

MURRAY COMMUNITY SCHOOL DISTRICT  
MURRAY, IOWA

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

JUNE 30, 2007

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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 2006 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>Board of Education</u>		
(After September 2006 Election)		
Dennis Jeter	President	2008
Melanie Halls	Vice President	2008
Mary James	Board Member	2007
Mike Eckels	Board Member	2009
Shauna Shields	Board Member	2009
<u>School Officials</u>		
Dennis Bishop	Superintendent	2010
Elizabeth Justice	District Secretary	2007
Betty Jackson	District Treasurer	2007
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, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the 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 at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2007 on our consideration of Murray Community School District's internal control over financial reporting and on 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.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 15 and 48 through 49 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, 2006 (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 the 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 22, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2007. Please read it in conjunction with the district's financial statements.

### Financial Highlights

- General Fund revenues increased from \$2,658,116 in fiscal 2006 to \$2,707,547 in fiscal 2007, and General Fund expenditures decreased from \$2,788,563 in fiscal 2006 to \$2,777,131 in fiscal 2007. Expenditures exceeded revenues by \$69,584, the fourth year expenditures have exceeded revenues.
- The district received \$172,272 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. Major improvements this year included restroom renovations, purchase of 25 I-Mac computers in the elementary computer lab, replacement of the front doors and tuckpointing the school gymnasium.

## 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.

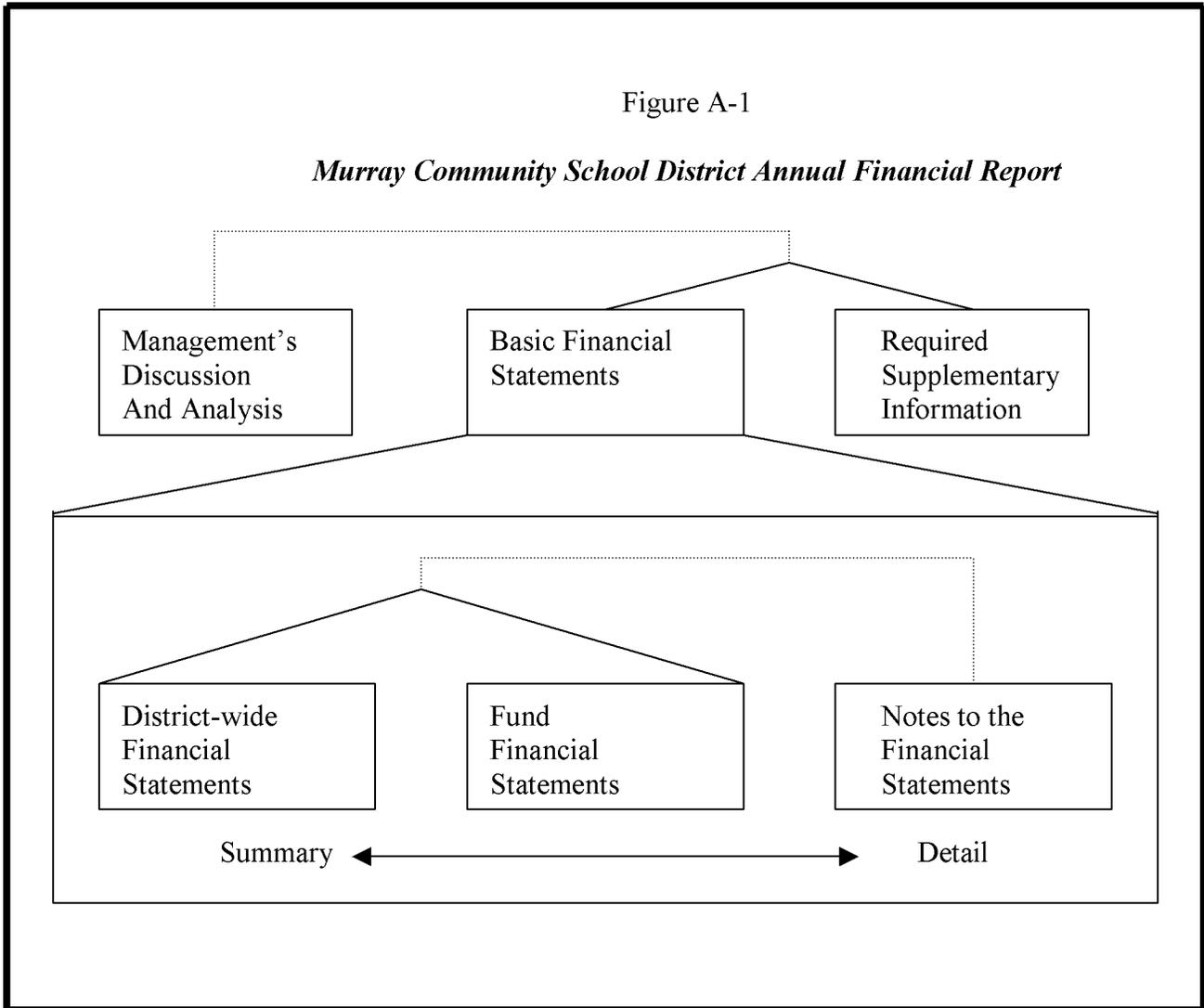


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents 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, 2006 and 2007 follows:

**Figure A-3  
Statement of Net Assets**

	Governmental Activities			Business-Type Activities			Total School District		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
<b>Assets:</b>									
Current and other Assets	\$2,404,603	\$2,372,052	\$2,336,230	\$73,801	\$84,811	\$75,248	\$2,478,404	\$2,456,863	\$2,411,478
Capital assets	<u>1,670,305</u>	<u>1,700,758</u>	<u>1,612,225</u>	<u>37,140</u>	<u>33,631</u>	<u>37,916</u>	<u>1,707,445</u>	<u>1,734,389</u>	<u>1,650,141</u>
Total assets	4,074,908	4,072,810	3,948,455	110,941	118,442	113,164	4,185,849	4,191,252	4,061,619
Long-term obligations	601,218	529,810	453,402	0	0	0	601,218	529,810	453,402
Other obligations	<u>964,091</u>	<u>985,893</u>	<u>932,156</u>	<u>18,141</u>	<u>18,753</u>	<u>11,462</u>	<u>982,232</u>	<u>1,004,646</u>	<u>943,618</u>
Total liabilities	1,565,309	1,515,703	1,385,558	18,141	18,753	11,462	1,583,450	1,534,456	1,397,020
<b>Net assets</b>									
Invested in capital assets net of related debt	1,075,305	1,175,758	1,162,225	37,140	33,631	37,916	1,112,445	1,209,389	1,200,141
Restricted	<u>167,630</u>	<u>161,009</u>	<u>199,291</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>167,630</u>	<u>161,009</u>	<u>199,291</u>
Unrestricted	<u>1,266,664</u>	<u>1,220,340</u>	<u>1,201,381</u>	<u>55,660</u>	<u>66,058</u>	<u>63,786</u>	<u>1,322,324</u>	<u>1,286,398</u>	<u>1,265,167</u>
Total net assets	<u>\$2,509,599</u>	<u>\$2,557,107</u>	<u>\$2,562,897</u>	<u>\$92,800</u>	<u>\$99,689</u>	<u>\$101,702</u>	<u>\$2,602,399</u>	<u>\$2,656,796</u>	<u>\$2,664,599</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 three years ending June 30, 2007.

**Figure A-4**

**Changes in Net Assets**

	Governmental Activities			Business-type Activities			Total School District		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
<b>Revenues:</b>									
Program revenues:									
Charges for service & sales	\$ 410,697	520,725	466,737	\$70,157	\$ 68,526	75,345	\$ 480,854	589,251	542,082
Operating grants, contributions, and restricted interest	405,951	449,333	469,203	90,895	98,786	97,915	496,846	548,119	567,118
Capital grants, contributions and restricted interest	0	0	0	0	0	0	0	0	0
General revenues:									
Property tax	608,779	578,212	601,185	0	0	0	608,779	578,212	601,185
Debt Service	69,021	38,185	41,624	0	0	0	69,021	38,185	41,624
PPEL	16,734	56,468	16,528	0	0	0	16,734	56,468	16,528
Local Option Sales and									
Services tax	120,920	161,568	172,272	0	0	0	120,920	161,568	172,272
Income Surtax	74,929	80,005	129,829	0	0	0	74,929	80,005	129,829
Unrestricted state grants	1,112,475	1,185,412	1,201,471	0	0	0	1,112,475	1,185,412	1,201,471
Unrestricted interest earnings	32,574	45,697	67,779	1,199	2,384	3,242	33,773	48,081	71,021
Other	<u>2,938</u>	<u>2,318</u>	<u>12,280</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,938</u>	<u>2,318</u>	<u>12,280</u>
Total revenues	\$2,855,018	3,117,923	3,178,908	162,251	169,696	176,502	\$3,017,269	3,287,619	3,355,410
<b>Program expenses:</b>									
Governmental activities:									
Instruction	\$1,720,794	1,815,554	1,911,329	0	0	0	\$1,720,794	1,815,554	1,911,329
Support Services	941,303	990,092	994,788	0	0	0	941,303	990,092	994,788
Non-instructional programs	3,903	0	0	147,472	162,807	174,489	151,375	162,807	174,489
Other expenses	<u>167,067</u>	<u>264,769</u>	<u>267,001</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>167,067</u>	<u>264,769</u>	<u>267,001</u>
\$2,833,067	\$2,833,067	3,070,415	3,173,118	147,472	162,807	174,489	\$2,980,539	3,233,222	3,347,607
Change in net assets	\$ 21,951	\$ 47,508	\$ 5,790	\$ 14,779	\$ 6,889	\$2,013	\$36,730	\$ 54,397	\$ 7,803

The major sources of 2007 revenues for the District were property tax and unrestricted state grants, accounting for 56% of the 2007 revenues. Other revenue sources were charges for sales and services, 16%; operating grants, contributions, and restricted interest 17%; sales and services tax, income surtax, interest and other sources, 11%.

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

## Governmental Activities

Governmental activities revenues for 2007 were \$3,178,908 and expenses were \$3,173,118 resulting in a net asset increase of \$5,790.

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

**Figure A-5**

Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2005	2006	2007	2005	2006	2007
Instruction	\$ 1,720,794	\$ 1,815,554	\$ 1,911,329	\$ 1,010,683	\$ 960,764	\$1,068,497
Support Services	941,303	990,092	994,788	924,278	990,092	994,788
Non-instructional programs	3,903	0	0	3,903	0	0
Other expenses	<u>167,067</u>	<u>264,769</u>	<u>267,001</u>	<u>77,555</u>	<u>149,501</u>	<u>173,893</u>
Totals	\$ 2,833,067	\$ 3,070,415	\$ 3,173,118	\$ 2,016,419	\$ 2,100,357	\$2,237,178

- The cost financed by users of the District's programs was \$466,737 compared to \$520,725 in 2006 and \$410,697 in 2005.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$469,203 in 2007 compared to \$449,333 in 2006 and \$405,951 in 2005.
- The net cost of governmental activities was financed with \$961,438 property and other taxes, \$1,201,471 in unrestricted state funds, \$67,779 interest income and \$12,280 in general revenues.

## Business-Type Activities

Revenues of the District's business-type activities were \$176,502 and expenses were \$174,489. 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 2007, its governmental funds reported combined fund balances of \$1,299,283.

## Governmental Fund Highlights

The General Fund balance decreased for the fourth straight year. General fund expenditures exceeded revenues by \$69,584. Fund balances increased for management, student activity funds, physical plant and equipment and capital projects funds. Fund balance decreased in the debt service fund.

## **Proprietary Fund Highlights**

The School Nutrition fund unreserved retained earnings decreased to \$63,786 for the year ending June 30, 2007. This compares to \$55,660 in 2005 and \$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 the GAAP 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 \$12,781 more than the total projected certified budget receipts, a variance of less than 1%.

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, 2007, the District had invested \$1,612,225, net of accumulated depreciation of \$1,621,547, in a broad range of governmental capital assets, including land, buildings and building improvements, ground improvements, vehicles, and furniture. Business-type activities had invested \$37,916, net of accumulated depreciation of \$35,005 in capital assets. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$109,984 for governmental activities and \$4,218 for business-type activities.

The District has set capitalization levels of \$1,500 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 baseball pitching machines and restroom renovations in the junior/senior high school building.

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## Figure A-6

### Capital Assets, net of Depreciation

	Governmental Activities	Business-type Activities	Total School District
Land	\$ 38,000	\$ 0	\$ 38,000
Buildings	1,364,369	0	1,364,369
Improvements, other than buildings	77,525	0	77,525
Furniture and equipment	<u>132,331</u>	<u>37,916</u>	<u>170,247</u>
Total	<u>\$1,612,225</u>	<u>\$37,916</u>	<u>\$1,650,141</u>

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### Long-Term LIABILITIES

At June 30, 2007, the District had long-term liabilities totaling \$453,402 of which \$3,402 was for early retirement benefits, and \$450,000 was for general-obligation bonds. More detailed information is available in Note 5 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 \$172,272. 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 seventh year of declining enrollment, from 358.4 students in 1998-99 to 288 students in 2006-07.

### 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, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 1,456,797	\$ 66,686	\$ 1,523,483
Receivables:			
Property tax:			
Current year	10,911	-	10,911
Succeeding year	598,000	-	598,000
Income surtax	106,000	-	106,000
Due from other governments	164,522	5,152	169,674
Inventories	-	3,410	3,410
Capital assets, net of accumulated depreciation (note 4)	1,612,225	37,916	1,650,141
<b>Total assets</b>	<b>3,948,455</b>	<b>113,164</b>	<b>4,061,619</b>
<b>Liabilities</b>			
Accounts payable	55,122	1,110	56,232
Salaries and benefits payable	277,825	8,208	286,033
Accrued interest payable	1,209	-	1,209
Deferred revenue:			
Succeeding year property tax	598,000	-	598,000
Other	-	2,144	2,144
Long-term liabilities (note 5):			
Portion due within one year:			
Early retirement	950	-	950
Bonds payable	75,000	-	75,000
Portion due after one year:			
Early retirement	2,452	-	2,452
Bonds payable	375,000	-	375,000
<b>Total liabilities</b>	<b>1,385,558</b>	<b>11,462</b>	<b>1,397,020</b>

MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
June 30, 2007

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 1,162,225	\$ 37,916	\$ 1,200,141
Restricted for:			
Management levy	44,110	-	44,110
Physical plant and equipment levy	21,787	-	21,787
Other special revenue purposes	115,317	-	115,317
Debt service	18,077	-	18,077
Unrestricted	<u>1,201,381</u>	<u>63,786</u>	<u>1,265,167</u>
Total net assets	<u>\$ 2,562,897</u>	<u>\$ 101,702</u>	<u>\$ 2,664,599</u>

See notes to financial statements.

MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental Activities:			
Instruction:			
Regular instruction	\$ 1,139,108	\$ 313,292	\$ 304,043
Special instruction	318,774	7,337	72,052
Other instruction	453,447	146,108	-
	1,911,329	466,737	376,095
Support services:			
Student services	89,890	-	-
Instructional staff services	125,446	-	-
Administration services	365,029	-	-
Operation and maintenance of plant services	239,373	-	-
Transportation services	175,050	-	-
	994,788	-	-
Other expenditures:			
Facilities acquisition	93,843	-	-
Long-term debt interest and fiscal charges	16,555	-	-
AEA flowthrough	93,108	-	93,108
Depreciation (unallocated) *	63,495	-	-
	267,001	-	93,108
Total governmental activities	3,173,118	466,737	469,203

Net (Expense) Revenue  
and Changes in Net Assets

---

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
\$	(521,773)	\$	-	\$	(521,773)
	(239,385)		-		(239,385)
	(307,339)		-		(307,339)
	<u>(1,068,497)</u>		-		<u>(1,068,497)</u>
	(89,890)		-		(89,890)
	(125,446)		-		(125,446)
	(365,029)		-		(365,029)
	(239,373)		-		(239,373)
	<u>(175,050)</u>		-		<u>(175,050)</u>
	<u>(994,788)</u>		-		<u>(994,788)</u>
	(93,843)		-		(93,843)
	(16,555)		-		(16,555)
	-		-		-
	<u>(63,495)</u>		-		<u>(63,495)</u>
	<u>(173,893)</u>		-		<u>(173,893)</u>
	<u>(2,237,178)</u>		-		<u>(2,237,178)</u>

MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Business-Type Activities:			
Non-instructional programs:			
Food service operations	\$ 174,489	\$ 75,345	\$ 97,915
Total	\$ 3,347,607	\$ 542,082	\$ 567,118

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 included  
in the direct expenses of the various programs.

See notes to financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

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<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ _____	- \$ _____	\$ _____
(2,237,178)	(1,229)	(2,238,407)
\$ 601,185	\$ -	\$ 601,185
41,624	-	41,624
16,528	-	16,528
129,829	-	129,829
172,272	-	172,272
1,201,471	-	1,201,471
67,779	3,242	71,021
12,280	-	12,280
2,242,968	3,242	2,246,210
5,790	2,013	7,803
2,557,107	99,689	2,656,796
\$ 2,562,897	\$ 101,702	\$ 2,664,599

## MURRAY COMMUNITY SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and pooled investments	\$ 1,114,257	\$ 342,592	\$ 1,456,849
Receivables:			
Property tax:			
Current year	9,123	1,788	10,911
Succeeding year	510,000	88,000	598,000
Income surtax	106,000	-	106,000
Due from other governments	137,677	26,845	164,522
 Total assets	 \$ 1,877,057	 \$ 459,225	 \$ 2,336,282
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Excess of warrants issued over bank balance	\$ -	\$ 52	\$ 52
Accounts payable	47,305	7,817	55,122
Salaries and benefits payable	277,825	-	277,825
Deferred revenue:			
Succeeding year property tax	510,000	88,000	598,000
Other	106,000	-	106,000
Total liabilities	941,130	95,869	1,036,999
 <b>Fund balance:</b>			
Reserved for:			
Debt service	-	19,286	19,286
Unreserved:			
Reported in nonmajor Special Revenue Funds	-	159,454	159,454
Undesignated	935,927	184,616	1,120,543
Total fund balances	935,927	363,356	1,299,283
 Total liabilities and fund balances	 \$ 1,877,057	 \$ 459,225	 \$ 2,336,282

See notes to financial statements.

## MURRAY COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2007

Total fund balances of governmental funds	\$ 1,299,283
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.	1,612,225
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	106,000
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.	(1,209)
Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(453,402)</u>
Net assets of governmental activities	<u>\$ 2,562,897</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, 2007

	General	Nonmajor Governmental Funds	Total
<b>Revenues:</b>			
Local sources:			
Local tax	\$ 658,087	\$ 280,351	\$ 938,438
Tuition	266,003	-	266,003
Other	162,424	166,795	329,219
Intermediate sources	1,486	-	1,486
State sources	1,502,332	73	1,502,405
Federal sources	117,215	-	117,215
Total revenues	<u>2,707,547</u>	<u>447,219</u>	<u>3,154,766</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular instruction	1,105,477	22,550	1,128,027
Special instruction	318,774	-	318,774
Other instruction	317,791	135,656	453,447
	<u>1,742,042</u>	<u>158,206</u>	<u>1,900,248</u>
Support services:			
Student services	89,890	-	89,890
Instructional staff services	125,446	-	125,446
Administration services	354,412	9,487	363,899
Operation and maintenance of plant services	225,869	10,759	236,628
Transportation services	146,364	2,189	148,553
	<u>941,981</u>	<u>22,435</u>	<u>964,416</u>
Other expenditures:			
Facilities acquisition	-	111,666	111,666
Long term debt:			
Principal	-	75,000	75,000
Interest and fiscal charges	-	16,705	16,705
AEA flowthrough	93,108	-	93,108
	<u>93,108</u>	<u>203,371</u>	<u>296,479</u>
Total expenditures	<u>2,777,131</u>	<u>384,012</u>	<u>3,161,143</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(69,584)</u>	<u>63,207</u>	<u>(6,377)</u>

MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2007

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):			
Compensation for loss of capital assets	\$ 1,142	\$ -	\$ 1,142
Interfund transfers in	-	50,000	50,000
Interfund transfers out	-	(50,000)	(50,000)
Total other financing sources (uses)	<u>1,142</u>	<u>-</u>	<u>1,142</u>
Net change in fund balances	(68,442)	63,207	(5,235)
Fund balances beginning of year	<u>1,004,369</u>	<u>300,149</u>	<u>1,304,518</u>
Fund balances end of year	<u>\$ 935,927</u>	<u>\$ 363,356</u>	<u>\$ 1,299,283</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, 2007

Net change in fund balances - total governmental funds \$ (5,235)

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	\$ 21,451	
Depreciation expense	<u>(109,984)</u>	(88,533)

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. 23,000

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 75,000

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. 150

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 \$ 5,790

See notes to financial statements.

## MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
June 30, 2007

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 66,686
Due from other governments	5,152
Inventories	3,410
Capital assets, net of accumulated depreciation	<u>37,916</u>
Total assets	<u>113,164</u>
Liabilities	
Accounts payable	1,110
Salaries and benefits payable	8,208
Deferred revenue:	
Other	<u>2,144</u>
Total liabilities	<u>11,462</u>
Net Assets	
Invested in capital assets	37,916
Unrestricted	<u>63,786</u>
Total net assets	<u>\$ 101,702</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, 2007

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>75,345</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	62,277
Benefits	9,956
Purchased services	5,561
Supplies	92,477
Depreciation	<u>4,218</u>
	<u>174,489</u>
Operating loss	<u>(99,144)</u>
Non-operating revenues:	
Interest on investments	3,242
State sources	2,125
Federal sources	<u>95,790</u>
Total non-operating revenues	<u>101,157</u>
Change in net assets	2,013
Net assets beginning of year	<u>99,689</u>
Net assets end of year	\$ <u><u>101,702</u></u>

See notes to financial statements.

## MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended June 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 74,777
Cash received from miscellaneous operating activities	418
Cash payments to employees for services	(72,490)
Cash payments to suppliers for goods or services	<u>(94,674)</u>
Net cash used by operating activities	<u>(91,969)</u>
Cash flows from non-capital financing activities:	
State grants received	2,125
Federal grants received	<u>87,944</u>
Net cash provided by non-capital financing activities	<u>90,069</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(8,503)</u>
Cash flows from investing activities:	
Interest on investments	<u>3,242</u>
Net decrease in cash and cash equivalents	(7,161)
Cash and cash equivalents beginning of year	<u>73,847</u>
Cash and cash equivalents end of year	<u>\$ 66,686</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (99,144)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	4,218
Commodities used	8,180
Decrease in inventories	2,068
(Decrease) in accounts payable	(6,884)
(Decrease) in salaries and benefits payable	(257)
(Decrease) in deferred revenues	<u>(150)</u>
Net cash used by operating activities	<u>\$ (91,969)</u>

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

During the year ended June 30, 2007, the District received \$8,180 of federal commodities.

See notes to financial statements.

MURRAY COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 June 30, 2007

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Cash and pooled investments	\$ <u>104,729</u>	\$ <u><u>11,027</u></u>
Liabilities:		
Black Consortium payable	<u>                  </u>	- \$ <u><u>11,027</u></u>
Net assets:		
Reserved for scholarships	\$ <u><u>104,729</u></u>	

See notes to financial statements.

MURRAY COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 Year Ended June 30, 2007

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
Additions:		
Local sources:		
Gifts and contributions	\$ 89,822	
Interest	<u>3,509</u>	
Total additions		<u>93,331</u>
Deductions:		
Support services:		
Scholarships awarded		<u>13,261</u>
Change in net assets	80,070	
Net assets beginning of year		<u>24,659</u>
Net assets end of year	\$	<u><u>104,729</u></u>
See notes to financial statements.		

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 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 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.

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 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 expenditures, 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, 2007

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, 2007

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date 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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

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

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

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 unspent grant proceeds, 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, 2007

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, 2007.

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, 2007, expenditures did not exceed the amounts budgeted in any of the four functions.

Note 2. Cash and Pooled Investments

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

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

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 2. Cash and Pooled Investments (continued)

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

	<u>Amortized Cost/ Fair Value</u>
Iowa Schools Joint Investment Trust - Diversified Portfolio	\$ 924,659
Medtronic common stock	<u>4,247</u>
	<u>\$ 928,906</u>

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.

Note 3. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ <u>50,000</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, 2007

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2007 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	2,353,219	17,823	-	2,371,042
Improvements other than buildings	150,357	-	-	150,357
Furniture and equipment	697,388	3,628	26,643	674,373
Total capital assets being depreciated	<u>3,200,964</u>	<u>21,451</u>	<u>26,643</u>	<u>3,195,772</u>
Less accumulated depreciation for:				
Buildings	953,359	53,314	-	1,006,673
Improvements other than buildings	67,742	5,090	-	72,832
Furniture and equipment	517,105	51,580	26,643	542,042
Total accumulated depreciation	<u>1,538,206</u>	<u>109,984</u>	<u>26,643</u>	<u>1,621,547</u>
Total capital assets being depreciated, net	<u>1,662,758</u>	<u>(88,533)</u>	<u>-</u>	<u>1,574,225</u>
Governmental activities capital assets, net	<u>\$ 1,700,758</u>	<u>\$ (88,533)</u>	<u>\$ -</u>	<u>\$ 1,612,225</u>

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 4. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 64,418	\$ 8,503	\$ -	\$ 72,921
Less accumulated depreciation	<u>30,787</u>	<u>4,218</u>	<u>-</u>	<u>35,005</u>
Business-type activities capital assets, net	<u>\$ 33,631</u>	<u>\$ 4,285</u>	<u>\$ -</u>	<u>\$ 37,916</u>

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

Governmental activities:

Instruction:

    Regular

\$ 16,117

Support services:

    Administration

1,130

    Operation and maintenance of plant services

2,745

    Transportation

26,497

46,489

Unallocated depreciation

63,495

Total governmental activities depreciation expense

\$ 109,984

Business-type activities:

    Food service operations

\$ 4,218

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Early Retirement	General Obligation Bonds	Total
Balance beginning of year	\$ 4,810	\$ 525,000	\$ 529,810
Additions	-	-	-
Reductions	1,408	75,000	76,408
Balance end of year	<u>\$ 3,402</u>	<u>\$ 450,000</u>	<u>\$ 453,402</u>
Due within one year	<u>\$ 950</u>	<u>\$ 75,000</u>	<u>\$ 75,950</u>

Early Retirement

The District, prior to the fiscal year ended June 30, 2006, 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 65<sup>th</sup> birthday.

At June 30, 2007, the District has obligations to two participants with a total liability of \$3,402. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$1,408. The long-term portion of 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, 2007

Note 5. Long-Term Liabilities (continued)

Bonds Payable

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

Year Ending June 30,	Principal	Interest	Total
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>\$ 450,000</u>	<u>\$ 52,065</u>	<u>\$ 502,065</u>

Note 6. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, and 2005.

Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$95,404, \$91,746, and \$86,901, respectively, equal to the required contributions for each year.

Note 7. Risk Management

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.

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$93,108 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

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Required Supplementary Information

MURRAY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances –  
 Budget and Actual – All Governmental Funds  
 and Proprietary Fund  
 Required Supplementary Information  
 Year Ended June 30, 2007

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
REVENUES:					
Local sources	\$ 1,533,660	\$ 78,587	\$ 1,612,247	\$ 1,496,061	\$ 116,186
Intermediate sources	1,486	-	1,486	30,000	(28,514)
State sources	1,502,405	2,125	1,504,530	1,552,426	(47,896)
Federal sources	117,215	95,790	213,005	240,000	(26,995)
Total revenues	<u>3,154,766</u>	<u>176,502</u>	<u>3,331,268</u>	<u>3,318,487</u>	<u>12,781</u>
EXPENDITURES:					
Instruction	1,900,248	-	1,900,248	2,273,271	373,023
Support services	964,416	-	964,416	1,344,476	380,060
Non-instructional programs	-	174,489	174,489	236,000	61,511
Other expenditures	296,479	-	296,479	451,124	154,645
Total expenditures	<u>3,161,143</u>	<u>174,489</u>	<u>3,335,632</u>	<u>4,304,871</u>	<u>969,239</u>
Excess (deficiency) of revenues over (under) expenditures	(6,377)	2,013	(4,364)	(986,384)	982,020
Other financing sources, net	1,142	-	1,142	-	1,142
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(5,235)	2,013	(3,222)	(986,384)	983,162
Balance beginning of year	1,304,518	99,689	1,404,207	1,372,579	31,628
Balance end of year	<u>\$ 1,299,283</u>	<u>\$ 101,702</u>	<u>\$ 1,400,985</u>	<u>\$ 386,195</u>	<u>\$ 1,014,790</u>

See accompanying independent auditor's report.

MURRAY COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2007

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.

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 function 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.

The budget was not exceeded during the year ended June 30, 2007.

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Other Supplementary Information

MURRAY COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2007

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service
<b>Assets</b>				
Cash and pooled investments	\$ 46,739	\$ 116,786	\$ 22,163	\$ 18,597
Receivables:				
Property tax:				
Current year	825	-	274	689
Succeeding year	45,000	-	15,000	28,000
Due from other governments	-	-	-	-
<b>Total assets</b>	<b>\$ 92,564</b>	<b>\$ 116,786</b>	<b>\$ 37,437</b>	<b>\$ 47,286</b>
<b>Liabilities and Fund Equity</b>				
<b>Liabilities:</b>				
Excess of warrants issued over bank balances	\$ 52	\$ -	\$ -	-
Accounts payable	-	1,469	650	-
Deferred revenue:				
Succeeding year property tax	45,000	-	15,000	28,000
<b>Total liabilities</b>	<b>45,052</b>	<b>1,469</b>	<b>15,650</b>	<b>28,000</b>
<b>Fund equity:</b>				
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Debt service	-	-	-	19,286
<b>Unreserved:</b>				
Undesignated	47,512	115,317	21,787	-
<b>Total fund equity</b>	<b>47,512</b>	<b>115,317</b>	<b>21,787</b>	<b>19,286</b>
<b>Total liabilities and fund equity</b>	<b>\$ 92,564</b>	<b>\$ 116,786</b>	<b>\$ 37,437</b>	<b>\$ 47,286</b>

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ 138,307	\$ 342,592
-	1,788
-	88,000
<u>26,845</u>	<u>26,845</u>
<u>\$ 165,152</u>	<u>\$ 459,225</u>

\$ -	\$ 52
5,698	7,817
-	88,000
<u>5,698</u>	<u>95,869</u>

-	19,286
<u>159,454</u>	<u>344,070</u>
<u>159,454</u>	<u>363,356</u>
<u>\$ 165,152</u>	<u>\$ 459,225</u>

MURRAY COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2007

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service
Revenues:				
Local sources:				
Local tax	\$ 49,927	\$ -	\$ 16,528	\$ 41,624
Other	7,053	151,705	6,380	-
State sources	34	-	11	28
Total revenues	<u>57,014</u>	<u>151,705</u>	<u>22,919</u>	<u>41,652</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	22,550	-	-	-
Other instruction	-	135,656	-	-
Support services:				
Administration services	9,487	-	-	-
Operation and maintenance of plant services	10,759	-	-	-
Transportation services	1,104	1,085	-	-
Other expenditures:				
Facilities acquisition	-	-	14,220	-
Long term debt:				
Principal	-	-	-	75,000
Interest and fiscal charges	-	-	-	16,705
Total expenditures	<u>43,900</u>	<u>136,741</u>	<u>14,220</u>	<u>91,705</u>
Excess (deficiency) of revenues over (under) expenditures	13,114	14,964	8,699	(50,053)
Other financing sources (uses):				
Interfund transfers in	-	-	-	50,000
Interfund transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>

<u>Capital Projects</u>	<u>Total</u>
\$ 172,272	\$ 280,351
1,657	166,795
-	73
173,929	447,219
-	22,550
-	135,656
-	9,487
-	10,759
-	2,189
97,446	111,666
-	75,000
-	16,705
97,446	384,012
76,483	63,207
-	50,000
(50,000)	(50,000)
(50,000)	-

MURRAY COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 Year Ended June 30, 2007

	<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	\$ 13,114	\$ 14,964	\$ 8,699	\$ (53)
Fund balances beginning of year	<u>34,398</u>	<u>100,353</u>	<u>13,088</u>	<u>19,339</u>
Fund balances end of year	<u>\$ 47,512</u>	<u>\$ 115,317</u>	<u>\$ 21,787</u>	<u>\$ 19,286</u>

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ 26,483	\$ 63,207
<u>132,971</u>	<u>300,149</u>
<u>\$ 159,454</u>	<u>\$ 363,356</u>

MURRAY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Student Mentor Groups	\$ 157	\$ 31	\$ 210	\$ (22)
Elementary Student Council	742	130	251	621
Athletics	212	7,049	6,704	557
Band	443	(443)	-	-
Class of:				
2006	75	-	-	75
2007	3,303	5,440	8,772	(29)
2008	780	15,534	12,271	4,043
2009	501	95	-	596
2010	363	-	-	363
2011	163	190	91	262
2012	-	187	-	187
Fruit Sales	-	13,512	7,792	5,720
Basketball Camp	-	3,663	2,899	764
Programs Fund	-	1,205	706	499
Concession Supplies	-	944	1,797	(853)
Physics Club	52	-	79	(27)
All School Fundraisers	24,743	9,738	13,632	20,849
FFA	1,657	4,207	4,318	1,546
FFA Soils Kit Fund	736	-	-	736
FHA	200	4,868	6,505	(1,437)
FNA	(167)	80	52	(139)
Book Fair	300	1,603	1,186	717
Miscellaneous Athletics	1,031	493	434	1,090
Student Council	878	1,672	1,333	1,217
Cheerleaders	822	1,129	1,238	713
Drama	2,124	733	1,806	1,051
Picture Fund	1,260	336	-	1,596
French Club	1,482	1,311	1,403	1,390
Student Council Pop	817	4,861	4,525	1,153
Supplies	29	-	-	29
Baseball/Softball	(2,814)	6,134	12,180	(8,860)
Basketball	8,189	9,997	7,565	10,621
Football	(5,090)	12,880	5,771	2,019
Track	100	30	771	(641)
Volleyball	1,598	1,721	1,503	1,816
Interest	3,202	5,597	-	8,799
Yearbook	386	7,035	9,138	(1,717)
National Honor Society	-	331	1,222	(891)
TAG Club	473	2,729	2,407	795

MURRAY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
FBLA	\$ 94	\$ -	\$ -	94
Vocal Music - Trips	2,455	355	304	2,506
Swim Fund	3,674	1,365	1,034	4,005
Character Counts	369	2,085	475	1,979
Map Program	26,224	6,588	1,076	31,736
Mustang Pride	397	5,917	4,710	1,604
Co-Curricular Activity Fund	(122)	4,971	3,251	1,598
Student Council Ice Cream	14,963	5,003	5,215	14,751
Student Flower Fund	2,289	-	51	2,238
Gate Change	(200)	-	-	(200)
Book Rent/Preschool Fees	-	283	550	(267)
Drill Team Fund	1,143	-	1,143	-
Preschool Fundraising	320	116	371	65
<b>Total</b>	<b>\$ 100,353</b>	<b>\$ 151,705</b>	<b>\$ 136,741</b>	<b>\$ 115,317</b>

See accompanying independent auditor's report.

MURRAY COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 Year Ended June 30, 2007

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
<b>Assets</b>				
Cash	\$ <u>11,027</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>11,027</u>
<b>Liabilities</b>				
Black Consortium payable	\$ <u>11,027</u>	\$ <u>-</u>	\$ <u>-</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,			
	2007	2006	2005	2004
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 938,438	\$ 916,999	\$ 896,380	\$ 796,098
Tuition	266,003	283,044	203,009	160,955
Other	329,219	310,845	271,853	241,620
Intermediate sources	1,486	-	9,566	8,594
State sources	1,502,405	1,458,141	1,356,063	1,377,158
Federal sources	117,215	144,928	122,673	139,261
<b>Total revenues</b>	<b>\$ 3,154,766</b>	<b>\$ 3,113,957</b>	<b>\$ 2,859,544</b>	<b>\$ 2,723,686</b>
<b>Expenditures:</b>				
Instruction:				
Regular instruction	\$ 1,128,027	\$ 1,105,144	\$ 1,007,844	\$ 1,076,691
Special instruction	318,774	286,374	264,045	293,947
Other instruction	453,447	460,559	448,843	343,331
Support services:				
Student services	89,890	99,938	89,952	79,258
Instructional staff services	125,446	74,707	75,756	78,142
Administration services	363,899	348,030	332,528	319,895
Operation and maintenance of plant services	236,628	293,685	328,761	283,087
Transportation services	148,553	188,321	109,958	188,579
Non-instructional programs	-	-	3,903	3,390
Other expenditures:				
Facilities acquisition	111,666	133,197	-	64,603
Long-term debt:				
Principal	75,000	70,000	70,000	55,000
Interest and fiscal charges	16,705	22,175	19,365	58,358
AEA flowthrough	93,108	90,268	89,512	91,523
<b>Total expenditures</b>	<b>\$ 3,161,143</b>	<b>\$ 3,172,398</b>	<b>\$ 2,840,467</b>	<b>\$ 2,935,804</b>

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 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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Murray Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Murray Community School District's internal control over financial reporting.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 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, contracts and grant agreements, 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, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of 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 22, 2007

MURRAY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2007

Part I: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

- I-A-07 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 be to 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-07 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 athletic event 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 recommended 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, 2007

Part II: Other Findings Related to Statutory Reporting:

- II-A-07 Certified Budget – Expenditures for the year ended June 30, 2007, did not exceed the amount budgeted in any of four functions.
- II-B-07 Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-07 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-07 Business Transactions – No business transactions between the District and District officials or employees were noted.
- II-E-07 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-07 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- II-G-07 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-07 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-07 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-07 Financial Condition – The Special Revenue Fund, Student Activity had some individual account deficit balances at June 30, 2007.

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.