ 7,619</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (52,963)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	6,853
Depreciation	2,075
Decrease in inventories	4,455
(Decrease) in accounts payable	<u>(38)</u>
Net cash used by operating activities	<u>\$ (39,618)</u>

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

During the year ended June 30, 2005, the District received \$6,853 of federal commodities.

See notes to financial statements.

Moulton-Udell Community School District

Exhibit J

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2005

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
<b>Assets</b>	
Cash and pooled investments	\$ 5,307
<b>Total assets</b>	<u>5,307</u>
<b>Liabilities</b>	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u>\$ 5,307</u>

See notes to financial statements.

Moulton-Udell Community School District  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Exhibit K

Year ended June 30, 2005

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Gifts and contributions	\$ 450
Interest income	19
Total additions	469
Deductions:	
Support services:	
Scholarships awarded	1,500
Changes in net assets	(1,031)
Net assets beginning of year	6,338
Net assets end of year	\$ 5,307

See notes to financial statements.

Moulton-Udell Community School District

Notes to Financial Statements

June 30, 2005

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

Moulton-Udell Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Moulton and Udell, Iowa, and the predominate agricultural territory of Appanoose and Davis 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, Moulton-Udell 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 Moulton-Udell 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 Appanoose 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 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 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 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 fund:

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 the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This Fund is used to account for the food service operations of the District.

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

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 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 balance sheet:

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% 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 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	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means 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 represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, 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 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 vacation time; however, the unused amounts are not paid at termination, death or retirement. Consequently, no accrual is made in the financial statements for compensated absences.

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

(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:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 10,557</u>
Total	<u>\$ 10,557</u>

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

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.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue: Management Levy	\$ 26,500
	Physical Plant and Equipment Levy	<u>17,600</u>
		<u>\$ 44,100</u>

The above represents loans between the funds which should be paid back in fiscal year 2006.

**(4) 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>
Special Revenue: Physical Plant and Equipment Levy	Capital Projects: Local Option Sales Tax	\$ 3,114
Debt Service	Capital Projects: Local Option Sales Tax	<u>26,226</u>
Total		<u>\$ 29,340</u>

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

**(5) Iowa School 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. N.A. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ -	47	-	-
2004-05B	1/28/05	1/27/06	309,893	4,198	309,000	4,533
2005-06A	6/30/05	6/30/06	251,109	54	250,000	48
Total			<u>\$ 561,002</u>	<u>4,299</u>	<u>559,000</u>	<u>4,581</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 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05A	<u>\$ -</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%
2004-05B	3.500%	2.280%
2005-06A	<u>3.500%</u>	<u>3.903%</u>

**(6) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,000	-	-	2,000
Total capital assets not being depreciated	2,000	-	-	2,000
Capital assets being depreciated:				
Buildings	1,490,000	-	-	1,490,000
Furniture and equipment	456,257	12,100	26,000	442,357
Total capital assets being depreciated	1,946,257	12,100	26,000	1,932,357
Less accumulated depreciation for:				
Buildings	717,200	29,000	-	746,200
Furniture and equipment	213,241	44,810	26,000	232,051
Total accumulated depreciation	930,441	73,810	26,000	978,251
Total capital assets being depreciated, net	1,015,816	(61,710)	-	954,106
Governmental activities capital assets, net	\$ 1,017,816	(61,710)	-	956,106

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Business type activities:</b>				
Furniture and equipment	\$ 22,012	6,368	-	28,380
Less accumulated depreciation	12,744	2,075	-	14,819
Business type activities capital assets, net	\$ 9,268	4,293	-	13,561

Depreciation expense was charged to the following functions:

Government activities:	
Instruction:	
Regular	\$ 9,081
Other	351
Support services:	
Administration	10,402
Operation and maintenance of plant	2,351
Transportation	22,625
	<u>44,810</u>
Unallocated	<u>29,000</u>
Total depreciation expense - governmental activities	<u>\$ 73,810</u>
Business type activities:	
Food service operations	<u>\$ 2,075</u>

**(7) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capitalized lease obligations	\$ 36,889	-	10,240	26,649	12,601
Installment agreement payable	14,500	-	14,500	-	-
<b>Total</b>	<b>\$ 51,389</b>	<b>-</b>	<b>24,740</b>	<b>26,649</b>	<b>12,601</b>

Capitalized Lease Obligation

The District has entered into capital leases for the purchase of electronic equipment. The assets have been capitalized at cost.

Future minimum lease payments for the capital lease commitment are as follows:

<u>Year Ended-</u> <u>June 30</u>	<u>Amount</u>
2006	\$13,176
2007	13,176
2008	<u>1,098</u>
Total	27,450
Less amount attributable to interest	<u>801</u>
Present value of minimum lease payments	<u>\$26,649</u>

The interest rates on the capitalized lease is 2.75%, and is imputed based on the lessee's incremental borrowing rate. Principal payments under capital lease purchase agreements for the year ended June 30, 2005 totaled \$10,240.

Installment Agreement Payable

The District entered into an installment agreement payable for a bus purchase. The total amount of the purchase was \$29,000. Of this, \$14,500 was paid in fiscal year 2004 with the balance of \$14,500, plus interest of \$580, was paid off in fiscal year 2005.

**(8) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$70,583, \$72,662, and \$74,705 respectively, equal to the required contributions for each year.

**(8) Risk Management**

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

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$8,718, of which \$4,359 was paid with the 2004-2005 premiums and \$4,359 is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005, were \$222,303.

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

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.

**(10) Related Party Transaction**

The District had business transactions totaling \$1,793 between the District and District officials during the year ended June 30, 2005.

**(11) 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 \$77,230 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(12) Restatement**

The Private Purpose Trust – Scholarship Fund was previously reported as an Agency Fund. Consequently, the beginning fund balance was restated at July 1, 2004 with a balance of \$6,338.

**Required Supplementary Information**

Moulton-Udell 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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 1,097,668	46,652	1,144,320	1,056,533	1,056,533	87,787
State sources	1,267,292	1,519	1,268,811	1,445,613	1,445,613	(176,802)
Federal sources	134,128	46,284	180,412	172,250	172,250	8,162
Total revenues	2,499,088	94,455	2,593,543	2,674,396	2,674,396	(80,853)
Expenditures/Expenses:						
Instruction	1,549,939	-	1,549,939	1,660,000	1,660,000	110,061
Support services	652,522	-	652,522	1,087,000	1,087,000	434,478
Non-instructional programs	260	99,556	99,816	145,000	145,000	45,184
Other expenditures	125,070	-	125,070	83,796	206,000	80,930
Total expenditures/expenses	2,327,791	99,556	2,427,347	2,975,796	3,098,000	670,653
Excess (deficiency) of revenues over (under) expenditures/expenses	171,297	(5,101)	166,196	(301,400)	(423,604)	589,800
Other financing sources, net	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	171,297	(5,101)	166,196	(301,400)	(423,604)	589,800
Balances beginning of year	369,527	29,733	399,260	312,797	312,792	86,468
Balances end of year	\$ 540,824	24,632	565,456	11,397	(110,812)	676,268

See accompanying independent auditor's report.

Moulton-Udell Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2005

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 Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides 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 disbursements by \$122,204.

During the year ended June 30, 2005, disbursements did not exceed the budget in any of the four functions.

Other Supplementary Information

Moulton-Udell Community School District

Schedule 1

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2005

	Special Revenue			Capital Projects	Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Local Option Sales Tax	
<b>Assets</b>					
Cash and pooled investments	\$ 30,141	50,784	413	50,089	131,427
Receivables:					
Property tax:					
Delinquent	1,259	-	-	-	1,259
Succeeding year	39,500	-	22,772	-	62,272
Due from other governments	-	-	-	35,449	35,449
<b>Total assets</b>	<b>\$ 70,900</b>	<b>50,784</b>	<b>23,185</b>	<b>85,538</b>	<b>230,407</b>
<b>Liabilities and Fund Equity</b>					
Liabilities:					
Due to other funds	\$ 26,500	-	17,600	-	44,100
Deferred revenue:					
Succeeding year property tax	39,500	-	22,772	-	62,272
Total liabilities	66,000	-	40,372	-	106,372
Fund equity:					
Unreserved fund balances	4,900	50,784	(17,187)	85,538	124,035
<b>Total liabilities and fund equity</b>	<b>\$ 70,900</b>	<b>50,784</b>	<b>23,185</b>	<b>85,538</b>	<b>230,407</b>

See accompanying independent auditor's report.

Moulton-Udell Community School District

Schedule 2

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

Year ended June 30, 2005

	Special Revenue			Capital Projects		Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Local Option Sales Tax	
<b>Revenues:</b>						
Local sources:						
Local tax	\$ 36,944	-	-	-	120,714	157,658
Other	438	80,299	20	-	56	80,813
<b>Total revenues</b>	<b>37,382</b>	<b>80,299</b>	<b>20</b>	<b>-</b>	<b>120,770</b>	<b>238,471</b>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular instruction	10,375	-	-	-	-	10,375
Special instruction	1,052	-	-	-	-	1,052
Other instruction	1,375	58,574	-	-	-	59,949
Support services:						
Student services	156	-	-	-	-	156
Instructional staff services	191	-	-	-	-	191
Administration services	10,023	-	-	-	-	10,023
Operation and maintenance of plant services	9,774	-	268	-	-	10,042
Transportation services	8,657	-	-	-	-	8,657
Non-instructional programs:						
Food service operations	260	-	-	-	-	260
Other expenditures:						
Facilities acquisition	-	-	15,722	-	5,892	21,614
Long-term debt:						
Principal	-	-	-	24,740	-	24,740
Interest and fiscal charges	-	-	-	1,486	-	1,486
<b>Total expenditures</b>	<b>41,863</b>	<b>58,574</b>	<b>15,990</b>	<b>26,226</b>	<b>5,892</b>	<b>148,545</b>
Excess (deficiency) of revenues over (under) expenditures	(4,481)	21,725	(15,970)	(26,226)	114,878	89,926
Other financing sources (uses):						
Operating transfers in	-	-	3,114	26,226	-	29,340
Operating transfers out	-	-	-	-	(29,340)	(29,340)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>3,114</b>	<b>26,226</b>	<b>(29,340)</b>	<b>-</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(4,481)	21,725	(12,856)	-	85,538	89,926
Fund balances beginning of year	9,381	29,059	(4,331)	-	-	34,109
<b>Fund balances end of year</b>	<b>\$ 4,900</b>	<b>50,784</b>	<b>(17,187)</b>	<b>-</b>	<b>85,538</b>	<b>124,035</b>

See accompanying independent auditor's report.

Moulton-Udell Community School District

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
SADD	\$ 2,804	2,703	2,685	2,822
Honor Society	363	783	595	551
Annual	5,994	5,445	199	11,240
Athletics	7,894	24,497	21,686	10,705
Cheerleaders	675	1,834	1,540	969
Drama	17	326	-	343
Student Council	1,723	13,154	11,709	3,168
FFA	4,452	9,006	1,737	11,721
Class of -				
2002	102	-	-	102
2003	-	-	70	(70)
2004	100	-	-	100
2005	3,675	5,349	8,527	497
2006	422	13,272	8,429	5,265
2007	70	93	-	163
2008	77	50	-	127
2009	40	25	122	(57)
2010	-	50	-	50
2011	-	28	28	-
2012	127	68	68	127
2013	(86)	117	12	19
2014	(1)	22	35	(14)
2015	174	373	145	402
2016	-	-	135	(135)
2017	-	1,121	1,121	-
Art Club	366	-	-	366
Spanish Club	33	-	-	33
Flag Corps	(209)	-	-	(209)
Interest	-	293	-	293
Musicals	686	488	-	1,174
Popcorn Machine	(898)	-	-	(898)
Elementary	272	1,200	-	1,472
High School	130	-	102	28
Instrumental Music	(16)	397	-	381
Speech	73	41	65	49
Total	<u>\$ 29,059</u>	<u>80,735</u>	<u>59,010</u>	<u>50,784</u>

See accompanying independent auditor's report.

Moulton-Udell Community School District

Schedule 4

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

For the Last Three Years

	Modified Accrual		
	2005	2004	2003
<b>Revenues:</b>			
Local sources:			
Local tax	\$ 825,227	749,900	721,875
Tuition	128,700	150,002	147,207
Other	143,741	158,109	123,250
State sources	1,267,292	1,179,818	1,288,397
Federal sources	134,128	155,327	129,829
Total	<u>\$ 2,499,088</u>	<u>2,393,156</u>	<u>2,410,558</u>
<b>Expenditures:</b>			
Instruction:			
Regular instruction	\$ 889,344	1,018,301	1,000,615
Special instruction	320,155	333,913	299,717
Other instruction	340,440	285,497	260,885
Support services:			
Student services	30,054	26,559	6,776
Instructional staff services	50,997	8,888	39,021
Administration services	286,564	302,959	264,004
Operation and maintenance of plant services	171,432	211,273	176,317
Transportation services	113,475	105,441	132,985
Non-instructional programs	260	225	261
Other expenditures:			
Facilities acquisition	21,614	-	91,889
Long-term debt:			
Principal	24,740	46,175	156,772
Interest and other charges	1,486	2,120	10,589
AEA flowthrough	77,230	77,390	83,845
Total	<u>\$ 2,327,791</u>	<u>2,418,741</u>	<u>2,523,676</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1051 OFFICE PARK ROAD  
WEST DES MOINES, IA 50265

(515) 277-3077

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  
Moulton - Udell Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Moulton - Udell 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 our report thereon dated September 2, 2005. 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 Moulton - Udell Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05, I-C-05 and I-E-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Moulton - Udell 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 and 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 our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Moulton - Udell 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.

Peak & Gerdes, LLP  
Certified Public Accountants

September 2, 2005

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2005

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

I-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one employee receives money, deposits money to the bank, posts the cash receipts to the receipts journal, prepares the checks, posts the checks to the cash disbursements journal, posts the general ledger and reconciles the bank account.

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

Response - We will continue to investigate alternatives.

Conclusion - Response accepted.

I-B-05 Overpayment - We noted that for a shared teacher contract, the District appeared to overpay another school district by \$3,405. District personnel were unaware of this situation until we brought it to their attention.

Recommendation - The District request reimbursement for the overpayment. In addition, in the future the District should implement procedures to ensure amounts paid to other school districts are proper.

Response - We will implement this recommendation.

Conclusion - Response accepted.

I-C-05 Timely Deposit of Payroll Tax and Withholding - The District does not have procedures in place to ensure payroll taxes and withholdings are transmitted timely to the federal and state government. Because of the lack of timely deposit, approximately \$8,800 in interest and penalty was paid in fiscal year 2004 and 2005.

Recommendation - The District implement procedures to ensure all payroll taxes due to the federal and state government are transmitted timely.

Response - We will implement this recommendation

Conclusion - Response accepted.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2005

I-D-05 Follow-Up Procedures – In fiscal year 2004, the District overpaid another District \$1,139 for open enrollment. It appears the District overpaid a vendor by approximately \$11,000. Both of these issues were brought to the District's attention over a year ago in the prior audit, but as of current audit date, the District has not resolved either of these issues.

Recommendation – The District resolve both of the above issues.

Response – We will follow up on these issues.

Conclusion – Response accepted.

I-E-05 Classifications – There were many misclassifications of receipts and disbursements on the general ledger.

Recommendation – The District implement procedures to ensure all receipts and disbursements are appropriately classified on the general ledger.

Response – We will implement this recommendation.

Conclusion – Response accepted.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2005

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

II-A-05 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - Disbursements for the year ended June 30, 2005, did not exceeded the amended certified budget amounts. The notice of public hearing for the budget was not published between ten and twenty days prior to the public hearing, as required per the Code of Iowa.

Recommendation –Procedures should be implemented to ensure budget publication requirements are met pursuant to the Code of Iowa.

Response – We will ensure publication requirements are met in the future.

Conclusion – Response accepted.

II-C-05 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-05 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bryanna Kaster, Spouse of Board Member, Owner of Country Lane Graphics	Supplies	\$1,793

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

II-F-05 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.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2005

- II-G-05      Board Minutes – No transactions were found that we believe should have been approved by the Board but were not.
- Instances were noted where the specific exemption for holding a closed session and the vote of each board member to hold a closed session was not documented in the Board minutes as required per the Code of Iowa. In some instances, the list of claims allowed did not document the purpose of the claim, and in other instances, the list of claims allowed were not published. In one instance, the Board minutes were not published, and other instances were noted where the Board minutes were not timely published. Section 279.35 of the Code of Iowa requires that the list of claims allowed (including purpose of the claim) and the minutes be published in the newspaper within two weeks of the proceedings. In one case, the Board minutes were not signed by the Board President and Board Secretary
- Recommendation – The District implement procedures to ensure compliance with the Code of Iowa in regards to closed sessions, publications and signatures.
- Response – We will implement these recommendations.
- Conclusion – Response accepted.
- II-H-05      Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- II-I-05      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-J-05      Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-K-05      Financial Condition – Several student activity accounts and the Special Revenue – Physical Plant and Equipment Levy Fund had deficit balances at June 30, 2005.
- Recommendation – The District should monitor these accounts and investigate alternatives to eliminate these deficits.
- Response – We will continue to monitor the negative balance accounts.
- Conclusion – Response accepted.
- II-L-05      Compliance – In one instance, the District issued an incorrect Internal Revenue Service 1099 Misc. form to a vendor. It appears the third quarter 2004 State of Iowa Job Service reports were understated. Some instances were noted where invoices were paid even though no invoice existed. In some cases, the I9 forms were incomplete.
- Recommendation – The District issue correct 1099-Misc forms. The District should also ensure that all payroll reports are accurate, invoices are obtained before payment is made, and that the I9 forms are complete.
- Response – We will implement these recommendations.
- Conclusion – Response accepted.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2005

II-M-05      Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will implement this recommendation.

Conclusion – Response accepted.