

MORAVIA COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

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

Table of Contents

	<u>Page</u>	
Officials	3	
Independent Auditor's Report	5-6	
Management's Discussion and Analysis	7-16	
Basic Financial Statements:		
	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	24
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	25
Statement of Cash Flows	I	26
Notes to Financial Statements		27-36
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		38
Notes to Required Supplementary Information - Budgetary Reporting		39
	<u>Schedule</u>	
Other Supplementary Information:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	44
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 <u>Government Auditing Standards</u>		45-46
Schedule of Findings		47-54

Moravia Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
<u>Board of Education</u> (Before September, 2006 Election)		
Chad Martin	President	2006
Lori Argo	Vice-President	2006
Dale Brinegar	Board Member	2007
Connie Brown	Board Member	2007
G.E. Luse	Board Member	2008
<u>Board of Education</u> (After September, 2006 Election)		
Chad Martin	President	2009
G.E. Luse	Vice-President	2008
Dale Brinegar	Board Member	2007
Connie Brown	Board Member	2007
John Houser	Board Member	2009
<u>School Officials</u>		
Brad Breon	Superintendent	2007
Stacy Moore	District Secretary/Treasurer/ Business Manager	2007
Rick Engel	Attorney	2007

**Moravia Community School District**

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

---

(515) 277-3077

Independent Auditor's Report

To the Board of Education of  
Moravia 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 Moravia Community School District, Moravia Iowa, 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. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Moravia 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 U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2007 on our consideration of Moravia Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 38 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Moravia 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 four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP  
Certified Public Accountants

August 27, 2007

---

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

---

Moravia Community School District provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$2,979,659 in fiscal 2006 to \$2,970,419 in fiscal 2007, while General Fund expenditures increased from \$2,871,303 in fiscal 2006 to \$3,054,653 in fiscal 2007. The District's General Fund balance decreased from \$566,421 in fiscal 2006 to \$483,139 in fiscal 2007, a 15% decrease.
- The increase in expenditures was due primarily to an increase in salaries and benefits and building operation expenses. From fiscal 2006 to fiscal 2007, revenues stayed fairly constant. As a result of an increase in expenditures and without a corresponding increase in revenues, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Moravia Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how government services were financed in the short term as well as what remains for future spending. Fund financial statements report Moravia Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The proprietary fund financial statements offer short-term and long-term financial information about activities the District operates like a business. In Moravia Community School District, the school nutrition program operations are the only enterprise reported as a proprietary fund.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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

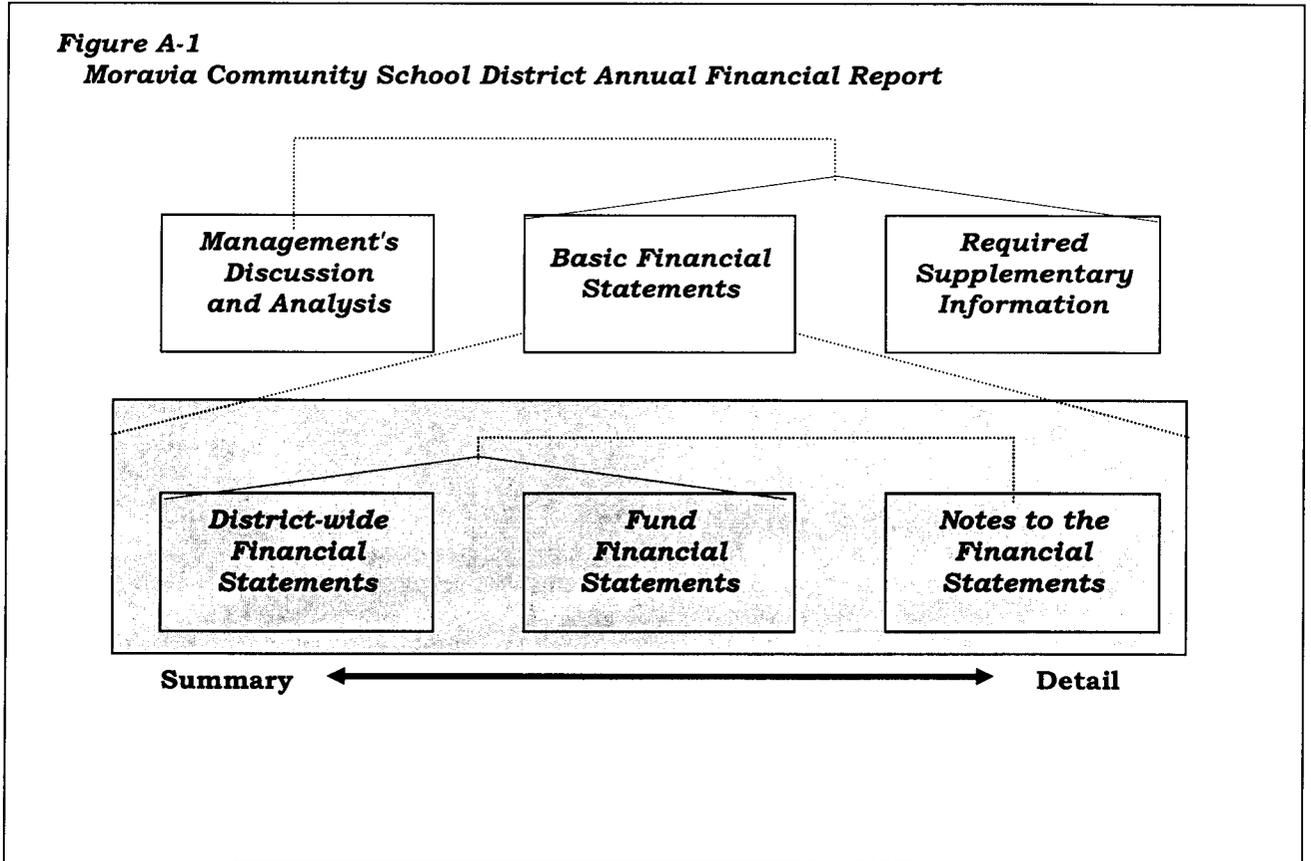


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary 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	
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	
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	
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	
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	

## **REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

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

The two government-wide financial statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are

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

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

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

### *Fund Financial Statements*

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

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

The District has two kinds of funds:

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

<b>Figure A-3</b>							
<b>Combined Statement of Net Assets</b>							
<b>(Expressed in Thousands)</b>							
	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2007-2006
Current and other assets	\$ 2,033	1,834	14	5	2,047	1,839	11.3%
Capital assets	1,523	1,573	25	28	1,548	1,601	-3.3%
Total assets	<u>3,556</u>	<u>3,407</u>	<u>39</u>	<u>33</u>	<u>3,595</u>	<u>3,440</u>	<u>4.5%</u>
Long-term liabilities	508	574	-	-	508	574	-11.5%
Other liabilities	1,179	1,111	7	5	1,186	1,116	6.3%
Total liabilities	<u>1,687</u>	<u>1,685</u>	<u>7</u>	<u>5</u>	<u>1,694</u>	<u>1,690</u>	<u>0.2%</u>
<b>Net assets</b>							
Invested in capital assets							
net of related debt	1,033	918	32	28	1,065	946	12.6%
Restricted	233	158	-	-	233	158	47.5%
Unrestricted	603	646	-	-	603	646	-6.7%
Total net assets	<u>\$ 1,869</u>	<u>1,722</u>	<u>32</u>	<u>28</u>	<u>1,901</u>	<u>1,750</u>	<u>8.6%</u>

The District's combined net assets increased nearly 8.6%, or approximately \$151,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$75,000, or 47% over the prior year. The increase was primarily a result of increased revenues in the Management Levy Fund and the Student Activity Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$43,000, or 7%. The reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

<b>Figure A-4</b>								
<b>Changes in Net Assets</b>								
<b>(Expressed in Thousands)</b>								
	Governmental		Business type		Total		Total	
	Activities		Activities		District		Change	
	2007	2006	2007	2006	2007	2006	2006-2007	
<b>Revenues:</b>								
<b>Program revenues:</b>								
Charges for service	\$ 455	432	76	79	531	511	3.9%	
Operating grants, contributions and restricted interest	597	637	95	84	692	721	-4.0%	
<b>General revenues:</b>								
Property tax	950	825	-	-	950	825	15.2%	
Income surtax	111	107	-	-	111	107	3.7%	
Local option sales and service tax	171	170	-	-	171	170	0.6%	
Unrestricted state grants	1,238	1,236	-	-	1,238	1,236	0.2%	
Unrestricted investment earnings	42	27	-	-	42	27	55.6%	
Other	24	3	-	-	24	3	700.0%	
<b>Total revenues</b>	<b>3,588</b>	<b>3,437</b>	<b>171</b>	<b>163</b>	<b>3,759</b>	<b>3,600</b>	<b>4.4%</b>	
<b>Program expenses:</b>								
<b>Governmental activities:</b>								
Instruction	2,251	2,077	-	-	2,251	2,077	8.4%	
Support services	988	972	-	-	988	972	1.6%	
Non-instructional programs	-	1	167	157	167	158	5.7%	
Other expenses	202	210	-	-	202	210	-3.8%	
<b>Total expenses</b>	<b>3,441</b>	<b>3,260</b>	<b>167</b>	<b>157</b>	<b>3,608</b>	<b>3,417</b>	<b>5.6%</b>	
<b>Increase (decrease) in net assets</b>	<b>\$ 147</b>	<b>177</b>	<b>4</b>	<b>6</b>	<b>151</b>	<b>183</b>	<b>-17.5%</b>	

In fiscal 2007, property tax and unrestricted state grants account for 60.98% of the revenue from governmental activities while charges for service and operating grants and contributions account for 100% of the revenue from the business type activities.

The Districts total revenues were approximately \$3.8 million of which \$3.6 million was for governmental activities and approximately \$171,000 was for business type activities.

As shown in figure A-4, the District as a whole experiences a 4.4% increase in revenues and a 5.6% increase in expenses. Property tax increased approximately \$125,000 to fund increases in expenses. The increase in expenses was primarily due to increased cost for salaries and benefits and building operation expenses.

## Governmental Activities

Revenues for governmental activities were \$3,588,570 and expenses were \$3,441,574. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change	2007	2006	Change
			2006-2007			2006-2007
Instruction	\$ 2,251	2,077	8.4%	1,378	1,241	11.0%
Support services	988	972	1.6%	906	830	9.2%
Non-instructional programs	-	1	-100.0%	-	1	-100.0%
Other expenses	202	210	-3.8%	106	119	-10.9%
<b>Totals</b>	<b>\$ 3,441</b>	<b>3,260</b>	<b>5.6%</b>	<b>2,390</b>	<b>2,191</b>	<b>9.1%</b>

- The cost financed by users of the District's programs was \$454,730.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$596,527.
- The net cost of governmental activities was financed with \$1,232,607 in property and other tax, including local option sales and services tax, and \$1,238,397 in unrestricted state grants.

## Business Type Activities

Revenues for business type activities were \$171,495 representing an 5.4% increase over the prior year while expenses totaled \$167,409, a 6.7% increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues for these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2007, the District increased prices on the sale of juice drinks and adult lunches. This increase in revenue was used to update equipment and fund the portion of janitorial services used in the lunch room.

## **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$747,901, well above last year's ending fund balances of \$621,949. The primary reason for the increase was increased revenue and decreased expenditures in the Management Levy Fund and the Capital Projects Fund.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the result of many factors. The slight decline in enrollment and the second year of a negotiated settlement lead to deficit spending. As a result, the District was required to use its carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$566,421 to \$483,139, due in part to increased cost of fuel and salaries and the related benefit costs.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a deficit of (\$2,170) in fiscal 2006 to \$765 in fiscal 2007. While revenues remained approximately the same, the District decreased spending from the PPEL to increase the financial condition of the fund.
- The District passed the SILO Tax in fiscal 2004 and started receiving revenue in fiscal 2005. Revenue for the year were \$171,326 with expenditures of \$53,564. After repairing the gym pylons in 2006, the District reduced spending to increase the financial condition of the SILO Fund to end with a balance of \$33,193 at June 30, 2007.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$27,967 at June 30, 2006 to \$32,053 at June 30, 2007, representing an increase of approximately 15% due primarily to the District increasing meal and juice prices.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Moravia Community School District did not amend its annual budget.

The District's revenues were \$925,062 less than budgeted revenues, a variance of 20%. The most significant variance resulted from the District receiving less in state aid due to declining enrollment.

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

Due to the District's budgetary practices, actual expenditures did not exceed the budget expenditures during the fiscal year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$1.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 3.3% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$93,096.

The original cost of the District's capital assets was \$3.3 million. Governmental funds account for \$3.2 million, with the remainder of \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

During the year, the major increases in assets were the costs incurred to build the new football field/stadium and track.

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

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-2007
Land	\$ 1	1	-	-	1	1	0.0%
Construction in progress	27	-	-	-	27	-	100.0%
Buildings	1,382	1,433	-	-	1,382	1,433	-3.6%
Improvements other than buildings	9	10	-	-	9	10	-10.0%
Furniture and equipment	104	128	25	28	129	156	-17.3%
Totals	\$ 1,523	1,572	25	28	1,548	1,600	-3.3%

### Long-Term Debt

At June 30, 2007, the District had \$507,500 in general obligation bonds and early retirement obligations. This represents a decrease of approximately 11.5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

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

	Total District		Total Change
	June 30,		June 30,
	2007	2006	2006-2007
General obligation bonds	\$ 490	570	-14.0%
Early retirement	18	4	350.0%
Totals	\$ 508	574	-11.5%

### **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- Although the District has experienced declining enrollment for two of the past three years, the District expects a slight increase in enrollment due to a new housing development in progress within the District.
- The new Honey Creek Destination Park currently in development is in the District. The District hopes this will generate an increase in tax base due to related development in the region.

### **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 Stacy Moore, District Secretary/Treasurer and Business Manager, Moravia Community School District, 505 N. Trussell, Moravia, Iowa, 52571.

**Basic Financial Statements**

## Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	\$ 167,735	-	167,735
Other	448,109	5,759	453,868
Investments	130,738	-	130,738
Receivables:			
Property tax:			
Delinquent	20,984	-	20,984
Succeeding year	976,805	-	976,805
Accounts	5,288	-	5,288
Accrued interest:			
ISCAP	50	-	50
Prepaid expenses	2,060	-	2,060
Due from other funds	7,218	-	7,218
Due from other governments	273,784	5,393	279,177
Inventories	-	3,391	3,391
Capital assets, net of accumulated depreciation	1,522,839	24,728	1,547,567
<b>Total assets</b>	<b>3,555,610</b>	<b>39,271</b>	<b>3,594,881</b>
<b>Liabilities</b>			
Accounts payable	10,314	-	10,314
Due to other governments	21,690	-	21,690
Due to other funds	-	7,218	7,218
Accrued interest payable	1,360	-	1,360
Deferred revenue - succeeding year property tax	976,805	-	976,805
ISCAP warrants payable	168,000	-	168,000
ISCAP accrued interest payable	41	-	41
Other liabilities	1,247	-	1,247
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	85,000	-	85,000
Early retirement payable	8,750	-	8,750
Portion due after one year:			
General obligation bonds payable	405,000	-	405,000
Early retirement payable	8,750	-	8,750
<b>Total liabilities</b>	<b>1,686,957</b>	<b>7,218</b>	<b>1,694,175</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,032,839	24,728	1,057,567
Restricted for:			
Management levy	46,456	-	46,456
Physical plant and equipment levy	765	-	765
Other special revenue purposes	185,153	-	185,153
Unrestricted	603,440	7,325	610,765
<b>Total net assets</b>	<b>\$ 1,868,653</b>	<b>32,053</b>	<b>1,900,706</b>

See notes to financial statements.

## Moravia Community School District

Exhibit B

## Statement of Activities

Year ended June 30, 2007

Functions / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Governmental activities:</b>							
Instruction:							
Regular instruction	\$ 1,369,907	210,954	277,871	-	(881,082)	-	(881,082)
Special instruction	398,202	79,229	135,195	-	(183,778)	-	(183,778)
Other instruction	483,023	164,547	5,316	-	(313,160)	-	(313,160)
	<u>2,251,132</u>	<u>454,730</u>	<u>418,382</u>	<u>-</u>	<u>(1,378,020)</u>	<u>-</u>	<u>(1,378,020)</u>
Support services:							
Student services	85,143	-	-	-	(85,143)	-	(85,143)
Instructional staff services	58,090	-	-	-	(58,090)	-	(58,090)
Administration services	459,719	-	-	-	(459,719)	-	(459,719)
Operation and maintenance of plant	219,354	-	82,039	-	(137,315)	-	(137,315)
Transportation services	165,646	-	-	-	(165,646)	-	(165,646)
	<u>987,952</u>	<u>-</u>	<u>82,039</u>	<u>-</u>	<u>(905,913)</u>	<u>-</u>	<u>(905,913)</u>
Non-instructional programs	457	-	-	-	(457)	-	(457)
Other expenditures:							
Facilities acquisition	31,392	-	-	-	(31,392)	-	(31,392)
Long-term debt interest	18,474	-	-	-	(18,474)	-	(18,474)
AEA flowthrough	96,106	-	96,106	-	-	-	-
Depreciation (unallocated)*	56,061	-	-	-	(56,061)	-	(56,061)
	<u>202,033</u>	<u>-</u>	<u>96,106</u>	<u>-</u>	<u>(105,927)</u>	<u>-</u>	<u>(105,927)</u>
Total governmental activities	3,441,574	454,730	596,527	-	(2,390,317)	-	(2,390,317)
<b>Business type activities:</b>							
Non-instructional programs:							
Food service operations	167,409	76,368	95,086	-	-	4,045	4,045
Total	<u>\$ 3,608,983</u>	<u>531,098</u>	<u>691,613</u>	<u>-</u>	<u>(2,390,317)</u>	<u>4,045</u>	<u>(2,386,272)</u>
<b>General Revenues:</b>							
Property tax levied for:							
General purposes					\$ 831,760	-	831,760
Debt service					97,490	-	97,490
Capital outlay					20,912	-	20,912
Local option sales and services tax					171,326	-	171,326
Income surtax					111,119	-	111,119
Unrestricted state grants					1,238,397	-	1,238,397
Unrestricted investment earnings					41,903	41	41,944
Other					24,406	-	24,406
Total general revenues					<u>2,537,313</u>	<u>41</u>	<u>2,537,354</u>
Change in net assets					146,996	4,086	151,082
Net assets beginning of year					<u>1,721,657</u>	<u>27,967</u>	<u>1,749,624</u>
Net assets end of year					<u>\$ 1,868,653</u>	<u>32,053</u>	<u>1,900,706</u>

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

See notes to financial statements.

Moravia Community School District

Exhibit C

Balance Sheet  
Governmental Funds

June 30, 2007

	General	Special Revenue Moravia Education Foundation	Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments:				
ISCAP	\$ 167,735	-	-	167,735
Other	237,641	8,923	201,545	448,109
Investments	-	130,738	-	130,738
Receivables:				
Property tax:				
Delinquent	15,455	-	5,529	20,984
Succeeding year	803,578	-	173,227	976,805
Accounts	5,288	-	-	5,288
Accrued interest:				
ISCAP	50	-	-	50
Prepaid expenses	2,060	-	-	2,060
Due from other funds	107,612	-	7,916	115,528
Due from other governments	255,581	-	18,203	273,784
<b>Total assets</b>	<b>\$ 1,595,000</b>	<b>139,661</b>	<b>406,420</b>	<b>2,141,081</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 2,616	6,561	1,137	10,314
Due to other governments	21,690	-	-	21,690
Due to other funds	7,916	-	100,394	108,310
ISCAP warrants payable	168,000	-	-	168,000
ISCAP accrued interest payable	41	-	-	41
Other liabilities	1,247	-	-	1,247
Deferred revenue:				
Succeeding year property tax	803,578	-	173,227	976,805
Other	106,773	-	-	106,773
Total liabilities	1,111,861	6,561	274,758	1,393,180
Fund balances:				
Reserved for debt service	-	-	(805)	(805)
Reserved - donor specified	-	125,977	-	125,977
Unreserved	483,139	7,123	132,467	622,729
Total fund balances	483,139	133,100	131,662	747,901
<b>Total liabilities and fund balances</b>	<b>\$ 1,595,000</b>	<b>139,661</b>	<b>406,420</b>	<b>2,141,081</b>

See notes to financial statements.

Moravia Community School District

Exhibit D

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

June 30, 2007

**Total fund balances of governmental funds (page 20)** \$ 747,901

*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. 1,522,839

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 106,773

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. (1,360)

Long-term liabilities, including general obligation bonds payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. (507,500)

**Net assets of governmental activities (page 18)** \$ 1,868,653

See notes to financial statements.

Moravia Community School District

Exhibit E

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

Year ended June 30, 2007

	General	Special Revenue Moravia Education Foundation	Nonmajor Governmental Funds	Total
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 801,030	-	427,500	1,228,530
Tuition	289,844	-	-	289,844
Other	44,621	14,038	171,584	230,243
State sources	1,586,760	-	-	1,586,760
Federal sources	248,164	-	-	248,164
Total revenues	2,970,419	14,038	599,084	3,583,541
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular instruction	1,309,858	11,526	33,773	1,355,157
Special instruction	396,049	-	2,153	398,202
Other instruction	335,179	-	154,200	489,379
	2,041,086	11,526	190,126	2,242,738
Support services:				
Student services	84,624	-	519	85,143
Instructional staff services	57,864	-	226	58,090
Administration services	446,683	-	13,036	459,719
Operation and maintenance of plant services	198,315	-	23,607	221,922
Transportation services	129,975	-	7,365	137,340
	917,461	-	44,753	962,214
Non-instructional programs	-	-	457	457
Other expenditures:				
Facilities acquisition	-	-	58,392	58,392
Long-term debt:				
Principal	-	-	80,000	80,000
Interest and fiscal charges	-	-	18,634	18,634
AEA flowthrough	96,106	-	-	96,106
	96,106	-	157,026	253,132
Total expenditures	3,054,653	11,526	392,362	3,458,541
Excess (deficiency) of revenues over (under) expenditures	(84,234)	2,512	206,722	125,000
Other financing sources (uses):				
Sale of capital assets	952	-	-	952
Total other financing sources (uses)	952	-	-	952
Net change in fund balances	(83,282)	2,512	206,722	125,952
Fund balances beginning of year	566,421	130,588	(75,060)	621,949
Fund balances end of year	\$ 483,139	133,100	131,662	747,901

See notes to financial statements.

Moravia Community School District

Exhibit F

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

Year ended June 30, 2007

**Net change in fund balances - total governmental funds (page 22)** \$ 125,952

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures was less than depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 39,263	
Depreciation expense	<u>(88,956)</u>	(49,693)

Because some revenues will not be collected for several months after the District's year end, they are not considered available revenues and are deferred in the governmental funds.

4,077

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

Issued	-	
Repaid	<u>80,000</u>	80,000

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, interest expense is recognized as the interest accrues, regardless of when it is due.

160

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

Early retirement		(13,500)
------------------	--	----------

**Change in net assets of governmental activities (page 19)** \$ 146,996

See notes to financial statements.

Moravia Community School District

Exhibit G

Statement of Net Assets  
Proprietary Fund

June 30, 2007

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 5,759
Due from other governments	5,393
Inventories	3,391
Capital assets, net of accumulated depreciation	<u>24,728</u>
<b>Total assets</b>	<u>39,271</u>
<b>Liabilities</b>	
Due to other funds	<u>7,218</u>
<b>Total liabilities</b>	<u>7,218</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	24,728
Unrestricted	<u>7,325</u>
<b>Total net assets</b>	<u>\$ 32,053</u>

See notes to financial statements.

Moravia Community School District

Exhibit H

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

Year ended June 30, 2007

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 76,368</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	55,766
Benefits	15,299
Purchased services	1,110
Supplies	91,094
Depreciation	4,140
Total operating expenses	<u>167,409</u>
Operating loss	<u>(91,041)</u>
Non-operating revenues:	
State sources	2,126
Federal sources	92,960
Interest income	41
Total non-operating revenues	<u>95,127</u>
Net income	4,086
Net assets beginning of year	<u>27,967</u>
Net assets end of year	<u>\$ 32,053</u>

See notes to financial statements.

Moravia Community School District

Exhibit I

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2007

	<u>School Nutrition</u>
<b>Cash flows from operating activities:</b>	
Cash received from sale of lunches and breakfasts	\$ 76,368
Cash payments to employees for services	(71,065)
Cash payments to suppliers for goods and services	(81,125)
Net cash used by operating activities	<u>(75,822)</u>
<b>Cash flows from non-capital financing activities:</b>	
State grants received	2,126
Federal grants received	78,170
Net cash provided by non-capital financing activities	<u>80,296</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets	<u>(666)</u>
<b>Cash flows from investing activities:</b>	
Interest on investments	<u>41</u>
Net increase in cash and cash equivalents	3,849
Cash and cash equivalents at beginning of year	1,910
Cash and cash equivalents at end of year	<u>\$ 5,759</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (91,041)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	9,396
Depreciation	4,140
(Increase) in inventories	(537)
Increase in due to other funds	2,220
Net cash used by operating activities	<u>\$ (75,822)</u>

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

During the year ended June 30, 2007, the District received \$9,396 of federal commodities

See notes to financial statements.

Moravia Community School District

Notes to Financial Statements

June 30, 2007

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

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

Blended Component Unit – The Moravia Education Foundation (Foundation) is included in the financial statements of the Moravia Community School District because its relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The members and Board of Directors of the Foundation consist of the members of the District's Board of Education. In addition, the purpose of the Foundation is to support the activities of the Moravia Community School District.

Jointly Governed Organizations – The District participates in jointly governed organizations which provide services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Appanoose, Davis and Monroe County Assessor's Conference Board.

**B. Basis of Presentation**

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

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

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

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues 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 Special Revenue – Moravia Education Foundation Fund is utilized to provide advancement, enhancement, or support to education in the Moravia Community School District.

The District reports the following major proprietary fund:

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

### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

#### D. Assets, Liabilities, and Fund Equity

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

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

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 are accounted for using the modified accrual basis of accounting.

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 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.

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

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

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

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

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

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

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

Compensated Absences – District employees accumulate a limited amount of vacation time; however, the unused amounts are not paid at termination, death or retirement. Consequently, no accrual is made in the financial statements for compensated absences.

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures did not exceed the amounts budgeted.

(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 deposits to insure there will be no loss of public funds.

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

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 425,905

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

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

The Foundation invests in a checking account and stock. At June 30, 2007, the carrying amount of the stock was \$38,044, and the fair value was \$130,738. The stock is reported at fair value, as determined by the investment company handling the account. The Foundation's investments are all category 1, which means that the investments are held by the Foundation in the Foundation's name. The investment balances of the Foundation's funds are reported at the carrying amount which reasonably estimates fair value.

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

The details of interfund receivables and payables at June 30, 2007 are as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Management Levy	\$ 21,301
	Student Activity	2,783
	Physical Plant and Equipment Levy	24,186
	Debt Service	52,124
	Enterprise:	
	School Nutrition	7,218
		<u>107,612</u>
Capital Projects	General	2,112
Special Revenue:		
Management Levy		<u>5,804</u>
		<u>7,916</u>
	Total	<u><u>115,528</u></u>

The above either represents loans from one fund to another fund, or corrective transfers that need to be made.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Date	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	6/27/2007	6/27/2008	\$ 167,735	50	168,000	41
	Total		<u>\$ 167,735</u>	<u>50</u>	<u>168,000</u>	<u>41</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity for the year ended June 30, 2007.

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.455%

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 1,000	-	-	1,000
Construction in progress	-	27,000	-	27,000
Total capital assets not being depreciated	1,000	27,000	-	28,000
Capital assets being depreciated:				
Buildings	2,748,417	4,363	-	2,752,780
Improvements other than buildings	26,690	-	-	26,690
Furniture and equipment	403,267	7,900	12,500	398,667
Total capital assets being depreciated	3,178,374	12,263	12,500	3,178,137
Less accumulated depreciation for:				
Buildings	1,315,320	56,061	-	1,371,381
Improvements other than buildings	16,014	1,335	-	17,349
Furniture and equipment	275,508	31,560	12,500	294,568
Total accumulated depreciation	1,606,842	88,956	12,500	1,683,298
Total capital assets being depreciated, net	1,571,532	(76,693)	-	1,494,839
Governmental activities capital assets, net	\$ 1,572,532	(49,693)	-	1,522,839
<b>Business type activities:</b>				
Furniture and equipment	\$ 112,535	666	-	113,201
Less accumulated depreciation	84,333	4,140	-	88,473
Business type activities capital assets, net	\$ 28,202	(3,474)	-	24,728

Depreciation expense was charged to the following functions:

Government activities:		
Instruction:		
Regular		\$ 1,250
Other		767
Support services:		
Operation and maintenance of plant		2,572
Transportation		28,306
		<u>32,895</u>
Unallocated		<u>56,061</u>
Total depreciation expense - governmental activities		<u>\$ 88,956</u>
Business type activities:		
Food service operations		<u>\$ 4,140</u>

**(6) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 570,000	-	80,000	490,000	85,000
Early retirement	4,000	17,500	4,000	17,500	8,750
Total	<u>\$ 574,000</u>	<u>17,500</u>	<u>84,000</u>	<u>507,500</u>	<u>93,750</u>

General Obligation Bonds Payable

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

Bond Issue of March 1, 2003				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2008	2.75%	\$ 85,000	16,315	101,315
2009	3.05%	85,000	13,977	98,977
2010	3.30%	85,000	11,385	96,385
2011	3.45%	90,000	8,580	98,580
2012	3.70%	90,000	5,475	95,475
2013	3.90%	55,000	2,145	57,145
Total		<u>\$ 490,000</u>	<u>57,877</u>	<u>547,877</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed twenty years of full-time service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are equal to \$700 per year of service up to a maximum of \$20,000. The early retirement incentive is payable in two payments, on July 15<sup>th</sup> of the year of retirement and July 15<sup>th</sup> of the year following retirement. Early retirement incentive benefits paid during the year ended June 30, 2007 totaled \$4,000. At June 30, 2007 the District has an obligation to one participant with a total liability of \$17,500.

**(7) Operating Lease**

The District has entered into an operating lease for various electronic equipment. Payments under these leases totaled \$6,672 during the fiscal year. Future minimum lease payments in relation to these leases are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2008	\$ 8,170
2009	8,170
2010	8,170
2011	8,170
2012	8,170
Total	<u>\$ 40,850</u>

**(8) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$109,362, \$104,676, and \$104,655, respectively, equal to the required contributions for each year.

**(9) Risk Management**

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

**(10) 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 \$96,106 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.

**(11) Deficit Fund Balance**

The Debt Service Fund had a deficit fund balance of \$805 at June 30, 2007.

**(12) Moravia Education Foundation**

The Moravia Education Foundation is a 501 (c) 3 organization reported as a Special Revenue Fund in the financial statements. The purpose of the Foundation is to provide advancement, enhancement, or support to education in the Moravia School District. The bylaws state that 90% of the realized income will be used to support grants, and 10% will be reinvested in the fund, along with the original principal amount. At June 30, 2007, the District determined that \$125,977 of the total amount in this fund must remain in perpetuity to fund the activities of the foundation. This amount is reported as a reserved fund balance on the balance sheet.

**Required Supplementary Information**

Moravia 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 Funds Actual	Total Actual	Budgeted Amounts Original	Final to Actual Variance
<b>Revenues:</b>					
Local sources	\$ 1,748,617	76,409	1,825,026	1,865,601	(40,575)
State sources	1,586,760	2,126	1,588,886	2,129,497	(540,611)
Federal sources	248,164	92,960	341,124	685,000	(343,876)
Total revenues	3,583,541	171,495	3,755,036	4,680,098	(925,062)
<b>Expenditures:</b>					
Instruction	2,242,738	-	2,242,738	3,006,855	764,117
Support services	962,214	-	962,214	1,121,921	159,707
Non-instructional programs	457	167,409	167,866	182,013	14,147
Other expenditures	253,132	-	253,132	354,556	101,424
Total expenditures	3,458,541	167,409	3,625,950	4,665,345	1,039,395
Excess (deficiency) of revenues over (under) expenditures	125,000	4,086	129,086	14,753	114,333
Other financing sources (uses), net	952	-	952	-	952
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	125,952	4,086	130,038	14,753	115,285
Balances beginning of year	621,949	27,967	649,916	483,069	166,847
Balances end of year	\$ 747,901	32,053	779,954	497,822	282,132

See accompanying independent auditor's report.

Moravia Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2007

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

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

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

During the year ended June 30, 2007, expenditures did not exceed the amounts budgeted.

## Other Supplementary Information

## Moravia Community School District

Schedule I

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2007

	Special Revenue					Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Debt Service	
<b>Assets</b>						
Cash and pooled investments	\$ 60,176	54,836	24,489	12,878	49,166	201,545
Receivables:						
Property tax:						
Delinquent	2,914	-	462	-	2,153	5,529
Succeeding year	50,000	-	21,912	-	101,315	173,227
Due from other funds	5,804	-	-	2,112	-	7,916
Due from other governments	-	-	-	18,203	-	18,203
<b>Total assets</b>	<b>\$ 118,894</b>	<b>54,836</b>	<b>46,863</b>	<b>33,193</b>	<b>152,634</b>	<b>406,420</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 1,137	-	-	-	-	1,137
Due to other funds	21,301	2,783	24,186	-	52,124	100,394
Deferred revenue:						
Succeeding year property tax	50,000	-	21,912	-	101,315	173,227
Total liabilities	72,438	2,783	46,098	-	153,439	274,758
Fund balances:						
Reserved for debt service	-	-	-	-	(805)	(805)
Unreserved	46,456	52,053	765	33,193	-	132,467
Total fund balances	46,456	52,053	765	33,193	(805)	131,662
<b>Total liabilities and fund balances</b>	<b>\$ 118,894</b>	<b>54,836</b>	<b>46,863</b>	<b>33,193</b>	<b>152,634</b>	<b>406,420</b>

See accompanying independent auditor's report.

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

Year ended June 30, 2007

	Special Revenue					Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Debt Service	
Revenues:						
Local sources:						
Local tax	\$ 137,772	-	20,912	171,326	97,490	427,500
Other	4,773	166,811	-	-	-	171,584
Total revenues	142,545	166,811	20,912	171,326	97,490	599,084
Expenditures:						
Current:						
Instruction:						
Regular instruction	33,773	-	-	-	-	33,773
Special instruction	2,153	-	-	-	-	2,153
Other instruction	2,058	152,142	-	-	-	154,200
Support services:						
Student services	519	-	-	-	-	519
Instructional staff services	226	-	-	-	-	226
Administration services	13,036	-	-	-	-	13,036
Operation and maintenance of plant services	10,458	-	13,149	-	-	23,607
Transportation services	7,365	-	-	-	-	7,365
Non-instructional programs	457	-	-	-	-	457
Other expenditures:						
Facilities acquisition	-	-	4,828	53,564	-	58,392
Long-term debt:						
Principal	-	-	-	-	80,000	80,000
Interest and fiscal charges	-	-	-	-	18,634	18,634
Total expenditures	70,045	152,142	17,977	53,564	98,634	392,362
Excess (deficiency) of revenues over (under) expenditures	72,500	14,669	2,935	117,762	(1,144)	206,722
Fund balances beginning of year	(26,044)	37,384	(2,170)	(84,569)	339	(75,060)
Fund balances end of year	\$ 46,456	52,053	765	33,193	(805)	131,662

See accompanying independent auditor's report.

## Moravia Community School District

Schedule 3

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

Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
Interest	\$ 1,168	2,364	-	(3,532)	-
Vocal Music	115	339	2,637	2,183	-
Variety Show	675	3,200	206	(3,669)	-
Band Trip	5,090	13,342	6,415	(544)	11,473
Year book	(3,334)	6,605	4,473	-	(1,202)
Clark Memorial	166	12	-	-	178
High School Cheerleaders	759	480	882	-	357
Book order	-	-	2,222	2,222	-
Drama	1,190	-	-	-	1,190
Spanish Club	228	379	417	-	190
FFA	2,449	22,447	13,119	(732)	11,045
FHA	3,808	350	2,483	-	1,675
Acts of Kindness	-	2,600	2,500	(100)	-
Student Council	125	2,771	2,190	-	706
Academic Dream	19	50	-	-	69
Student Development	705	430	1,135	-	-
Elementary	925	17,827	17,179	-	1,573
Concessions	(101)	20,099	21,829	1,831	-
Class of 2011	1,672	2,313	624	-	3,361
High School Activity	1,244	7,316	6,679	-	1,881
NHS	53	190	39	-	204
Class of 2010	1,337	1,258	416	-	2,179
Europe	947	234	981	-	200
Speech	33	158	399	208	-
Class of 2012	5	2,402	682	-	1,725
Class of 2013	3	-	-	-	3
Class of 2014	-	2,195	2,188	-	7
Class of 2007	9,268	5,261	14,329	-	200
Class of 2008	2,531	6,052	2,899	-	5,684
Class of 2009	2,693	1,408	213	-	3,888
Activity Passes	-	23,028	18,165	(3,277)	1,586
Junior High Athletics	(9)	509	-	-	500
Boys Basketball	192	3,650	1,588	(2,254)	-
High School Football	1,086	4,507	7,956	2,574	211
Baseball	(1,541)	614	1,929	500	(2,356)
Boys Track	768	50	1,354	536	-
Wresting	(1,009)	452	-	557	-
Weight Lifting	3,142	-	2,760	-	382
Girls Basketball	(237)	2,141	1,820	375	459
Volleyball	(258)	968	702	-	8
Softball	1,044	3,070	5,233	2,501	1,382
Cross Country	169	143	166	-	146
Girls Track	264	297	-	-	561
Football Boosters	-	5,300	3,333	621	2,588
Total	\$ 37,384	166,811	152,142	-	52,053

See accompanying independent auditor's report.

## Moravia Community School District

Schedule 4

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

For the Last Five Years

	Modified Accrual Basis				
	2007	2006	2005	2004	2003
<b>Revenues:</b>					
Local sources:					
Local tax	\$ 1,228,530	1,098,441	980,208	914,345	869,461
Tuition	289,844	250,341	268,743	242,808	298,956
Other	230,243	211,508	324,919	161,032	254,227
Intermediate sources	-	-	61,103	37,477	-
State sources	1,586,760	1,552,826	1,438,737	1,463,061	1,475,475
Federal sources	248,164	320,572	154,496	203,558	254,823
Total	<u>\$ 3,583,541</u>	<u>3,433,688</u>	<u>3,228,206</u>	<u>3,022,281</u>	<u>3,152,942</u>
<b>Expenditures:</b>					
Instruction:					
Regular instruction	\$ 1,355,157	1,296,673	1,436,641	1,322,066	1,308,063
Special instruction	398,202	313,993	401,792	299,730	391,663
Other instruction	489,379	510,474	347,552	430,728	323,152
Support services:					
Student services	85,143	81,765	80,185	72,891	71,131
Instructional staff services	58,090	75,068	40,678	44,222	56,295
Administration services	459,719	441,552	430,681	398,037	380,173
Operation and maintenance of plant services	221,922	196,670	217,573	221,807	236,992
Transportation services	137,340	191,623	142,213	164,001	146,263
Non-instructional programs	457	618	495	400	265
Other expenditures:					
Facilities acquisition	58,392	267,315	53,081	3,364	103,912
Long-term debt:					
Principal	80,000	75,000	79,676	74,883	836,648
Interest and other charges	18,634	20,435	22,830	34,948	56,251
AEA flowthrough	96,106	91,933	87,761	89,358	95,056
Total	<u>\$ 3,458,541</u>	<u>3,563,119</u>	<u>3,341,158</u>	<u>3,156,435</u>	<u>4,005,864</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1051 OFFICE PARK ROAD  
WEST DES MOINES, IOWA 50265  
(515) 277-3077

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

To the Board of Education of  
Moravia 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 Moravia 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 27, 2007. 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 Moravia 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 our opinion on the effectiveness of Moravia Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Moravia Community School District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in 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 a design in the 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 Moravia Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Moravia Community School District's financial statements that is more than inconsequential will not be prevented or detected by Moravia Community School 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 the 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 Moravia 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 items I-A-07, I-C-07, I-F-07 and I-G-07 are material weaknesses.

#### Compliance and Other Matters

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

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

Moravia 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 Moravia 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 the Moravia Community School District and other parties to whom the Moravia Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Peak & Gerdes, LLP  
Certified Public Accountants

August 27, 2007

Moravia Community School District

Schedule of Findings

Year ended June 30, 2007

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

**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 cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are sometimes processed, disbursements are recorded, and checks are prepared by the same person. In addition, in most instances, the same individual stamps the Board President's and Board Secretary's name on all District checks.

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.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-07 Disbursements – For several transactions tested, there was no evidence of Board approval of the disbursement. Also, in some cases payments were made to vendors even though no invoices existed. The District paid sales tax on one hotel bill. In addition, the Board President does not sign the list of approved bills.

Recommendation – The District should ensure all disbursements are properly approved by the Board, and that all disbursements are supported by an invoice prior to payment. Procedures should be implemented to ensure sales tax is not paid on District purchases. Also, the Board President should sign the list of approved bills.

Response – We will ensure that all disbursements are properly approved, and that invoices exist for all disbursements prior to payment. In addition, we will ensure sales tax is not paid on purchases, and the Board President will sign the list of approved bills.

Conclusion – Response accepted.

I-C-07 Financial Reporting – During the audit, we identified material amounts of receivables, payables, and capital asset additions not recorded in the District's financial statements. In addition, we identified a material amount of property taxes misposted to the Debt Service Fund rather than the General Fund. Adjustments were subsequently made by the District to properly include and report these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the District's financial statements. In addition, the District should implement procedures to ensure property tax receipts are properly recorded in the District's financial statements.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2007

Response – We will double check these in the future to avoid missing any receivables, payables or capital asset transactions, and to avoid posting errors.

Conclusion – Response accepted.

- I-D-07 Student Activity Fund – During our audit, issues arose in relation to some receipts and disbursements recorded in the Student Activity Fund. Inappropriate expenditures from this fund would include any expenditure more appropriate from other funds. The Department of Education states that the student activity fund shall not be used as a clearing account for any other fund. In addition, the Department of Education rules further states that the Student Activity Fund is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Monies in this fund shall only be used to support the cocurricular program defined in the Department of Education administrative rules.

During our review, we noted the District has a book flow through account, a memorial account, and a football boosters account which are all currently recorded in the Student Activity Fund. It would appear that these types of accounts are not appropriate for use in the Student Activity Fund.

Recommendation – The District should review the propriety of all of the accounts in the Student Activity Fund, and determine which accounts meet the Department of Education requirements to be included in the Student Activity Fund. All accounts which do not meet the requirements to be included in the Student Activity Fund should be recorded in another appropriate fund.

Response – We will review this area.

Conclusion – Response accepted.

- I-E-07 Admission Tickets – Admission tickets were not issued for athletic events.

Recommendation – The District should issue pre-numbered admission tickets for athletic events. The District should then reconcile the dollar value of pre-numbered admission tickets issued to the dollar amount of cash deposited to the bank account.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- I-F-07 Bank Reconciliations – The District issues handwritten checks and issues checks out of number sequence order, these factors increase the difficulty in reconciling the bank account.

Recommendation – The District should discontinue issuing handwritten checks and issue all checks in number sequence order.

Response – We will discontinue issuing handwritten checks, and issue all checks in number sequence order.

Conclusion – Response accepted.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2007

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2007

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

II-A-07 Certified Budget – Expenditures for the year ended June 30, 2007, did not exceed the certified budget amounts.

II-B-07 Questionable Disbursements - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

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 – Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Connie Brown, Board Member	Payroll	\$1,300
Michelle Chapman, wife of Mitchell Chapman, employee	Painting	\$1,837

The above compensation to the Board Member was included on the District's payroll. The contract with Connie Brown and the proposal received from Michelle Chapman were both approved by the Board. Due to the size of the transactions, the above does not appear to represent a conflict of interest pursuant to Chapter 279.7A of the Code of Iowa.

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 – As previously noted, transactions requiring Board approval had not been approved by the Board as required by Chapter 279.29 of the Code of Iowa. Some invoices were not published in the newspaper, as required by Chapter 279.35 of the Code of Iowa. In some cases, the Board minutes were not signed by the Board Secretary.

In one instance, the Board minutes did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – Procedures should be implemented to ensure all disbursements are approved by the Board. Also, all invoices should be published as required by Chapter 279.35 of the Code of Iowa. In addition, all Board minutes should be signed by the Board Secretary. The District should also comply with Chapter 21 of the Code of Iowa.

Response – We will implement these recommendations.

Conclusion – Response accepted.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2007

II-G-07 Certified Enrollment – The total supplementary weighting students reported to the Iowa Department of Education on line 12 of the Certified Enrollment Certification Form for September 2006 was overstated by .57 students.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – We will contact the Iowa Department of Education and the Department of Management.

Conclusion – Response accepted.

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, except that bank interest earned is not credited to the Debt Service Fund, as required per Chapter 12C.9 of the Code of Iowa.

Recommendation – The District credit bank interest earned to the Debt Service Fund, as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-I-07 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education. However, due to inaccurate postings, the General Fund and the Debt Service Fund were inaccurate by a material amount.

Recommendation – The District should adjust for these differences in the next Certified Annual report. In addition, the District should implement procedures to ensure the subsequent year Certified Annual Report is correctly filed.

Response – We will implement these recommendations.

Conclusion – Response accepted.

II-J-07 Payroll Issues – Some I-9's were missing or incomplete. Our review noted that some individuals were over or under paid, employee contracts were not always located which documents rate of pay, and in some cases the amount paid the employee was different than the contract amount.

Some timesheets were not signed by a Supervisor. A form 941 filed with the Internal Revenue Service was incorrectly completed.

Recommendation – The District should ensure the I-9 forms are correctly completed. In addition, the District should implement procedures to ensure all employees are paid the correct amount. Contracts should be required for all employees, and that the amount paid agrees to the contract and salary scale. The District should ensure that all employee timesheets are approved and signed by a Supervisor before payment. Also, procedures should be implemented to ensure the form 941's are correctly completed in the future.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2007

Response – We will implement the above recommendations.

Conclusion – Response accepted.

II-K-07 Financial Condition – Several student activity accounts had deficit balances at June 30, 2007. The Debt Service Fund an unreserved, undesignated deficit fund balance of \$805 at June 30, 2007.

Recommendation – The District should continue to monitor the Debt Service Fund and the student activity accounts and investigate alternatives to eliminate these deficits.

Response – We will continue to monitor the above funds and the student activity accounts in order to return this fund and the student activity accounts to a sound financial position.

Conclusion – Response accepted.

II-L-07 Property Sales – The District sold a vehicle during the fiscal year. Chapter 297.22 of the Code of Iowa requires that property for sale by the District must be advertised by at least one insertion each week, for two consecutive weeks, in a newspaper having general circulation in the District. We noted that this procedure was not performed.

Recommendation – The District follow the Code of Iowa requirements in regards to the disposition of property.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-M-07 Fixed Assets – Fixed assets were not periodically counted and reconciled to the fixed asset listing by an independent person. Also, the fixed asset records were not updated in fiscal year 2007.

Recommendation – Fixed assets should be periodically counted and reconciled to the fixed asset listing by a person who does not have custody of the fixed assets. Also, the fixed asset records should be updated to include activity which occurred in fiscal year 2007.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-N-07 Construction Projects – The District was involved in various construction projects during the fiscal year. In one case, it appears the District did not follow the public hearing and bid requirements as required by Chapter 73A of the Code of Iowa.

Recommendation – In the future, the District follow the Code of Iowa requirements in relation to construction projects.

Response – We were unaware of this requirement until the auditor brought it to our attention. We will implement this recommendation in the future.

Conclusion – Response accepted.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2007

II-O-07 Disbursements – The payment of rent by the District to a private company was charged to the physical plant and equipment levy fund and the capital projects (local option sales tax) fund. Based on the requirements of the Code of Iowa, it is questionable as to whether these costs should have been charged to these funds. It appears that these expenses should have been charged to the General Fund.

Recommendation – The District should review all disbursements from the physical plant and equipment levy fund and the capital projects fund for propriety, and make corrective transfers, if necessary.

Response – We will do this.

Conclusion – Response accepted.

II-P-07 Enrollment Procedures – There does not appear to be procedures in place to reconcile the number of children as noted on the class lists with the certified enrollment forms submitted to the State. In addition, there does not appear to be procedures in place to reconcile the number of children on the open enrollment in and out certified enrollment forms as submitted to the State, with the billings to and from other Districts for open enrollment tuition. As a result of these lack of procedures, during our audit fieldwork, we identified approximately \$3,000 due from neighboring Districts for the 2006-07 school year for open enrollment in tuition. This situation was not known by the District until we brought it to their attention.

In addition, approximately \$1,700 is still owed from neighboring Districts to the District from the 2004-05 and 2005-06 school year for open enrollment in tuition. No evidence could be found that the District has attempted to collect these amounts due from the other Districts.

Recommendation – The District should implement procedures to ensure the number of children recorded on the class lists reconcile with the certified enrollment forms submitted to the State. In addition, procedures should be implemented to reconcile the number of children on the open enrollment in and open enrollment out certified enrollment forms with the billings to and from the other Districts for open enrollment tuition.

Also, the District should attempt to collect all monies due to them from other Districts for open enrollment in tuition. If the other Districts refuse to pay, the District should work with the AEA or Department of Education to resolve this matter. Any amounts not pursued should be formally approved by the Board.

Response – We will review this area and take action as necessary.

Conclusion – Response accepted.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2007

II-Q-07 Moravia Education Foundation – A double entry accounting system is not used by the Foundation. A total of \$75 was charged to the Foundation bank account for overdraft fees. To cover a temporary cash shortfall, the School loaned monies to the Foundation. No evidence could be located that the Board approved of this loan. Even if the Board did approve of the loan, it would be questionable whether this type of arrangement would meet the test of public purpose.

In addition, the statements from the investment company indicated that a cash dividend for \$1,302.62 was declared on August 2006. However, no evidence could be found that the Foundation received the cash from the investment company for this.

Recommendation – The Foundation implement a double entry accounting system. In addition, the District should discontinue loaning money to the Foundation, and that procedures be put in place to ensure the bank account is not overdrawn. Also, the District should investigate the unaccounted for dividend as explained above.

Response – We will implement these recommendations.

Conclusion – Response accepted.