

MURRAY COMMUNITY SCHOOL DISTRICT
MURRAY, IOWA

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

JUNE 30, 2006

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MURRAY COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2005 Election)		
Dennis Jeter	President	2005
Melanie Halls	Vice President	2005
Mike Eckels	Board Member	2006
Cheryl Loy	Board Member	2006
Mary James	Board Member	2007
<u>Board of Education</u>		
(After September 2005 Election)		
Dennis Jeter	President	2008
Melanie Halls	Vice President	2008
Mike Eckels	Board Member	2006
Cheryl Loy	Board Member	2006
Mary James	Board Member	2007
<u>School Officials</u>		
Dennis Bishop	Superintendent	2009
Elizabeth Justice	District Secretary	2006
Betty Jackson	District Treasurer	2006
Robert Reynoldson	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Murray 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 Murray Community School District, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Murray Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2006 on our consideration of Murray Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Murray Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
August 11, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

- General Fund revenues increased from \$2,497,812 in fiscal 2005 to \$2,658,116 in fiscal 2006, and General Fund expenditures increased from \$2,574,711 in fiscal 2005 to \$2,788,563 in fiscal 2006. Expenditures exceeded revenues by \$130,447, the third year expenditures have exceeded revenues.
- The district received \$161,568 in School Infrastructure Local Option Sales Tax from Clarke, Decatur and Union counties and state supplemental funds. The district has committed \$50,000 per year for debt reduction and the balance for facilities improvements. The major improvements this year were asphaltting the bus loading and unloading zones, and renovations to the school gym. Other projects included carpet and tile replacement and repairs of electrical wiring in the high school building.
- The district received a \$25,000 Fire Life Safety Grant which was used for improving handicap accessibility to the gym, fire alarm repairs and upgrades, and electrical repairs to the high school building.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

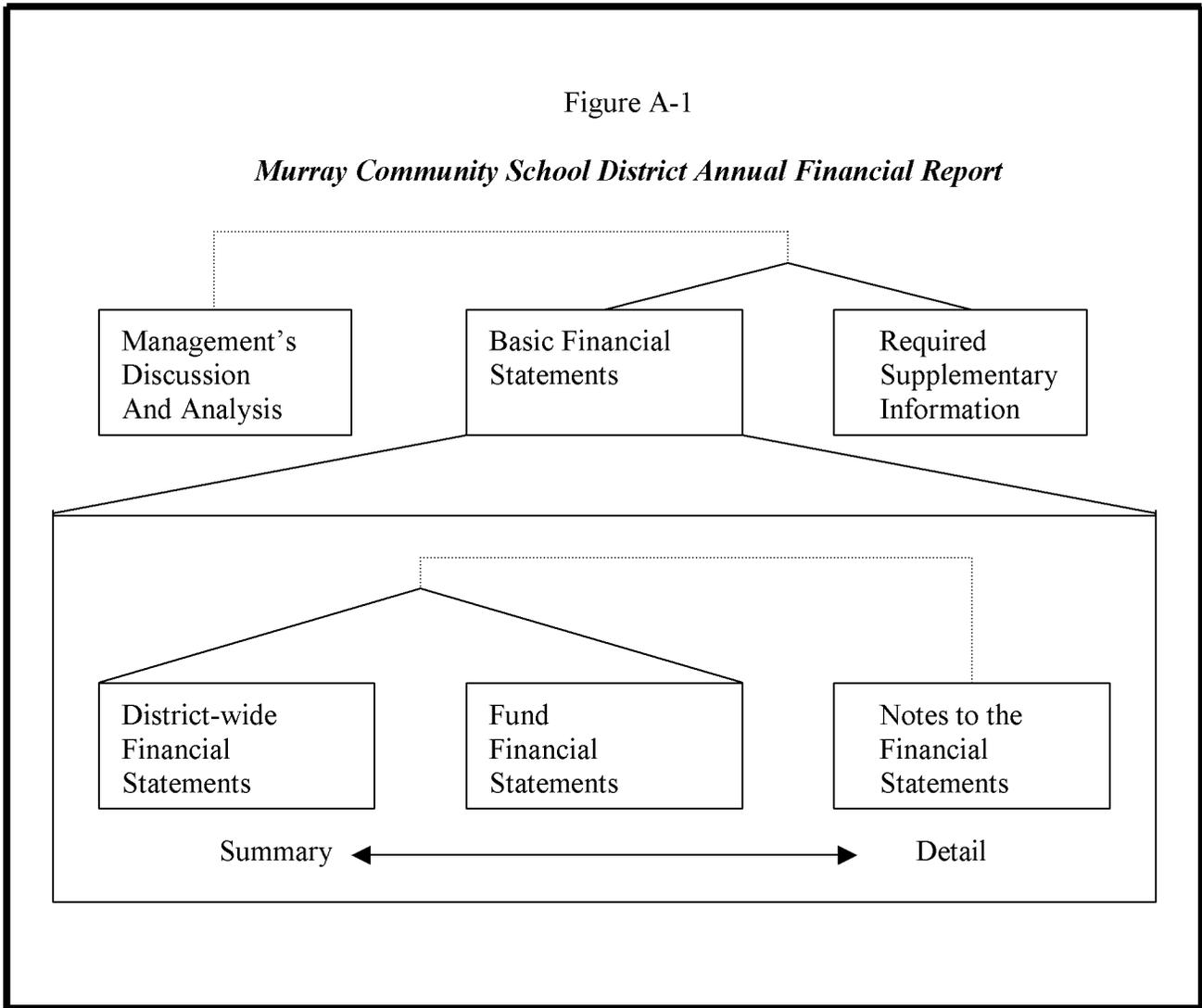


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

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

District-wide Statements

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

The two District-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

enterprise funds are the same as its business-type activities but provide more detail and additional information, such as cash flows.

- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District school for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The School District as a Whole

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

Figure A-3
Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District	
	2005	2006	2005	2006	2005	2006
Assets:						
Current and other Assets	\$2,404,603	\$2,372,052	\$ 73,801	\$84,811	\$2,478,404	\$2,456,863
Capital assets	<u>1,670,305</u>	<u>1,700,758</u>	<u>37,140</u>	<u>33,631</u>	<u>1,707,445</u>	<u>1,734,389</u>
Total assets	4,074,908	4,072,810	110,941	118,442	4,185,849	4,191,252
Long-term obligations	601,218	529,810	0	0	601,218	529,810
Other obligations	<u>964,091</u>	<u>985,893</u>	<u>18,141</u>	<u>18,753</u>	<u>982,232</u>	<u>1,004,646</u>
Total liabilities	1,565,309	1,515,703	18,141	18,753	1,583,450	1,534,456
Net assets						
Invested in capital assets net of related debt	1,075,305	1,175,758	37,140	33,631	1,112,445	1,209,389
Restricted	167,630	161,009			167,630	161,009
Unrestricted	<u>1,266,664</u>	<u>1,220,340</u>	<u>55,660</u>	<u>66,058</u>	<u>\$1,322,324</u>	<u>1,286,398</u>
Total net assets	<u>\$2,509,599</u>	<u>\$2,557,107</u>	<u>\$92,800</u>	<u>\$99,689</u>	<u>\$2,602,399</u>	<u>\$2,656,796</u>

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

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

Figure A-4

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program revenues:						
Charges for service & sales	\$ 410,697	\$ 520,725	\$ 70,157	\$ 68,526	\$ 480,854	\$ 589,251
Operating grants, contributions, and restricted interest	405,951	449,333	90,895	98,786	46,846	548,119
Capital grants, contributions and restricted interest	0	0	0	0	0	0
General revenues:						
Property tax	608,779	578,212	0	0	608,779	578,212
Debt Service	69,021	38,185	0	0	69,021	38,185
PPEL	16,734	56,468	0	0	16,734	56,468
Local Option Sales and Services tax	120,920	161,568	0	0	120,920	161,568
Income Surtax	74,929	80,005	0	0	74,929	80,005
Unrestricted state grants	1,112,475	1,185,412	0	0	1,112,475	1,185,412
Unrestricted interest earnings	32,574	45,697	1,199	2,384	33,773	48,081
Other	<u>2,938</u>	<u>2,318</u>	<u>0</u>	<u>0</u>	<u>2,938</u>	<u>2,318</u>
Total revenues	\$2,855,018	\$ 3,117,923	\$ 162,251	\$169,696	\$3,017,269	\$3,287,619
Program expenses:						
Governmental activities:						
Instruction	\$1,720,794	\$1,815,554	0	0	\$1,720,794	\$1,815,554
Support Services	941,303	990,092	0	0	941,303	990,092
Non-instructional programs	3,903	0	147,472	162,807	151,375	162,807
Other expenses	<u>167,067</u>	<u>264,769</u>	<u>0</u>	<u>0</u>	<u>167,067</u>	<u>264,769</u>
	\$2,833,067	\$3,070,415	\$ 147,472	\$162,807	\$2,980,539	\$3,233,222
Change in net assets	\$ 21,951	\$ 47,508	\$ 14,779	\$ 6,889	\$ 36,730	\$ 54,397

The major sources of 2006 revenues for the District were property tax and unrestricted state grants, accounting for 57% of the 2006 revenues. Other revenue sources were charges for sales and services, 18%; operating grants, contributions, and restricted interest 16%; sales and services tax, income surtax, interest and other sources, 9%.

The District's expenses primarily relate to instruction and support services, which have accounted for 87% of the total expenses this year.

Governmental Activities

Governmental activities revenues for 2006 were \$3,117,923 and expenses were \$3,070,415, resulting in a net asset increase of \$47,508.

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

	Total and Net Cost of Governmental Activities			
	Total Cost of Services		Net Cost of Services	
	2005	2006	2005	2006
Instruction	\$1,720,794	\$1,815,554	\$1,010,683	\$960,764
Support Services	941,303	990,092	924,278	990,092
Non-instructional programs	3,903	0	3,903	0
Other expenses	<u>167,067</u>	<u>264,769</u>	<u>77,555</u>	<u>149,501</u>
Totals	\$2,833,067	\$3,070,415	\$2,016,419	\$2,100,357

The cost financed by users of the District's programs was \$520,725 in 2006 compared to \$410,697 in 2005.

- Federal and state governments subsidized certain programs with grants and contributions totaling \$449,333 in 2006 compared to \$405,951 in 2005.
- The net cost of governmental activities was financed with \$914,438 property and other taxes, \$1,185,412 in unrestricted state funds, and \$45,697 interest income and 2,318 in general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$169,696 and expenses were \$162,807. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Financial Analysis of the District's Funds

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District ended 2006, its governmental funds reported combined fund balances of \$1,304,518.

Governmental Fund Highlights

The General Fund balance decreased for the third straight year. General fund expenditures exceeded revenues by \$130,447. Fund balances increased for management, student activity funds, and capital projects funds. Fund balances decreased in physical plant and equipment and debt service funds.

Proprietary Fund Highlights

The School Nutrition fund unreserved retained earnings increased from \$55,660 in 2005 to \$66,058 in 2006.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust fund. Although the budget document presents functional area expenditures of expenses by fund, the legal level of control is at the aggregated functional level, at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on an accrual basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

The District's total actual revenues were \$266,203 more than the total projected certified budget receipts, a variance of 8%. This increase was attributed to higher than anticipated revenues in local, state and federal funding sources.

Total expenditures were less than budgeted. It is the practice of the District to budget expenditures at the maximum authorized spending authority for all funds. The district controls spending through the line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the District had invested \$1,700,758, net of accumulated depreciation of \$1,538,206, in a broad range of governmental capital assets, including land, buildings and building improvements, ground improvements, vehicles, and furniture. Business-type activities had invested \$33,631, net of accumulated depreciation, in capital assets. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$120,776 for governmental activities, and \$3,509 for business-type activities.

The District has set capitalization levels of \$1500 for all governmental activities assets. Business-type activities utilize the \$500 capitalization level as required by regulations of the Bureau of Food and Nutrition.

Significant capital assets activities included the renovation to the gymnasium, purchase of a new school bus, asphaltting the bus loading zone, and improvements to the softball/baseball field.

Figure A-6

	Capital Assets, net of Depreciation		
	Governmental Activities	Business-type Activities	Total School District
Land	\$ 38,000	\$ 0	\$ 38,000
Buildings	1,399,860	0	1,399,860
Improvements, other than buildings	82,615	0	82,615
Furniture and equipment	<u>180,283</u>	<u>33,631</u>	<u>213,914</u>
Total	<u>\$1,700,758</u>	<u>\$33,631</u>	<u>\$1,734,389</u>

Long-Term Liabilities

At June 30, 2006, the District had long-term liabilities totaling \$529,810 of which \$4,810 was for early retirement benefits, and \$525,000 was for general-obligation bonds. More detailed information is available in Note 6 to the financial statements.

Factors Bearing on the District's Future

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

- School Infrastructure Local Option Sales tax collected in Clarke, Decatur and Union counties totaled \$161,568. The District has committed \$50,000 per year to be allocated to payment of general-obligation bonds resulting in a reduction in the property tax levy for debt services. The balance will be used for capital improvements.
- This is the District's sixth year of declining enrollment, from 358.4 students in 1998-99 to 300 students in 2005-06.
- The District's negative special education balance at the close of 2006 was \$18,140. The District's increased negative balance is due to increased special education costs for out-of-district tuition, transportation, and an increased need for one-on-one teacher associations for high needs students. The District funds this negative balance with general fund sources.

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 Elizabeth Justice, District Secretary/Business Manager, Murray Community School District, PO Box 187, Murray, Iowa 50174.

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Basic Financial Statements

MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 1,483,294	\$ 73,847	\$ 1,557,141
Receivables:			
Property tax:			
Current year	30,582	-	30,582
Succeeding year	660,000	-	660,000
Income surtax	83,000	-	83,000
Accrued interest	86	-	86
Accounts	1,126	-	1,126
Due from other governments	113,964	5,486	119,450
Inventories	-	5,478	5,478
Capital assets, net of accumulated depreciation (note 5)	1,700,758	33,631	1,734,389
Total assets	4,072,810	118,442	4,191,252
Liabilities			
Accounts payable	52,239	7,994	60,233
Salaries and benefits payable	272,295	8,465	280,760
Accrued interest payable	1,359	-	1,359
Deferred revenue:			
Succeeding year property tax	660,000	-	660,000
Other	-	2,294	2,294
Long-term liabilities (note 6):			
Portion due within one year:			
Early retirement	1,408	-	1,408
Bonds payable	75,000	-	75,000
Portion due after one year:			
Early retirement	3,402	-	3,402
Bonds payable	450,000	-	450,000
Total liabilities	1,515,703	18,753	1,534,456

MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 1,175,758	\$ 33,631	\$ 1,209,389
Restricted for:			
Management levy	29,588	-	29,588
Physical plant and equipment levy	13,088	-	13,088
Other special revenue purposes	100,353	-	100,353
Debt service	17,980	-	17,980
Unrestricted	<u>1,220,340</u>	<u>66,058</u>	<u>1,286,398</u>
Total net assets	<u>\$ 2,557,107</u>	<u>\$ 99,689</u>	<u>\$ 2,656,796</u>

See notes to financial statements.

MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>
Governmental Activities:			
Instruction:			
Regular instruction	\$ 1,068,621	\$ 324,013	\$ 254,219
Special instruction	286,374	9,078	79,846
Other instruction	460,559	187,634	-
	<u>1,815,554</u>	<u>520,725</u>	<u>334,065</u>
Support services:			
Student services	99,939	-	-
Instructional staff services	74,708	-	-
Administration services	353,885	-	-
Operation and maintenance of plant services	294,353	-	-
Transportation services	167,207	-	-
	<u>990,092</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	89,558	-	25,000
Long-term debt interest and fiscal charges	22,053	-	-
AEA flowthrough	90,268	-	90,268
Depreciation (unallocated) *	62,890	-	-
	<u>264,769</u>	<u>-</u>	<u>115,268</u>
 Total governmental activities	 3,070,415	 520,725	 449,333
Business-Type Activities:			
Non-instructional programs:			
Food service operations	162,807	68,526	98,786
 Total	 <u>\$ 3,233,222</u>	 <u>\$ 589,251</u>	 <u>\$ 548,119</u>

Net (Expense) Revenue
and Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$	(490,389)	-	\$ (490,389)
	(197,450)	-	(197,450)
	(272,925)	-	(272,925)
	<u>(960,764)</u>	<u>-</u>	<u>(960,764)</u>
	(99,939)	-	(99,939)
	(74,708)	-	(74,708)
	(353,885)	-	(353,885)
	(294,353)	-	(294,353)
	(167,207)	-	(167,207)
	<u>(990,092)</u>	<u>-</u>	<u>(990,092)</u>
	(64,558)	-	(64,558)
	(22,053)	-	(22,053)
	-	-	-
	<u>(62,890)</u>	<u>-</u>	<u>(62,890)</u>
	<u>(149,501)</u>	<u>-</u>	<u>(149,501)</u>
	(2,100,357)	-	(2,100,357)
	<u>-</u>	<u>4,505</u>	<u>4,505</u>
	<u>(2,100,357)</u>	<u>4,505</u>	<u>(2,095,852)</u>

MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Debt service

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$	578,212	\$ -	\$ 578,212
	38,185	-	38,185
	56,468	-	56,468
	80,005	-	80,005
	161,568	-	161,568
	1,185,412	-	1,185,412
	45,697	2,384	48,081
	2,318	-	2,318
	<hr/> 2,147,865	2,384	<hr/> 2,150,249
	47,508	6,889	54,397
	<hr/> 2,509,599	92,800	<hr/> 2,602,399
\$	<u><u>2,557,107</u></u>	<u><u>\$ 99,689</u></u>	<u><u>\$ 2,656,796</u></u>

MURRAY COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and pooled investments	\$ 1,209,292	\$ 285,355	\$ 1,494,647
Receivables:			
Property tax:			
Current year	26,266	4,316	30,582
Succeeding year	474,000	93,000	567,000
Income surtax	83,000	-	83,000
Accrued interest	86	-	86
Interfund receivable (note 3)	25,071	-	25,071
Accounts	-	1,126	1,126
Due from other governments	52,052	61,912	113,964
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,869,767</u>	<u>\$ 445,709</u>	<u>\$ 2,315,476</u>

MURRAY COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities and Fund Balances			
Liabilities:			
Excess of warrants issued over bank balance	\$ -	\$ 11,353	\$ 11,353
Accounts payable	36,426	15,813	52,239
Salaries and benefits payable	271,972	323	272,295
Interfund payable (note 3)	-	25,071	25,071
Deferred revenue:			
Succeeding year property tax	474,000	93,000	567,000
Other	83,000	-	83,000
Total liabilities	<u>865,398</u>	<u>145,560</u>	<u>1,010,958</u>
Fund balance:			
Reserved for:			
Debt service	-	19,339	19,339
Unreserved:			
Reported in nonmajor Special Revenue Funds	-	147,839	147,839
Designated for cash flow	355,000	-	355,000
Designated for specific projects	-	15,000	15,000
Undesignated	649,369	117,971	767,340
Total fund balances	<u>1,004,369</u>	<u>300,149</u>	<u>1,304,518</u>
Total liabilities and fund balances	<u>\$ 1,869,767</u>	<u>\$ 445,709</u>	<u>\$ 2,315,476</u>

See notes to financial statements.

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

Total fund balances of governmental funds	\$ 1,304,518
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,700,758
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	83,000
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(1,359)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(529,810)</u>
Net assets of governmental activities	<u>\$ 2,557,107</u>

See notes to financial statements.

MURRAY COMMUNITY SCHOOL DISTRICT

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

	General	Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 660,802	\$ 256,197	\$ 916,999
Tuition	283,044	-	283,044
Other	136,263	174,582	310,845
State sources	1,458,079	62	1,458,141
Federal sources	119,928	25,000	144,928
Total revenues	<u>2,658,116</u>	<u>455,841</u>	<u>3,113,957</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,089,664	15,480	1,105,144
Special instruction	286,374	-	286,374
Other instruction	336,192	124,367	460,559
	<u>1,712,230</u>	<u>139,847</u>	<u>1,852,077</u>
Support services:			
Student services	99,938	-	99,938
Instructional staff services	74,707	-	74,707
Administration services	345,602	2,428	348,030
Operation and maintenance of plant services	278,513	15,172	293,685
Transportation services	187,305	1,016	188,321
	<u>986,065</u>	<u>18,616</u>	<u>1,004,681</u>
Other expenditures:			
Facilities acquisition	-	133,197	133,197
Long term debt:			
Principal	-	70,000	70,000
Interest and fiscal charges	-	22,175	22,175
AEA flowthrough	90,268	-	90,268
	<u>90,268</u>	<u>225,372</u>	<u>315,640</u>
Total expenditures	<u>2,788,563</u>	<u>383,835</u>	<u>3,172,398</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(130,447)</u>	<u>72,006</u>	<u>(58,441)</u>

MURRAY COMMUNITY SCHOOL DISTRICT

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

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):			
Compensation for loss of capital assets	\$ 966	\$ -	\$ 966
Interfund transfers in (note 4)	-	100,000	100,000
Interfund transfers out (note 4)	-	(100,000)	(100,000)
Total other financing sources (uses)	<u>966</u>	<u>-</u>	<u>966</u>
Net change in fund balances	(129,481)	72,006	(57,475)
Fund balances beginning of year	<u>1,133,850</u>	<u>228,143</u>	<u>1,361,993</u>
Fund balances end of year	<u>\$ 1,004,369</u>	<u>\$ 300,149</u>	<u>\$ 1,304,518</u>

See notes to financial statements.

MURRAY COMMUNITY SCHOOL DISTRICT

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

Net change in fund balances - total governmental funds \$ (57,475)

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

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

Expenditures for capital assets	\$ 151,229	
Depreciation expense	<u>(120,776)</u>	30,453

Income surtax revenue not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities. 3,000

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 70,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 122

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 1,408

Change in net assets of governmental activities \$ 47,508

See notes to financial statements.

MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2006

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 73,847
Due from other governments	5,486
Inventories	5,478
Capital assets, net of accumulated depreciation	<u>33,631</u>
Total assets	<u>118,442</u>
Liabilities	
Accounts payable	7,994
Salaries and benefits payable	8,465
Deferred revenue:	
Other	<u>2,294</u>
Total liabilities	<u>18,753</u>
Net Assets	
Invested in capital assets	33,631
Unrestricted	<u>66,058</u>
Total net assets	<u>\$ 99,689</u>

See notes to financial statements.

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

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>68,526</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	59,726
Benefits	9,702
Purchased services	8,004
Supplies	81,866
Depreciation	<u>3,509</u>
	<u>162,807</u>
Operating loss	<u>(94,281)</u>
Non-operating revenues:	
Interest on investments	2,384
State sources	2,217
Federal sources	<u>96,569</u>
Total non-operating revenues	<u>101,170</u>
Change in net assets	6,889
Net assets beginning of year	<u>92,800</u>
Net assets end of year	\$ <u><u>99,689</u></u>

See notes to financial statements.

MURRAY COMMUNITY SCHOOL DISTRICT

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

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 68,304
Cash received from miscellaneous operating activities	670
Cash payments to employees for services	(68,495)
Cash payments to suppliers for goods or services	<u>(82,002)</u>
Net cash used by operating activities	<u>(81,523)</u>
Cash flows from non-capital financing activities:	
State grants received	2,217
Federal grants received	<u>86,348</u>
Net cash provided by non-capital financing activities	<u>88,565</u>
Cash flows from investing activities:	
Interest on investments	<u>2,384</u>
Net increase in cash and cash equivalents	9,426
Cash and cash equivalents beginning of year	<u>64,421</u>
Cash and cash equivalents end of year	<u>\$ 73,847</u>

MURRAY COMMUNITY SCHOOL DISTRICT

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

	<u>School Nutrition</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (94,281)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	3,509
Commodities used	8,828
(Increase) in inventories	(191)
(Decrease) in accounts payable	(769)
Increase in salaries and benefits payable	933
Increase in deferred revenues	<u>448</u>
Net cash used by operating activities	<u>\$ (81,523)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$8,828 of federal commodities.

See notes to financial statements.

MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2006

	Private Purpose Trust	
	Book Club and Scholarships	Agency
Assets:		
Cash and pooled investments	\$ <u>24,659</u>	\$ <u>11,027</u>
Liabilities:		
Black Consortium payable	\$ -	\$ <u>11,027</u>
Net assets:		
Reserved for scholarships	\$ <u>24,659</u>	

See notes to financial statements.

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

	Private Purpose Trust <u>Book Club and Scholarships</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 13,200
Interest	<u>437</u>
Total additions	<u>13,637</u>
Deductions:	
Regular instruction	
Supplies	<u>9,649</u>
Change in net assets	3,988
Net assets beginning of year	<u>20,671</u>
Net assets end of year	<u>\$ 24,659</u>
See notes to financial statements.	

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

Murray 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 Murray, Iowa, and the predominate agricultural territory in Clarke, Union, and Decatur 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, Murray 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. Murray 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 Clarke County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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

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

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

The District reports the following major governmental funds:

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

The District reports the following major proprietary fund:

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

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

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

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

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	1,500

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

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

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

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

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave. The District's policy is not to reimburse employees for sick leave or vacation.

Vacation can only be used by the employees in the year it is earned. The District has no compensated absences liability at June 30, 2006.

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

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

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

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

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

During the year ended June 30, 2006, disbursements in the non-instructional programs function exceeded the amount budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 2. Cash and Pooled Investments (continued)

A summary of the District's investments is as follows:

Investment	Amortized Cost
Iowa Schools Joint Investment Trust	\$ 892,027
Medtronic common stock	<u>3,847</u>
	<u>\$ 895,874</u>

During the year, the District sold their investment in Principal Financial Group common stock for \$33,879. The stock had a basis of \$30,126 resulting in a gain of \$3,753.

The District's investments in the Iowa Schools Joint Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. The District's investments in common stock are valued at fair value.

The District's investments in ISJIT are covered by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The District's investments in common stock are uninsured and at full risk of loss.

Note 3. Interfund Receivable/Payable

Details of the District's interfund receivables and payables are as follows:

Due to	Due from	Amount
General	Special Revenue, Student Activity	\$ <u>25,071</u>

These amounts result from transactions between funds which had not yet been repaid at June 30, 2006.

Note 4. Interfund Transfers

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

Transfer to	Transfer from	Amount
Capital Projects	Special Revenue: Physical Plant and Equipment Levy	\$ 50,000
Debt Service	Capital Projects	<u>50,000</u>
Total		<u>\$ 100,000</u>

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

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 38,000	\$ -	\$ -	\$ 38,000
Capital assets being depreciated:				
Buildings	2,348,944	4,275	-	2,353,219
Improvements other than buildings	110,993	39,364	-	150,357
Furniture and equipment	610,142	107,590	20,344	697,388
Total capital assets being depreciated	<u>3,070,079</u>	<u>151,229</u>	<u>20,344</u>	<u>3,200,964</u>
Less accumulated depreciation for:				
Buildings	900,650	52,709	-	953,359
Improvements other than buildings	62,652	5,090	-	67,742
Furniture and equipment	474,472	62,977	20,344	517,105
Total accumulated depreciation	<u>1,437,774</u>	<u>120,776</u>	<u>20,344</u>	<u>1,538,206</u>
Total capital assets being depreciated, net	<u>1,632,305</u>	<u>30,453</u>	<u>-</u>	<u>1,662,758</u>
Governmental activities capital assets, net	<u>\$ 1,670,305</u>	<u>\$ 30,453</u>	<u>\$ -</u>	<u>\$ 1,700,758</u>

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 64,418	\$ -	\$ -	\$ 64,418
Less accumulated depreciation	<u>27,278</u>	<u>3,509</u>	<u>-</u>	<u>30,787</u>
Business-type activities capital assets, net	<u>\$ 37,140</u>	<u>\$ (3,509)</u>	<u>\$ -</u>	<u>\$ 33,631</u>

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

Governmental activities:	
Instruction:	
Regular	\$ 16,066
Support services:	
Administration	5,856
Operation and maintenance of plant services	2,745
Transportation	<u>33,219</u>
	57,886
Unallocated depreciation	<u>62,890</u>
	\$ <u>120,776</u>
Business-type activities:	
Food service operations	<u>\$ 3,509</u>

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities

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

	Early Retirement	General Obligation Bonds	Total
Balance beginning of year	\$ 6,218	\$ 595,000	\$ 601,218
Additions	-	-	-
Reductions	1,408	70,000	71,408
Balance end of year	<u>\$ 4,810</u>	<u>\$ 525,000</u>	<u>\$ 529,810</u>
Due within one year	<u>\$ 1,408</u>	<u>\$ 75,000</u>	<u>\$ 76,408</u>

Early Retirement

The District will not offer an early retirement incentive in the 2006-07 fiscal year.

The District, in prior years, offered a voluntary early retirement plan to all District employees. Eligible employees had to be at least age fifty-five and employees must have completed fifteen years of service to the District, with the last five years continuous in the District. Employees completed an application which was required to be approved by the Board of Education. The early retirement incentive for each eligible employee was equal to a percentage of the employee's unused accumulated sick leave days times the employee's daily wage rate subject to a maximum based on the applicable salary schedule. The incentive was to be paid in monthly installments through the month preceeding the employee's 65th birthday. Early retirement benefits paid during the year ended June 30, 2006, totaled \$1,408. Early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities (continued)

Bonds Payable

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

Year Ending June 30,	Principal	Interest	Total
2007	\$ 75,000	\$ 16,305	\$ 91,305
2008	75,000	14,505	89,505
2009	75,000	12,480	87,480
2010	80,000	10,230	90,230
2011	80,000	7,670	87,670
2012	80,000	4,990	84,990
2013	60,000	2,190	62,190
	<u>\$ 525,000</u>	<u>\$ 68,370</u>	<u>\$ 593,370</u>

Note 7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$91,746, \$86,901, and \$84,174 respectively, equal to the required contributions for each year.

Note 8. Risk Management

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

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 8. Risk Management (continued)

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

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$239,208.

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.

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

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$90,268 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

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Required Supplementary Information

MURRAY COMMUNITY SCHOOL DISTRICT

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

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds - Actual	Fund - Actual		Original	Final	
REVENUES:						
Local sources	\$ 1,510,888	\$ 70,910	\$ 1,581,798	\$ 1,360,394	\$ 1,360,394	\$ 221,404
Intermediate sources	-	-	-	9,000	9,000	(9,000)
State sources	1,458,141	2,217	1,460,358	1,523,056	1,523,056	(62,698)
Federal sources	144,928	96,569	241,497	125,000	125,000	116,497
Total revenues	3,113,957	169,696	3,283,653	3,017,450	3,017,450	266,203
EXPENDITURES/EXPENSES:						
Instruction	1,852,077	-	1,852,077	2,282,477	2,282,477	430,400
Support services	1,004,681	-	1,004,681	1,538,066	1,538,066	533,385
Non-instructional programs	-	162,807	162,807	145,521	145,521	(17,286)
Other expenditures	315,640	-	315,640	186,222	340,000	24,360
Total expenditures/expenses	3,172,398	162,807	3,335,205	4,152,286	4,306,064	970,859
Excess (deficiency) of revenues over (under) expenditures/ expenses	(58,441)	6,889	(51,552)	(1,134,836)	(1,288,614)	1,237,062
Other financing sources, net	966	-	966	-	-	966
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses	(57,475)	6,889	(50,586)	(1,134,836)	(1,288,614)	1,238,028
Balance beginning of year	1,361,993	92,800	1,454,793	1,436,682	1,436,682	18,111
Balance end of year	\$ <u>1,304,518</u>	\$ <u>99,689</u>	\$ <u>1,404,207</u>	\$ <u>301,846</u>	\$ <u>148,068</u>	\$ <u>1,256,139</u>

See accompanying independent auditor's report.

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$153,778.

During the year ended June 30, 2006, disbursements in the non-instructional programs function exceeded the amount budgeted.

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Other Supplementary Information

MURRAY COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	<u>Special Revenue</u>			
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>
Assets				
Cash and pooled investments	\$ 32,608	\$ 132,995	\$ -	\$ 17,605
Receivables:				
Property tax:				
Current year	1,790	-	792	1,734
Succeeding year	43,000	-	14,000	36,000
Due from other governments	-	-	25,000	-
Accounts	-	1,126	-	-
	<hr/>			
Total assets	<u>\$ 77,398</u>	<u>\$ 134,121</u>	<u>\$ 39,792</u>	<u>\$ 55,339</u>
Liabilities and Fund Equity				
Liabilities:				
Excess of warrants issued over bank balances	\$ -	\$ -	11,353	\$ -
Accounts payable	-	8,374	1,351	-
Salaries and benefits payable	-	323	-	-
Interfund payable	-	25,071	-	-
Deferred revenue:				
Succeeding year property tax	43,000	-	14,000	36,000
Total liabilities	<u>43,000</u>	<u>33,768</u>	<u>26,704</u>	<u>36,000</u>
Fund equity:				
Fund balances:				
Reserved for:				
Debt service	-	-	-	19,339
Unreserved:				
Designated for specific projects	-	-	-	-
Undesignated	34,398	100,353	13,088	-
Total fund equity	<u>34,398</u>	<u>100,353</u>	<u>13,088</u>	<u>19,339</u>
	<hr/>			
Total liabilities and fund equity	<u>\$ 77,398</u>	<u>\$ 134,121</u>	<u>\$ 39,792</u>	<u>\$ 55,339</u>

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ 102,147	\$ 285,355
-	4,316
-	93,000
36,912	61,912
-	1,126
\$ 139,059	\$ 445,709

\$ -	\$ 11,353
6,088	15,813
-	323
-	25,071
-	93,000
6,088	145,560

-	19,339
15,000	15,000
117,971	265,810
132,971	300,149
\$ 139,059	\$ 445,709

MURRAY COMMUNITY SCHOOL DISTRICT

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

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service
Revenues:				
Local sources:				
Local tax	\$ 39,572	\$ -	\$ 16,897	\$ 38,160
Other	1,794	166,446	462	606
State sources	26	-	11	25
Federal sources	-	-	25,000	-
Total revenues	<u>41,392</u>	<u>166,446</u>	<u>42,370</u>	<u>38,791</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	15,480	-	-	-
Other instruction	-	124,367	-	-
Support services:				
Administration services	2,428	-	-	-
Operation and maintenance of plant services	15,172	-	-	-
Transportation services	628	388	-	-
Other expenditures:				
Facilities acquisition	-	-	46,512	-
Long term debt:				
Principal	-	-	-	70,000
Interest and fiscal charges	-	-	-	22,175
Total expenditures	<u>33,708</u>	<u>124,755</u>	<u>46,512</u>	<u>92,175</u>
Excess (deficiency) of revenues over (under) expenditures	7,684	41,691	(4,142)	(53,384)
Other financing sources (uses):				
Interfund transfers in	-	-	-	50,000
Interfund transfers out	-	-	(50,000)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>50,000</u>

<u>Capital Projects</u>	<u>Total</u>
\$ 161,568	\$ 256,197
5,274	174,582
-	62
-	25,000
<u>166,842</u>	<u>455,841</u>
-	15,480
-	124,367
-	2,428
-	15,172
-	1,016
86,685	133,197
-	70,000
-	22,175
<u>86,685</u>	<u>383,835</u>
80,157	72,006
50,000	100,000
(50,000)	(100,000)
<u>-</u>	<u>-</u>

MURRAY COMMUNITY SCHOOL DISTRICT

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

	<u>Special Revenue</u>			
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	\$ 7,684	\$ 41,691	\$ (54,142)	\$ (3,384)
Fund balances beginning of year	<u>26,714</u>	<u>58,662</u>	<u>67,230</u>	<u>22,723</u>
Fund balances end of year	<u>\$ 34,398</u>	<u>\$ 100,353</u>	<u>\$ 13,088</u>	<u>\$ 19,339</u>

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ 80,157	\$ 72,006
<u>52,814</u>	<u>228,143</u>
<u>\$ 132,971</u>	<u>\$ 300,149</u>

MURRAY COMMUNITY SCHOOL DISTRICT

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

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Student Mentor Groups	\$ 196	\$ 27	\$ 66	\$ 157
Elementary Student Council	401	436	95	742
Athletics	(622)	5,320	4,486	212
Band	2	441	-	443
Class of:				
2006	3,252	4,791	7,968	75
2007	979	15,279	12,955	3,303
2008	649	131	-	780
2009	422	79	-	501
2010	120	402	159	363
2011	-	163	-	163
Physics Club	52	-	-	52
Stocking Cap/Soap Sales Fundraiser	4,467	29,270	8,994	24,743
FFA	78	11,734	10,155	1,657
FFA Soils Kit Fund	736	-	-	736
FHA	1,218	3,851	4,869	200
FNA	124	(48)	243	(167)
Book Fair	368	-	68	300
Miscellaneous Athletics	480	1,560	1,009	1,031
Student Council	795	1,686	1,603	878
Cheerleaders	599	826	603	822
Drama	1,381	1,725	982	2,124
Picture Fund	537	723	-	1,260
French Club	1,749	3,943	4,210	1,482
Student Council Pop	351	4,754	4,288	817
Supplies	6	23	-	29
Baseball/Softball	(6,200)	13,408	10,022	(2,814)
Basketball	8,460	12,906	13,177	8,189
Football	1,130	4,303	10,523	(5,090)
Track	40	1,214	1,154	100
Volleyball	-	3,205	1,607	1,598
Interest	760	3,883	1,441	3,202
Yearbook	1,621	8,345	9,580	386
National Honor Society	-	1,324	1,324	-
TAG Club	36	1,634	1,197	473
FBLA	94	-	-	94
Vocal Music - Trips	4,133	1,020	2,698	2,455
Swim Fund	3,441	555	322	3,674
Character Counts	600	505	736	369
Map Program	4,687	21,576	39	26,224

MURRAY COMMUNITY SCHOOL DISTRICT

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

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Mustage Pride	\$ -	\$ 6,213	\$ 5,816	\$ 397
Co-Curricular Activity Fund	629	5,022	5,773	(122)
Student Council Ice Cream	16,415	4,383	5,835	14,963
Student Flower Fund	2,031	432	174	2,289
Gate Change	(100)	150	250	(200)
Book Rent/Preschool Fees	434	24,704	25,138	-
Drill Team Fund	1,143	-	-	1,143
Preschool Fundraising	968	129	777	320
Intrafund Transfers	-	(35,581)	(35,581)	-
Total	\$ 58,662	\$ 166,446	\$ 124,755	\$ 100,353

See accompanying independent auditor's report.

MURRAY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2006

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Assets				
Cash - Black Consortium	\$ <u>11,362</u>	\$ <u>-</u>	\$ <u>335</u>	\$ <u>11,027</u>
Liabilities				
Black Consortium payable	\$ <u>11,362</u>	\$ <u>-</u>	\$ <u>335</u>	\$ <u>11,027</u>

See accompanying independent auditor's report.

MURRAY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 916,999	\$ 896,380	\$ 796,098	\$ 791,528
Tuition	283,044	203,009	160,955	154,327
Other	310,845	271,853	241,620	234,676
Intermediate sources	-	9,566	8,594	9,404
State sources	1,458,141	1,356,063	1,377,158	1,428,350
Federal sources	144,928	122,673	139,261	119,818
Total revenues	\$ 3,113,957	\$ 2,859,544	\$ 2,723,686	\$ 2,738,103
Expenditures:				
Instruction:				
Regular instruction	\$ 1,105,144	\$ 1,007,844	\$ 1,076,691	\$ 966,814
Special instruction	286,374	264,045	293,947	331,061
Other instruction	460,559	448,843	343,331	342,427
Support services:				
Student services	99,938	89,952	79,258	73,426
Instructional staff services	74,707	75,756	78,142	98,400
Administration services	348,030	332,528	319,895	296,605
Operation and maintenance of plant services	293,685	328,761	283,087	247,808
Transportation services	188,321	109,958	188,579	114,926
Non-instructional programs	-	3,903	3,390	2,878
Other expenditures:				
Facilities acquisition	133,197	-	64,603	-
Long-term debt:				
Principal	70,000	70,000	55,000	60,000
Interest and fiscal charges	22,175	19,365	58,358	47,126
AEA flowthrough	90,268	89,512	91,523	98,289
Total expenditures	\$ 3,172,398	\$ 2,840,467	\$ 2,935,804	\$ 2,679,760

See accompanying independent auditor's report.

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

To the Board of Education of
Murray 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 Murray Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Murray Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part 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 the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about Murray Community School District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

Oskaloosa, Iowa
August 11, 2006

MURRAY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

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

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The posting of the cash receipts to the cash receipts journal and the bank reconciliation were done by the same person for the General, Special Revenue Funds, Physical Plant and Equipment Levy and Management Levy, Capital Projects and Debt Service Funds. The bank reconciliations were reviewed by the Superintendent.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances. One possible procedure would have an individual not involved in the listing of incoming receipts trace these receipts to the monthly bank statements and document this procedure.

Response – We will consider this.

Conclusion – Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-06 Football and Basketball Gate Admissions - The football and basketball gate admissions and change box were not reconciled with prenumbered tickets. The District currently does not issue tickets at activity events.

Recommendation – The District should establish reconciliation procedures for football gate admissions. The reconciliation should include the issuance of prenumbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response – We will review our present procedures and consider the recommendation reconciliation procedures.

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

MURRAY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- II-A-06 Certified Budget – Disbursements for the year ended June 30, 2006, exceeded the amount budgeted in the non-instructional programs function.
- Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response – We will amend our budget before disbursements exceed the budget.
- Conclusion – Response accepted.
- II-B-06 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-06 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions – We noted no business transactions between the District and District officials or employees.
- II-E-06 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- II-G-06 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-06 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-I-06 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-06 Financial Condition – The Special Revenue Fund, Student Activity had some individual account deficit balances at June 30, 2006.
- Recommendation – The District needs to monitor the accounts and investigate alternatives to eliminate the deficit balances.
- Response – The Board is aware of the conditions and is making strides to eliminate deficit account balances.
- Conclusion – Response accepted.