

MORNING SUN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007

MORNING SUN COMMUNITY SCHOOL DISTRICT  
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MORNING SUN COMMUNITY SCHOOL DISTRICT  
 Officials  
 June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
(Before September 2006 Election)		
Roxanne Bappe	Board President	2006
Robert Fletcher	Board Member	2006
Jon Malone	Board Member	2007
Will Buster	Board Member	2008
Jason Hagge	Board Member	2008
(After September 2006 Election)		
Roxanne Bappe	Board President	2009
Jon Malone	Board Member	2007
Will Buster	Board Member	2008
Jason Hagge	Board Member	2008
Robert Fletcher	Board Member	2009
<b>School Officials</b>		
Doug Graber	Superintendent	2007
Kim Booth	District Secretary	2007
Sue Bryant	District Treasurer	2007
Gruhn Law Firm	Attorney	2007

# KAY L. CHAPMAN, CPA PC

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

## Independent Auditor's Report

To the Board of Education  
Morning Sun Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District, Morning Sun, Iowa, as of and for the year ended June 30, 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. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Morning Sun Community School District as of June 30, 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, I have also issued my report dated February 15, 2008 on my consideration of Morning Sun Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 36 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morning Sun Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the four years in the period ended June 30, 2007, appearing in Schedule 6, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
February 15, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2007 Financial Highlights

- General Fund revenues increased from \$2,188,681 in fiscal 2006 to \$2,213,948 in fiscal 2007 and General Fund expenditures increased from \$2,248,581 in fiscal 2006 to \$2,301,096 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$582,603 in fiscal 2006 to \$491,794 in fiscal 2007, a 16% decrease from the prior year.
- The increase in General Fund revenues was attributable to increased property tax collections and tuition received in fiscal year 2007. The increase in expenditures was due primarily to an increase in the purchased services.

### Using this Annual Report

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Morning Sun Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

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

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

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

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

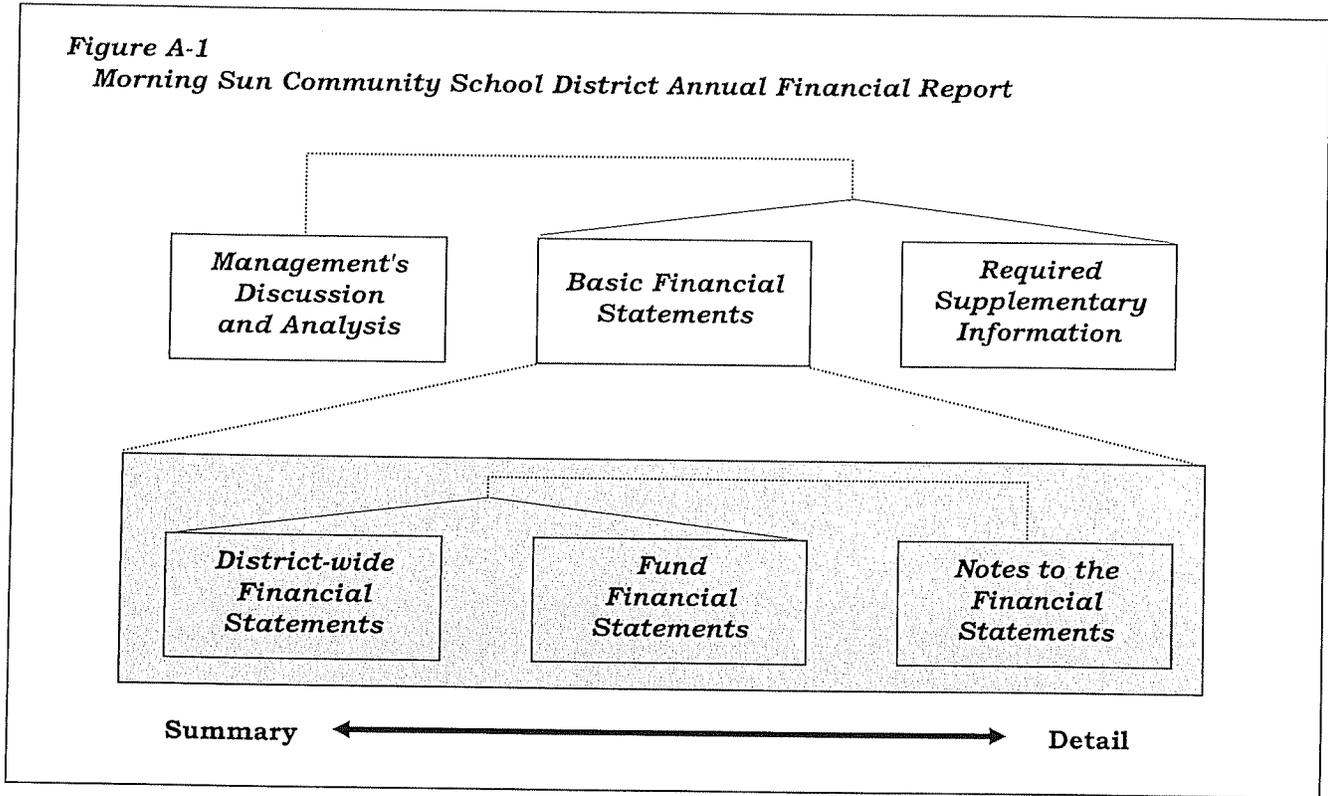


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

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

	Government-wide	Fund Statements	
	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 and preschool/daycare program.
Required financial statements	• Statement of net assets	• Balance sheet	• Statement of net assets
	• Statement of activities	• Statement of revenues, expenditures and changes in fund balances	• Statement of revenues, expenses and changes in fund net assets
			• Statement of cash flows
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 and preschool/daycare programs are included here.

#### *Fund Financial Statements*

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

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

The District has two kinds of funds:

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

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

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

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

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

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

### Government-Wide Financial Analysis

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2006-</u> <u>2007</u>
Current and other assets	\$ 2,232,357	\$ 1,884,364	\$ 16,548	\$ 13,502	\$ 2,248,905	\$ 1,897,866	18.50%
Capital assets	<u>508,819</u>	<u>431,109</u>	<u>1,876</u>	<u>2,268</u>	<u>510,695</u>	<u>433,377</u>	17.84%
Total assets	<u>2,741,176</u>	<u>2,315,473</u>	<u>18,424</u>	<u>15,770</u>	<u>2,759,600</u>	<u>2,331,243</u>	18.37%
Long-term obligations	-	-	-	-	-	-	0.00%
Other liabilities	<u>1,261,201</u>	<u>971,693</u>	<u>28,490</u>	<u>22</u>	<u>1,289,691</u>	<u>971,715</u>	32.72%
Total liabilities	<u>1,261,201</u>	<u>971,693</u>	<u>28,490</u>	<u>22</u>	<u>1,289,691</u>	<u>971,715</u>	32.72%
Net assets							
Invested in capital assets, net of related debt	508,819	431,109	1,876	2,268	510,695	433,377	17.84%
Restricted	460,063	330,068	-	-	460,063	330,068	39.38%
Unrestricted	<u>511,093</u>	<u>582,603</u>	<u>(11,942)</u>	<u>13,480</u>	<u>499,151</u>	<u>596,083</u>	-16.26%
Total net assets	<u>\$ 1,479,975</u>	<u>\$ 1,343,780</u>	<u>\$ (10,066)</u>	<u>\$ 15,748</u>	<u>\$ 1,469,909</u>	<u>\$ 1,359,528</u>	8.12%

The District's combined net assets increased by 8%, or \$110,381, 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.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased by \$129,995, or approximately 39% over the prior year. The increase was primarily a result of the PPEL levy being implemented in FY04, resulting in revenue that has yet to be expended.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased by \$96,932, or approximately 16%. This decrease in unrestricted net assets was a result of the District receiving less revenue than expenditures for the fiscal year in the General Fund.

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

Figure A-4  
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-2007
Revenues							
Program revenues							
Charges for service and sales	\$ 442,034	\$ 481,626	\$ 73,329	\$ 69,158	\$ 515,363	\$ 550,784	-6.43%
Operating grants	239,810	225,799	40,651	36,324	280,461	262,123	7.00%
General revenues							
Property tax	669,426	618,399	-	-	669,426	618,399	8.25%
Sales and services tax	142,782	115,085	-	-	142,782	115,085	24.07%
Unrestricted state grants	979,751	939,440	-	-	979,751	939,440	4.29%
Contributions and donations	537	10,051	-	-	537	10,051	-94.66%
Unrestricted investment earnings	41,743	26,730	94	175	41,837	26,905	55.50%
Other	<u>2,841</u>	<u>2,227</u>	<u>-</u>	<u>-</u>	<u>2,841</u>	<u>2,227</u>	27.57%
Total revenues	<u>2,518,924</u>	<u>2,419,357</u>	<u>114,074</u>	<u>105,657</u>	<u>2,632,998</u>	<u>2,525,014</u>	4.28%
Program expenses							
Governmental activities							
Instruction	1,697,511	1,714,809	-	-	1,697,511	1,714,809	-1.01%
Support services	564,793	502,878	-	-	564,793	502,878	12.31%
Non-instructional programs	1,066	-	168,549	172,169	169,615	172,169	-1.48%
Other expenses	<u>115,698</u>	<u>72,195</u>	<u>-</u>	<u>-</u>	<u>115,698</u>	<u>72,195</u>	60.26%
Total expenses	<u>2,379,068</u>	<u>2,289,882</u>	<u>168,549</u>	<u>172,169</u>	<u>2,547,617</u>	<u>2,462,051</u>	3.48%
Excess (deficiency) before transfers	139,856	129,475	(54,475)	(66,512)	85,381	62,963	35.61%
Transfers	<u>(28,661)</u>	<u>(56,892)</u>	<u>28,661</u>	<u>56,892</u>	<u>-</u>	<u>-</u>	0.00%
Change in net assets	<u>\$ 111,195</u>	<u>\$ 72,583</u>	<u>\$ (25,814)</u>	<u>\$ (9,620)</u>	<u>\$ 85,381</u>	<u>\$ 62,963</u>	35.61%

In fiscal 2007, property tax and unrestricted state grants account for approximately 65% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were \$2,632,998 of which \$2,518,924 was for governmental activities and \$114,074 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4% increase in revenues and a 3% increase in expenses. Property tax increased \$51,027 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits.

### Governmental Activities

Revenues for governmental activities were \$2,518,924 and expenses were \$2,379,068. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change	2007	2006	Change
			2006-2007			2006-2007
Instruction	\$ 1,697,511	\$ 1,714,809	-1.0%	\$ 1,102,129	\$ 1,081,096	1.9%
Support services	564,793	502,878	12.3%	550,393	496,135	10.9%
Non-instructional programs	1,066	-	100.0%	1,066	-	100.0%
Other expenses	<u>115,698</u>	<u>72,195</u>	60.3%	<u>18,636</u>	<u>5,226</u>	256.6%
Total expenses	<u>\$ 2,379,068</u>	<u>\$ 2,289,882</u>	3.9%	<u>\$ 1,672,224</u>	<u>\$ 1,582,457</u>	5.7%

- The cost financed by users of the District's programs was \$442,034.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$40,651.
- The net cost of governmental activities was financed with \$812,208 in property tax and other taxes and \$979,751 in unrestricted state grants.

**Business Type Activities**

Revenues of the District's business type activities were \$114,074 representing a 7% increase over the prior year and expenses were \$168,549, a 2% decrease from the prior year. The District's business type activities include the School Nutrition Fund and Daycare/Preschool Program. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During 2007 the District had fewer preschool students included in the certified enrollment count than in 2006; therefore, the District received less state aid funding for students included in the preschool program.

**Individual Fund Analysis**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$926,335, slightly above last year's ending fund balances of \$912,671.

**Governmental Fund Highlights**

- The District's significant decline in General Fund financial position is the product of many factors. The District was very conservative with expenditures knowing that revenues would be down in FY07.

- The General Fund balance decreased from \$582,603 to \$491,794 due in part to revenues decreasing more than the decrease in expenditures.
- The Management Levy fund balance increased from \$93,746 in 2006 to \$170,961 in 2007 due to revenue from local option sales and services tax being more than the amounts expended during the year.

### **Proprietary Fund Highlights**

The Proprietary Funds balances decreased from \$15,748 at June 30, 2006 to \$(10,066) at June 30, 2007, representing a decrease of approximately 163%. Revenues decreased significantly due to smaller numbers on certified enrollment and a transfer from the General Fund while expenditures increased due to salaries and benefits and food costs during the year ended June 30, 2007.

### **Budgetary Highlights**

During the year ended June 30, 2007, the Morning Sun Community School District did not amend its annual budget.

The District's revenues were \$376,086 less than budgeted revenues, a variance of 12%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were \$1,334,501 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

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

### **Capital Asset and Debt Administration**

#### **Capital Assets**

At June 30, 2007, the District had invested \$510,695, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of approximately 18% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$16,139.

The original cost of the District's capital assets was \$1,496,207. Governmental funds account for \$1,431,062 with the remainder of \$65,145 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the improvements other than buildings category. This increase resulted from a few small projects done during 2007.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2007	2006	2007	2006	2007	2006	<u>2006-</u> <u>2007</u>
Land	\$227,000	\$227,000	\$ -	\$ -	\$227,000	\$227,000	0.00%
Buildings and improvements	170,766	175,328	-	-	170,766	175,328	-2.60%
Improvements, other than buildings	91,037	5,025	-	-	91,037	5,025	1711.68%
Furniture and equipment	<u>20,016</u>	<u>23,756</u>	<u>1,876</u>	<u>2,268</u>	<u>21,892</u>	<u>26,024</u>	-15.88%
Totals	<u>\$508,819</u>	<u>\$431,109</u>	<u>\$1,876</u>	<u>\$2,268</u>	<u>\$510,695</u>	<u>\$433,377</u>	17.84%

### Long-Term Debt

At June 30, 2007, the District did not have any outstanding debt.

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

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

- The passing of the SILO Tax on March 2, 2006 was a positive fiscal highlight for FY05 and subsequent years for the Morning Sun Community School District, bringing in revenue for the Capital Project Fund of approximately \$15,000 each year. Because the election was held after May 30, 2006, funds can be used according to PPEL guidelines.
- The District has experienced stable enrollment for the past several years and expects this to continue.

### Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kim Booth, District Secretary/Business Manager, Morning Sun Community School District, 311 Division Street, Morning Sun, Iowa 52640.

## Basic Financial Statements

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2007

Exhibit A

<b>Assets</b>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Cash and cash equivalents			
ISCAP	\$ 569,879	\$ -	\$ 569,879
Other	846,817	10,874	857,691
Receivables			
Property tax			
Delinquent	9,331	-	9,331
Succeeding year	581,333	-	581,333
Accounts receivable	-	2,948	2,948
Income surtax	44,821	-	44,821
Accrued interest			
ISCAP	5,191	-	5,191
Due from other governments	174,985	-	174,985
Inventories	-	2,726	2,726
Non-depreciable capital assets	227,000	-	227,000
Capital assets, net of accumulated depreciation	<u>281,819</u>	<u>1,876</u>	<u>283,695</u>
Total assets	<u>2,741,176</u>	<u>18,424</u>	<u>2,759,600</u>
<b>Liabilities</b>			
Accounts payable	1,985	-	1,985
Warrants issued in excess of bank balance	-	28,490	28,490
Due to other governments	6,822	-	6,822
Deferred revenue			
Succeeding year property tax	581,333	-	581,333
Other	92,608	-	92,608
ISCAP warrants payable	571,000	-	571,000
ISCAP accrued interest payable	4,164	-	4,164
ISCAP unamortized premium	<u>3,289</u>	<u>-</u>	<u>3,289</u>
Total liabilities	<u>1,261,201</u>	<u>28,490</u>	<u>1,289,691</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	508,819	1,876	510,695
Restricted for			
Phase I program	16,481	-	16,481
Phase II program	1,518	-	1,518
Market Factor Pay program	1,600	-	1,600
Teacher Quality Professional Development program	4,168	-	4,168
Teacher Quality program	1,589	-	1,589
Beginning Teacher Induction program	166	-	166
Management levy	170,961	-	170,961
Physical plant and equipment levy	67,323	-	67,323
Capital projects	196,257	-	196,257
Unrestricted	<u>511,093</u>	<u>(11,942)</u>	<u>499,151</u>
Total net assets	<u>\$ 1,479,975</u>	<u>\$ (10,066)</u>	<u>\$ 1,469,909</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2007

Exhibit B

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
<u>Primary Government</u>	Charges for <u>Services</u>	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government	<u>Total</u>
Governmental activities					
Instruction					
Regular instruction	\$ 243,426	\$ 112,609	\$ -	\$(1,062,350)	\$ -
Special instruction	264,987	55,139	-	(209,848)	-
Other instruction	14,139	-	-	170,069	-
	<u>1,697,511</u>	<u>167,748</u>	<u>-</u>	<u>(1,102,129)</u>	<u>(1,102,129)</u>
Support services					
Student	79,001	-	-	(79,001)	-
Instructional staff	27,795	-	-	(27,795)	-
Administration	234,498	-	-	(234,498)	-
Operation and maintenance of plant	191,342	14,400	-	(176,942)	-
Transportation	32,157	-	-	(32,157)	-
	<u>564,793</u>	<u>14,400</u>	<u>-</u>	<u>(550,393)</u>	<u>(550,393)</u>
	<u>1,066</u>	<u>-</u>	<u>-</u>	<u>(1,066)</u>	<u>(1,066)</u>
Non-instructional programs					
Other expenditures					
Facilities acquisition	36,693	-	25,000	(11,693)	-
AEA flowthrough	72,062	72,062	-	-	-
Depreciation (unallocated) *	6,943	-	-	(6,943)	-
	<u>115,698</u>	<u>72,062</u>	<u>25,000</u>	<u>(18,636)</u>	<u>(18,636)</u>
Total governmental activities	<u>2,379,068</u>	<u>239,810</u>	<u>25,000</u>	<u>(1,672,224)</u>	<u>(1,672,224)</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2007

Exhibit B

	Expenses for Services	Charges and Restricted Interest	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest		Net (Expense) Revenue and Changes in Net Assets
						Primary Government
						Governmental Business Type Activities Activities
						Total
<b><u>Functions/Programs (continued)</u></b>						
<b>Primary Government (continued)</b>						
Business type activities						
Non-instructional programs						
Food service operations	\$ 60,866	\$ 20,820	\$ 40,651	\$ -	\$ -	\$ 605
Daycare & preschool program	107,683	52,509	-	-	-	(55,174)
Total business type activities	<u>168,549</u>	<u>73,329</u>	<u>40,651</u>	<u>-</u>	<u>-</u>	<u>(54,569)</u>
Total primary government	<u>\$ 2,547,617</u>	<u>\$ 515,363</u>	<u>\$ 280,461</u>	<u>\$ 25,000</u>	<u>(1,672,224)</u>	<u>(1,726,793)</u>
<b><u>General Revenues</u></b>						
Property tax levied for						
General purposes					669,405	669,405
Capital outlay					21	21
Local option sales and services tax					142,782	142,782
Unrestricted state grants					979,751	979,751
Contributions and donations					537	537
Unrestricted investment earnings					41,743	41,837
Other					2,841	2,841
Transfers					(28,661)	-
Total general revenues and transfers					<u>1,808,419</u>	<u>1,837,174</u>
Change in net assets					136,195	110,381
Net assets, beginning of year					1,343,780	1,359,528
Net assets, end of year					<u>\$ 1,479,975</u>	<u>\$ 1,469,909</u>

\* This amount excludes the depreciation included in the direct expenses of the various programs.  
See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Balance Sheet  
Governmental Funds  
June 30, 2007

Exhibit C

	<u>General</u>	<u>Management Levy</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Assets</b>				
Cash and pooled investments				
ISCAP	\$ 569,879	\$ -	\$ -	\$ 569,879
Other	488,550	169,337	188,930	846,817
Receivables				
Property tax				
Delinquent	7,707	1,624	-	9,331
Succeeding year	488,833	92,500	-	581,333
Accrued interest - ISCAP	5,191	-	-	5,191
Income surtax	44,821	-	-	44,821
Due from other governments	100,335	-	74,650	174,985
Total assets	<u>\$1,705,316</u>	<u>\$263,461</u>	<u>\$263,580</u>	<u>\$2,232,357</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,985	\$ -	\$ -	\$ 1,985
Due to other governments	6,822	-	-	6,822
ISCAP warrants payable	571,000	-	-	571,000
ISCAP accrued interest payable	4,164	-	-	4,164
ISCAP unamortized premium	3,289	-	-	3,289
Deferred revenue				
Succeeding year property tax	488,833	92,500	-	581,333
Income surtax	44,821	-	-	44,821
Uncollected receivables	92,608	-	-	92,608
Total liabilities	<u>1,213,522</u>	<u>92,500</u>	<u>-</u>	<u>1,306,022</u>
<b>Fund balances</b>				
Reserved for				
Beginning Teacher Induction program	166	-	-	166
Teacher Quality program	1,589	-	-	1,589
Teacher Quality Professional Development	4,168	-	-	4,168
Market Factor program	1,600	-	-	1,600
Phase I	16,481	-	-	16,481
Phase II	1,518	-	-	1,518
Unreserved, governmental funds	466,272	-	196,257	662,529
Unreserved, special revenue funds	-	170,961	67,323	238,284
Total fund balances	<u>491,794</u>	<u>170,961</u>	<u>263,580</u>	<u>926,335</u>
Total liabilities and fund balances	<u>\$1,705,316</u>	<u>\$263,461</u>	<u>\$263,580</u>	<u>\$2,232,357</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2007

Exhibit D

<b>Total fund balances of governmental funds</b>	\$ 926,335
<b>Amounts reported for governmental activities in the Statement of Net Assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	508,819
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	<u>44,821</u>
<b>Net assets of governmental activities</b>	<u><u>\$1,479,975</u></u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2007

Exhibit E

	<u>General</u>	<u>Management Levy</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$ 524,422	\$100,162	\$ 142,803	\$ 767,387
Tuition	374,903	-	-	374,903
Other	95,062	2,585	14,605	112,252
State sources	1,150,726	-	-	1,150,726
Federal sources	68,835	-	25,000	93,835
Total revenues	<u>2,213,948</u>	<u>102,747</u>	<u>182,408</u>	<u>2,499,103</u>
Expenditures				
Current				
Instruction				
Regular	1,401,640	9,007	-	1,410,647
Special	264,987	-	-	264,987
Other	14,139	-	-	14,139
	<u>1,680,766</u>	<u>9,007</u>	<u>-</u>	<u>1,689,773</u>
Support services				
Student	79,001	-	-	79,001
Instructional staff	27,795	-	-	27,795
Administration	231,961	2,537	-	234,498
Operation and maintenance of plant	177,354	13,988	-	191,342
Transportation	32,157	-	-	32,157
	<u>548,268</u>	<u>16,525</u>	<u>-</u>	<u>564,793</u>
Other expenditures				
Facilities acquisition	-	-	130,150	130,150
AEA flowthrough	72,062	-	-	72,062
	<u>72,062</u>	<u>-</u>	<u>130,150</u>	<u>202,212</u>
Total expenditures	<u>2,301,096</u>	<u>25,532</u>	<u>130,150</u>	<u>2,456,778</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(87,148)</u>	<u>77,215</u>	<u>52,258</u>	<u>42,325</u>
Other financing sources (uses)				
Interfund operating transfers in	25,000	-	-	25,000
Interfund operating transfers (out)	(28,661)	-	(25,000)	(53,661)
Total other financing (uses)	<u>(3,661)</u>	<u>-</u>	<u>(25,000)</u>	<u>(28,661)</u>
Net change in fund balances	(90,809)	77,215	27,258	13,664
Fund balance, beginning of year	582,603	93,746	236,322	912,671
Fund balance, end of year	<u>\$ 491,794</u>	<u>\$170,961</u>	<u>\$ 263,580</u>	<u>\$ 926,335</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2007

Exhibit F

**Net change in fund balances - total governmental funds** \$ 13,664

**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 and depreciation expense are as follows:

Expenditures for capital assets	\$ 93,457	
Depreciation expense	<u>(15,747)</u>	77,710

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds.	<u>44,821</u>
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**Change in net assets of governmental activities** \$136,195

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2007

Exhibit G

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>
<b>Assets</b>	
Cash and pooled investments	\$ 10,874
Accounts receivable	2,948
Inventories	2,726
Capital assets, net of accumulated depreciation	<u>1,876</u>
Total assets	<u>18,424</u>
 <b>Liabilities</b>	
Warrants issued in excess of bank balance	<u>28,490</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	1,876
Unrestricted	<u>(11,942)</u>
Total net assets	<u><u>\$ (10,066)</u></u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2007

Exhibit H

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>
Operating revenue	
Local sources	
Charges for service	\$ <u>73,329</u>
Operating expenses	
Instruction - other	
Salaries	91,156
Benefits	<u>11,101</u>
	<u>102,257</u>
Support services	
Administration	
Purchased services	<u>30</u>
Non-instructional programs	
Food service operations	
Salaries	28,072
Benefits	3,762
Purchased services	622
Supplies	27,988
Depreciation	<u>392</u>
	<u>60,836</u>
Daycare and preschool operations	
Benefits	651
Supplies	<u>4,775</u>
	<u>5,426</u>
Total operating expenses	<u>168,549</u>
Operating loss	<u>(95,220)</u>
Non-operating revenue	
Interest income	94
State sources	856
Federal sources	<u>39,795</u>
Total non-operating revenue	<u>40,745</u>
Net loss before transfers	(54,475)
Transfers in	<u>28,661</u>
Net loss	(25,814)
Net assets, beginning of year	15,748
Net assets, end of year	<u>\$ (10,066)</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2007

Exhibit I

	Business Type Activities
	Nonmajor Enterprise
Cash flows from operating activities	
Cash received from sale of services	\$ 72,869
Cash payments to employees for services	(107,768)
Cash payments to suppliers for goods and services	(28,275)
Net cash used in operating activities	(63,174)
Cash flows from non-capital financing activities	
Operating transfers from other fund	28,661
State grants received	856
Federal grants received	33,389
Net cash provided by non-capital financing activities	62,906
Cash flows from capital and related financing activities	-
Cash flows from investing activities	
Interest on investments	94
Net decrease in cash and cash equivalents	(174)
Cash and cash equivalents, beginning of year	11,048
Cash and cash equivalents, end of year	\$ 10,874

**Reconciliation of operating loss to net cash  
used in operating activities**

Operating loss	\$ (95,220)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	392
Commodities used	6,406
(Increase) in accounts receivable	(460)
(Increase) in inventory	(1,244)
Decrease in due from other fund	26,974
(Decrease) in accounts payable	(22)
Net cash used in operating activities	\$ (63,174)

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

During the year ended June 30, 2007, the District received \$6,406 of federal commodities.

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2007

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

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

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

**A. Reporting Entity**

For financial reporting purposes, Morning Sun Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Morning Sun Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

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

**B. Basis of Presentation**

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the 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 assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

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

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

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

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

The District reports the following major governmental funds:

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

The Management Levy Fund is used to account for the resources of the management levy, which are used for district insurance, other than employee-related insurance.

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

### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

The following accounting policies are followed in preparing the balance sheet:

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 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 the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements to buildings	20 years
Furniture and equipment	5-12 years

Early Retirement - Beginning with the year ended June 30, 2007, District employees meeting certain requirements were eligible for early retirement benefits. A liability would be recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. There was no early retirement liability at June 30, 2007 since no

employees requested early retirement for the fiscal year. Future early retirement liabilities attributable to the governmental activities will be paid primarily from the Management Fund.

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

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax that will not be recognized as revenue until the year for which it is levied and other receivables not collected within the revenue recognition period.

Fund Balance - 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.

Net Assets - Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$170,961 of restricted net assets which is restricted by enabling legislation.

#### E. Budgeting and Budgetary Accounting

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

### **Note 2. Cash and Pooled Investments**

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

The District is authorized by statute to invest public funds in obligations of the United

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

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

	Amortized Cost
Diversified Portfolio	<u>\$ 546,836</u>

The investments are valued at an amortized cost pursuant to Rule 21-7 under the Investment Company Act of 1940.

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

### **Note 3. Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Non-major		
Enterprise, Daycare & Preschool	General	\$ 28,661
	Non-major	
General Fund	Physical Plant and Equipment Levy	<u>25,000</u>
Total		<u>\$ 53,661</u>

The transfers between the Daycare/Preschool Fund and General Fund were to move state foundation aid received for preschool students from the General Fund to the Daycare/Preschool Fund where expenditures for these students were recorded. The transfer from the Physical Plant and Equipment Levy Fund to General Fund was to reimburse the General Fund for expenditures made from Fire Safety Grant proceeds.

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

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a

semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2006-07B	1/26/07	1/25/08	\$ 225,424	\$ 5,088	\$ 226,000	\$ 4,079	\$ 729
2007-08A	6/27/07	6/27/08	<u>344,455</u>	<u>103</u>	<u>345,000</u>	<u>85</u>	<u>2,560</u>
			<u>\$ 569,879</u>	<u>\$ 5,191</u>	<u>\$ 571,000</u>	<u>\$ 4,164</u>	<u>\$ 3,289</u>

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

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2006-07A	4.50%	5.676%
2006-07B	4.25%	5.315%
2007-08A	4.50%	5.455%

**Note 5. Capital Assets**

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

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 227,000	\$ -	\$ -	\$ 227,000
Capital assets being depreciated:				
Buildings and improvements	661,524	-	-	661,524
Improvements other than buildings	107,868	88,128	-	195,996
Furniture and equipment	<u>341,213</u>	<u>5,329</u>	-	<u>346,542</u>
Total capital assets being depreciated	<u>1,110,605</u>	<u>93,457</u>	-	<u>1,204,062</u>
Less accumulated depreciation for:				
Buildings and improvements	486,196	4,562	-	490,758
Improvements other than buildings	102,843	2,116	-	104,959
Furniture and equipment	<u>317,457</u>	<u>9,069</u>	-	<u>326,526</u>
Total accumulated depreciation	<u>906,496</u>	<u>15,747</u>	-	<u>922,243</u>
Total capital assets being depreciated, net	<u>204,109</u>	<u>77,710</u>	-	<u>281,819</u>
Governmental activities capital assets, net	<u>\$ 431,109</u>	<u>\$ 77,710</u>	<u>\$ -</u>	<u>\$ 508,819</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 65,145	\$ -	\$ -	\$ 65,145
Less accumulated depreciation	<u>62,877</u>	<u>392</u>	-	<u>63,269</u>
Business type activities capital assets, net	<u>\$ 2,268</u>	<u>\$ (392)</u>	<u>\$ -</u>	<u>\$ 1,876</u>

Depreciation expense was charged to the following functions:

**Governmental activities**

Instruction	
Regular	\$ 7,738
Non-instructional programs	1,066
Unallocated depreciation	<u>6,943</u>
Total governmental activities depreciation expense	<u>\$ 15,747</u>

**Business type activities**

Food services	<u>\$ 392</u>
---------------	---------------

**Note 6. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 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 \$78,132, \$73,446 and \$72,854 respectively, equal to the required contributions for each year.

**Note 7. Risk Management**

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

**Note 8. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$72,062 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.

**Note 9. Related Party Transactions**

The District paid Robert Fletcher, Board Member, \$2,112 for installing whiteboards during the year ended June 30, 2007.

**Note 10. Contingencies**

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2007, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

**Note 11. Net Assets Deficits**

The Enterprise Fund, Daycare & Preschool Fund had a net assets deficit of \$25,542 and the total proprietary funds had a net assets deficit of \$10,066 at June 30, 2007.

Required Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual  
 All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 For the Year Ended June 30, 2007

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>	Budgeted Amounts <u>Original</u>	Final <u>Final</u>	Final to Actual <u>Variance</u>
<b>Revenues</b>						
Local sources	\$1,254,542	\$ 73,423	\$1,327,965	\$1,705,984	\$1,705,984	\$(378,019)
State sources	1,150,726	856	1,151,582	1,160,279	1,160,279	(8,697)
Federal sources	93,835	39,795	133,630	123,000	123,000	10,630
Total revenues	<u>2,499,103</u>	<u>114,074</u>	<u>2,613,177</u>	<u>2,989,263</u>	<u>2,989,263</u>	<u>(376,086)</u>
<b>Expenditures</b>						
Instruction	1,689,773	102,257	1,792,030	2,568,459	2,568,459	776,429
Support services	564,793	30	564,823	831,600	831,600	266,777
Non-instructional programs	-	66,262	66,262	280,218	280,218	213,956
Other expenditures	202,212	-	202,212	279,551	279,551	77,339
Total expenditures	<u>2,456,778</u>	<u>168,549</u>	<u>2,625,327</u>	<u>3,959,828</u>	<u>3,959,828</u>	<u>1,334,501</u>
Excess (deficiency) of revenues over (under) expenditures Net other financing sources (uses)	42,325 (28,661)	(54,475) 28,661	(12,150) -	(970,565) 10,000	(970,565) 10,000	958,415 (10,000)
Net change in fund balance Balance, beginning of year Balance, end of year	13,664 912,671 <u>\$ 926,335</u>	(25,814) 15,748 <u>\$(10,066)</u>	(12,150) 928,419 <u>\$ 916,269</u>	(960,565) 960,565 <u>\$ -</u>	(960,565) 960,565 <u>\$ -</u>	948,415 (32,146) <u>\$ 916,269</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2007

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. 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 any budget amendments.

Other Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2007

Schedule 1

	<u>Special Revenue</u>	<u>Physical Plant and Equipment</u>	<u>Capital Projects</u>	<u>Total</u>
<b>Assets</b>				
Cash and pooled investments	\$ 67,323	\$ 121,607		\$ 188,930
Due from other governments	-	74,650		74,650
Total assets	<u>\$ 67,323</u>	<u>\$ 196,257</u>		<u>\$ 263,580</u>
 <b>Liabilities and Fund Balances</b>				
Liabilities	\$ -	\$ -		\$ -
Fund balances				
Unreserved fund balances	<u>67,323</u>	<u>196,257</u>		<u>263,580</u>
Total liabilities and fund balances	<u>\$ 67,323</u>	<u>\$ 196,257</u>		<u>\$ 263,580</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2007

Schedule 2

	Special Revenue	Physical Plant and Equipment	Capital Projects	Total
	Levy	Levy	Projects	Total
Revenues				
Local sources				
Local taxes	\$ 21		\$142,782	\$ 142,803
Other	14,605		-	14,605
Federal sources	25,000		-	25,000
Total revenues	39,626		142,782	182,408
Expenditures				
Other expenditures				
Facilities acquisition		-	130,150	130,150
Total expenditures		-	130,150	130,150
Excess of revenues over expenditures		39,626	12,632	52,258
Other financing (uses)				
Interfund operating transfers (out)	(25,000)		-	(25,000)
Net change in fund balances	14,626		12,632	27,258
Fund balances, beginning of year	52,697		183,625	236,322
Fund balances, end of year	\$ 67,323		\$196,257	\$ 263,580

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
 Combining Statement of Net Assets  
 Nonmajor Enterprise Funds  
 June 30, 2007

Schedule 3

	<u>School Nutrition</u>	<u>Daycare &amp; Preschool</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$10,874	\$ -	\$ 10,874
Accounts receivable	-	2,948	2,948
Inventories	2,726	-	2,726
Capital assets, net of accumulated depreciation	<u>1,876</u>	<u>-</u>	<u>1,876</u>
Total assets	<u>15,476</u>	<u>2,948</u>	<u>18,424</u>
<b>Liabilities</b>			
Warrants issued in excess of bank balance	<u>-</u>	<u>28,490</u>	<u>28,490</u>
<b>Net Assets</b>			
Invested in capital assets	1,876	-	1,876
Unrestricted	<u>13,600</u>	<u>(25,542)</u>	<u>(11,942)</u>
Total net assets	<u>\$15,476</u>	<u>\$(25,542)</u>	<u>\$(10,066)</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2007

Schedule 4

	<u>School Nutrition</u>	<u>Daycare &amp; Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$20,820	\$ 52,509	\$ 73,329
Operating expenses			
Instruction - other			
Salaries	-	91,156	91,156
Benefits	-	11,101	11,101
	<u>-</u>	<u>102,257</u>	<u>102,257</u>
Support services			
Administration			
Purchased services	30	-	30
Non-instructional programs			
Food service operations			
Salaries	28,072	-	28,072
Benefits	3,762	-	3,762
Purchased services	622	-	622
Supplies	27,988	-	27,988
Depreciation	392	-	392
	<u>60,836</u>	<u>-</u>	<u>60,836</u>
Daycare and preschool operations			
Benefits	-	651	651
Supplies	-	4,775	4,775
	<u>-</u>	<u>5,426</u>	<u>5,426</u>
Total operating expenses	<u>60,866</u>	<u>107,683</u>	<u>168,549</u>
Operating loss	<u>(40,046)</u>	<u>(55,174)</u>	<u>(95,220)</u>
Non-operating revenue			
Interest income	47	47	94
State sources	856	-	856
Federal sources	39,795	-	39,795
Total non-operating revenue	<u>40,698</u>	<u>47</u>	<u>40,745</u>
Net income (loss) before transfers	652	(55,127)	(54,475)
Transfers in	-	28,661	28,661
Net income (loss)	<u>652</u>	<u>(26,466)</u>	<u>(25,814)</u>
Net assets, beginning of year	14,824	924	15,748
Net assets, end of year	<u>\$15,476</u>	<u>\$(25,542)</u>	<u>\$ (10,066)</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2007

Schedule 5

	<u>School</u> <u>Nutrition</u>	<u>Daycare &amp;</u> <u>Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 20,868	\$ 52,001	\$ 72,869
Cash payments to employees for services	(31,834)	(75,934)	(107,768)
Cash payments to suppliers for goods and services	<u>(23,500)</u>	<u>(4,775)</u>	<u>(28,275)</u>
Net cash used in operating activities	<u>(34,466)</u>	<u>(28,708)</u>	<u>(63,174)</u>
 Cash flows from non-capital financing activities			
Operating transfers from other funds	-	28,661	28,661
State grants received	856	-	856
Federal grants received	<u>33,389</u>	<u>-</u>	<u>33,389</u>
Net cash provided by non-capital financing activities	<u>34,245</u>	<u>28,661</u>	<u>62,906</u>
 Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
 Cash flows from investing activities			
Interest on investments	<u>47</u>	<u>47</u>	<u>94</u>
Net decrease in cash and cash equivalents	(174)	-	(174)
Cash and cash equivalents, beginning of year	<u>11,048</u>	<u>-</u>	<u>11,048</u>
Cash and cash equivalents, end of year	<u>\$ 10,874</u>	<u>\$ -</u>	<u>\$ 10,874</u>
 <b>Reconciliation of operating loss to net cash used in operating activities</b>			
Operating loss	\$(40,046)	\$(55,174)	\$(95,220)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	392	-	392
Commodities used	6,406	-	6,406
(Increase) decrease in accounts receivable	48	(508)	(460)
(Increase) in inventory	(1,244)	-	(1,244)
Decrease in due from other fund	-	26,974	26,974
(Decrease) in accounts payable	<u>(22)</u>	<u>-</u>	<u>(22)</u>
Net cash used in operating activities	<u>\$(34,466)</u>	<u>\$(28,708)</u>	<u>\$(63,174)</u>

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

During the year ended June 30, 2007, the District received \$6,406 of federal commodities.

See accompanying Independent Auditor's Report.

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

Schedule 6

	Modified Accrual Basis			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues				
Local sources				
Local tax	\$ 767,387	\$ 733,483	\$ 707,193	\$ 662,632
Tuition	374,903	468,233	588,995	529,136
Other	112,252	50,175	141,474	105,148
State sources	1,150,726	1,088,780	999,550	1,045,986
Federal sources	93,835	76,459	76,662	74,167
Total revenues	<u>\$2,499,103</u>	<u>\$2,417,130</u>	<u>\$2,513,874</u>	<u>\$2,417,069</u>
Expenditures				
Current				
Instruction				
Regular	\$1,410,647	\$1,414,682	\$1,665,278	\$1,596,738
Special	264,987	268,192	48,168	49,226
Other	14,139	21,549	-	-
Support services				
Student	79,001	81,557	89,124	87,282
Instructional staff	27,795	36,302	25,013	21,409
Administration	234,498	193,872	309,111	212,033
Operation and maintenance of plant	191,342	154,092	154,935	120,761
Transportation	32,157	37,055	34,094	28,044
Other expenditures				
Facilities acquisition	130,150	52,121	52,949	84,958
AEA flowthrough	72,062	66,969	64,561	66,021
Total expenditures	<u>\$2,456,778</u>	<u>\$2,326,391</u>	<u>\$2,443,233</u>	<u>\$2,266,472</u>

See accompanying Independent Auditor's Report.

# KAY L. CHAPMAN, CPA PC

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

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

To the Board of Education  
Morning Sun Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated February 15, 2008. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing my audit, I considered Morning Sun Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Morning Sun Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Morning Sun Community School District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Morning Sun 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 Morning Sun Community School District's

financial statements that is more than inconsequential will not be prevented or detected by Morning Sun Community School District's internal control. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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

My 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, I believe items A, B and C are material weaknesses.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Morning Sun Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions in the District's responses, I did not audit Morning Sun Community School District's responses and, accordingly, I 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 Morning Sun Community School District and other parties to whom Morning Sun Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
February 15, 2008

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2007

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

INSTANCES OF NON-COMPLIANCE

No matters were reported.

SIGNIFICANT DEFICIENCIES

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

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

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

Conclusion - Response accepted.

- B. Financial Reporting - Reporting financial data reliably in accordance with generally accepted accounting principles (GAAP) requires the business manager or district management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. The business manager is able to perform the duties required in the normal course of business and to prepare the CAR in accordance with the Department of Education requirements. However, the business manager presently lacks the qualifications and training to appropriately prepare the annual financial statements and footnote disclosures in compliance with GAAP. This is a common situation in small entities where accounting personnel typically do not have four-year accounting degrees and do not receive annual training in order to stay current on new accounting and reporting standards and requirements.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2007

Recommendation - The business manager should consider obtaining GAAP knowledge through reading relevant accounting literature and/or attending professional education courses to help her significantly improve in her ability to prepare reliable GAAP financial statements, including footnote disclosures.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We will investigate alternatives to our controls, but believe that it would not be an efficient use of District funds to get the necessary training for the business manager to comply with this recommendation.

Conclusion - Response accepted.

- C. Material Misstatement not Detected - During the course of my audit, I discovered material misstatements on the District's Certified Annual Report (CAR) that were not detected by the District's internal controls. The CAR omitted receivables and deferred revenues for succeeding year property taxes, income surtaxes and tuition from other districts.

Recommendation - An effective system of internal control should detect material misstatements in the District's financial records and financial reporting. The District should review their control procedures and make appropriate changes to improve their internal controls to help eliminate this deficiency.

Response - We feel that our business manager has the knowledge needed to adequately perform her duties. The superintendent reviews some, but not all of the work performed and reports prepared by the business manager. We would like to hire additional office personnel to help with the business manager's workload and to provide some oversight and cross-checking of her work. However, with a limited budget, it is difficult to hire enough adequately-trained office personnel to review each other's work. We will review our procedures and consider making changes we deem necessary.

Conclusion - Response accepted.

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

1. Certified Budget - Expenditures for the year ended June 30, 2007 did not exceed the amounts budgeted.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
 Schedule of Findings  
 For the Year Ended June 30, 2007

2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. 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.
4. Business Transactions - Business transactions between the District and District officials are detailed below.

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Robert Fletcher, Board Member	contracted services	\$2,112

The transactions with the board member do not appear to represent a conflict of interest since the transactions did not exceed \$2,500 for the fiscal year, as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should review Chapter 279.7A of the Code of Iowa to ensure that transactions with related parties comply with the Code.

Response- We will review the Code, as recommended.

Conclusion - Response accepted.

5. 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.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely. However I noted a few significant deficiencies in the amounts reported. The CAR omitted receivables and deferred revenues for succeeding year property taxes, income surtaxes and tuition from other districts.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2007

Recommendation - The District should take steps to ensure that subsequent years' CARs are filed with correct data.

Response - We will be more attentive on future CARs.

Conclusion - Response accepted.

10. Deficit Balances - The Enterprise Fund, Daycare & Preschool Fund had a net assets deficit of \$25,542 at June 30, 2007.

Recommendation - The District should review the operations of this fund and investigate alternatives to eliminate this deficit.

Response - We will take the recommended actions.

Conclusion - Response accepted.

11. Images of Checks - The District does not receive cancelled checks from the bank. The bank provides images of the district checks. However, the bank does not provide images of the backs of the checks, only images of the front of the checks.

Recommendation - Chapter 554D.114 of the Code of Iowa requires districts to retain cancelled checks or electronic records of the information contained on the front and back of each check. The District should ensure that it receives images of both the front and back of each check from the bank in order to comply with the Code of Iowa.

Response - We began receiving the images of front and back of checks from the bank in July 2007.

Conclusion - Response accepted.

MORNING SUN COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2007

This audit was performed by

Kay Chapman, CPA  
Tammy Calvert, staff accountant