

MORAVIA COMMUNITY SCHOOL DISTRICT

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

June 30, 2008

Peak & Gerdes, LLP
Certified Public Accountants
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West Des Moines, IA 50265

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Moravia Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
<u>Board of Education</u> (Before September, 2007 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>Board of Education</u> (After September, 2007 Election)		
G.E. Luse	President	2008
Chad Martin	Vice-President	2009
Steve Smith	Board Member	2010
Scott Perry	Board Member	2010
John Houser	Board Member	2009
<u>School Officials</u>		
Brad Breon	Superintendent	2008
Stacy Moore	District Secretary/Treasurer/ Business Manager	2008
Rick Engel	Attorney	2008

Moravia Community School District

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1051 OFFICE PARK ROAD
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(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, 2008, 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, 2008, 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 October 10, 2008 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 five years ended June 30, 2007 (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

October 10, 2008

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, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,970,419 in fiscal 2007 to 3,081,069 in fiscal 2008, while General Fund expenditures increased from to \$3,054,653 in fiscal 2007 to \$3,253,732 in fiscal 2008. The District's General Fund balance decreased from \$483,139 at the end of fiscal 2007 to \$309,726 at the end of fiscal 2008, a 36% decrease.
- The increase in expenditures was due primarily to an increase in salaries and benefits and building operation, and transportation expenses. From fiscal 2007 to fiscal 2008, revenue increased \$110,650. As a result of a large increase in expenditures 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 non-major governmental funds.

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

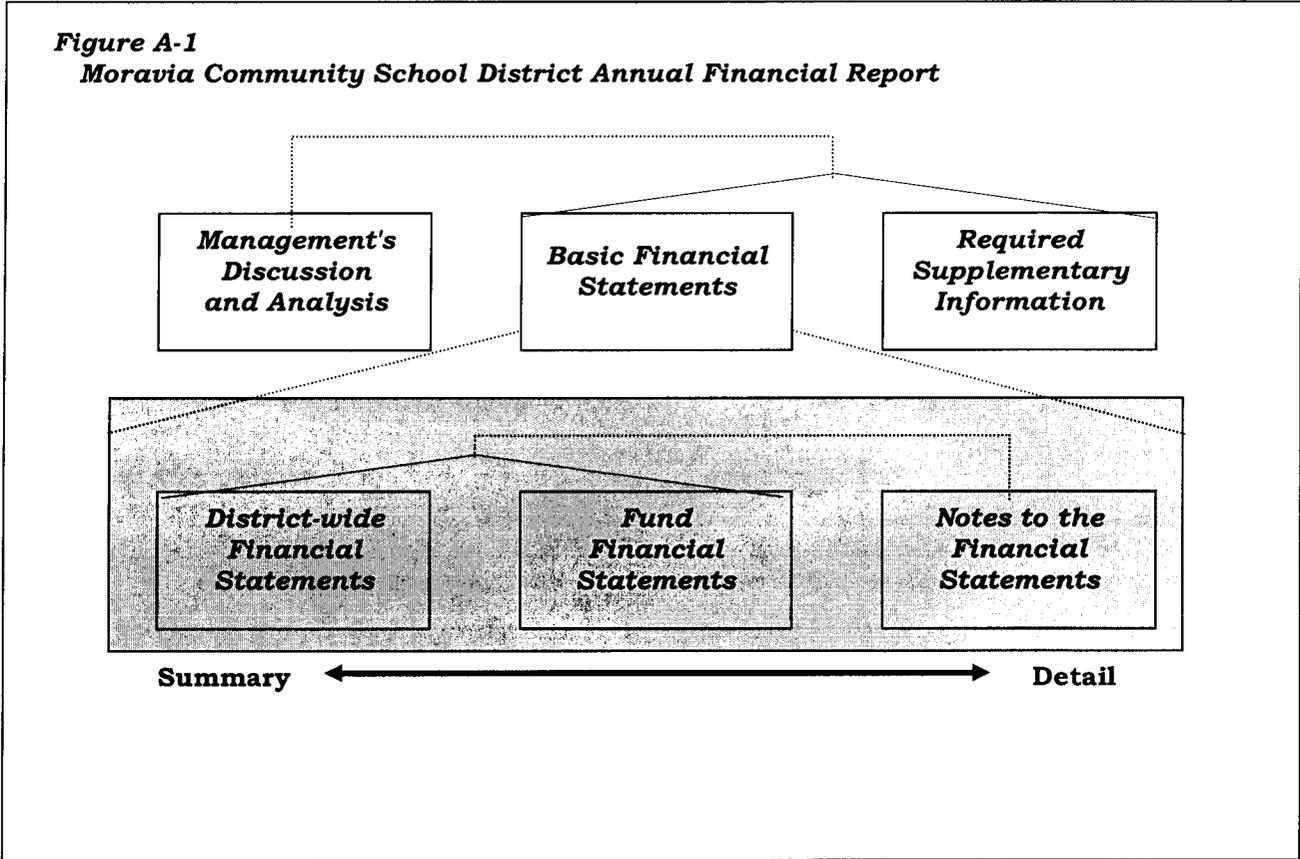


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide 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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • 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 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, 2008 compared to June 30, 2007.

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2008-2007
Current and other assets	\$ 1,649	2,033	14	14	1,663	2,047	-18.8%
Capital assets	1,608	1,523	23	25	1,631	1,548	5.4%
Total assets	<u>3,257</u>	<u>3,556</u>	<u>37</u>	<u>39</u>	<u>3,294</u>	<u>3,595</u>	<u>-8.4%</u>
Long-term liabilities	414	508	-	-	414	508	-18.5%
Other liabilities	1,131	1,179	11	7	1,142	1,186	-3.7%
Total liabilities	<u>1,545</u>	<u>1,687</u>	<u>11</u>	<u>7</u>	<u>1,556</u>	<u>1,694</u>	<u>-8.1%</u>
Net assets							
Invested in capital assets net of related debt	1,203	1,033	23	32	1,226	1,065	15.1%
Restricted	124	233	-	-	124	233	-46.8%
Unrestricted	385	603	3	-	388	603	-35.7%
Total net assets	<u>\$ 1,712</u>	<u>1,869</u>	<u>26</u>	<u>32</u>	<u>1,738</u>	<u>1,901</u>	<u>-8.6%</u>

The District's combined net assets decreased nearly 8.6%, or approximately \$163,000, under 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 decreased approximately \$109,000, or 47% under the prior year. The decrease was primarily a result of increased expenses in the Capital Projects 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 \$215,000, or 36%. 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, 2008 compared to the year ended June 30, 2007.

Figure A-4							
Changes in Net Assets							
(Expressed in Thousands)							
	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	2008	2007	2008	2007	2008	2007	2007-2008
Revenues:							
Program revenues:							
Charges for service	\$ 397	455	85	76	482	531	-9.2%
Operating grants, contributions and restricted interest	546	597	91	95	637	692	-7.9%
General revenues:							
Property tax	992	950	-	-	992	950	4.4%
Income surtax	115	111	-	-	115	111	3.6%
Local option sales and service tax	173	171	-	-	173	171	1.2%
Unrestricted state grants	1,291	1,238	-	-	1,291	1,238	4.3%
Unrestricted investment earnings	29	42	-	-	29	42	-30.1%
Other	1	24	-	-	1	24	-95.8%
Total revenues	3,544	3,588	176	171	3,720	3,759	-1.0%
Program expenses:							
Governmental activities:							
Instruction	2,440	2,251	-	-	2,440	2,251	8.4%
Support services	1,009	988	-	-	1,009	988	2.1%
Non-instructional programs	-	-	182	167	182	167	9.0%
Other expenses	252	202	-	-	252	202	24.8%
Total expenses	3,701	3,441	182	167	3,883	3,608	7.6%
Increase (decrease) in net assets	\$ (157)	147	(6)	4	(163)	151	-207.9%

In fiscal 2008, property tax and unrestricted state grants account for 64.4% 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 \$3.7 million of which \$3.5 million was for governmental activities and approximately \$176,000 was for business type activities.

As shown in figure A-4, the District as a whole experienced a 1.0% decrease in revenues and a 7.6% increase in expenses. Property tax increased approximately \$42,000 to partially fund increases in expenses. The increase in expenses was primarily due to increased cost for salaries and benefits, transportation and building operation expenses.

Governmental Activities

Revenues for governmental activities were \$3,544,333 and expenses were \$3,880,239 for the year ended June 30, 2008. In a difficult budget year, the District's financial position decreased in large part to facilities improvement and revenue timing.

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, for the year ended June 30, 2008 compared to the year ended June 30, 2007.

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-2008	2008	2007	Change 2007-2008
Instruction	\$ 2,440	2,251	8.4%	1,631	1,378	18.4%
Support services	1,009	988	2.1%	978	906	7.9%
Non-instructional programs	-	-	0.0%	-	-	0.0%
Other expenses	252	202	24.8%	149	106	40.6%
Totals	\$ 3,701	3,441	7.6%	2,758	2,390	15.4%

For the year ended June 30, 2008:

- The cost financed by users of the District's programs was \$396,992.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$546,566.
- The net cost of governmental activities was financed with \$1,280,130 in property and other tax, including local option sales and services tax, and \$1,290,586 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$176,256 representing an 2.8% increase over the prior year while expenses totaled \$182,318, a 8.9% 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, 2008, 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 lunchroom.

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 \$411,995, well below last year's ending fund balances of \$747,901. The primary reason for the decrease was increased expenditures in the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. The slight decline in enrollment and a higher 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 decrease from \$483,139 to \$309,726 is partially due to increased cost of fuel, salaries and the related benefits.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$765 in fiscal 2007 to deficit of (\$1,239) in fiscal 2008. While revenues remained approximately the same, the District increased spending from the PPEL to decrease the financial condition of the fund.
- The District passed the SILO Tax in fiscal 2004 and started receiving revenue in fiscal 2005. Revenues for the year were \$173,508 with expenditures of \$228,190. Replacing the baseball field lights and repairs to the building, the District increased spending to end with a negative fund balance of (\$21,489) at June 30, 2008.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$32,053 at June 30, 2007 to \$25,991 at June 30, 2008, representing a decrease of approximately 18.9% due primarily to the District's cost of meals and juices.

BUDGETARY HIGHLIGHTS

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

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.

In spite of the District's budgetary practices, the certified budget was exceeded in the other expenditures function due mainly to the high cost of baseball field lighting.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$1.63 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 increase of 5.4% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$106,548.

The original cost of the District's capital assets was \$3.5 million. Governmental funds account for \$3.4 million, with the remainder of \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

During the year, the major increase in assets was due to building improvements. The majority of these improvements included remodeling the junior high and lights for the baseball field.

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,
	2008	2007	2008	2007	2008	2007	2007-2008
Land	\$ 13	1	-	-	13	1	1200.0%
Construction in progress	-	27	-	-	-	27	-100.0%
Buildings	1,346	1,382	-	-	1,346	1,382	-2.7%
Improvements other than buildings	30	9	-	-	30	9	233.3%
Furniture and equipment	219	104	23	25	242	129	87.6%
Totals	\$ 1,608	1,523	23	25	1,631	1,548	5.4%

Long-Term Debt

At June 30, 2008, the District had \$413,750 in general obligation bonds and early retirement obligations. This represents a decrease of approximately 18.50% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

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

	Total District		Total Change
	June 30,		June 30,
	2008	2007	2007-2008
General obligation bonds	\$ 405	490	-17.3%
Early retirement	9	18	-50.0%
Totals	<u>\$ 414</u>	<u>508</u>	<u>-18.5%</u>

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 preschool classes will be funded by the State of Iowa, which will raise General Fund revenues significantly.
- The new Honey Creek Destination Park currently in development is located in the District. 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

Moravia Community School District

Exhibit A

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
Other	\$ 275,053	-	275,053
Receivables:			
Property tax:			
Delinquent	28,597	-	28,597
Succeeding year	1,035,368	-	1,035,368
Accounts	5,385	2,890	8,275
Accrued interest:			
ISCAP	1,330	-	1,330
Prepaid expenses	41,664	-	41,664
Due from other funds	7,686	-	7,686
Due from other governments	253,960	8,624	262,584
Inventories	-	2,407	2,407
Capital assets, net of accumulated depreciation	1,607,506	22,814	1,630,320
Total assets	3,256,549	36,735	3,293,284
Liabilities			
Accounts payable	2,523	-	2,523
Bank overdraft	81,218	3,058	84,276
Due to other governments	11,166	-	11,166
Due to other funds	-	7,686	7,686
Accrued interest payable	1,165	-	1,165
Deferred revenue - succeeding year property tax	1,035,368	-	1,035,368
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	320,000	-	320,000
Total liabilities	1,545,190	10,744	1,555,934
Net assets			
Invested in capital assets, net of related debt	1,202,506	22,814	1,225,320
Restricted for:			
Management levy	20,402	-	20,402
Physical plant and equipment levy	(1,239)	-	(1,239)
Other special revenue purposes	105,209	-	105,209
Unrestricted	384,481	3,177	387,658
Total net assets	\$ 1,711,359	25,991	1,737,350

See notes to financial statements.

Moravia Community School District

Exhibit B

Statement of Activities

Year ended June 30, 2008

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
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,541,258	165,390	323,164	-	(1,052,704)	-	(1,052,704)
Special instruction	331,114	46,796	76,530	-	(207,788)	-	(207,788)
Other instruction	567,181	184,806	12,045	-	(370,330)	-	(370,330)
	<u>2,439,553</u>	<u>396,992</u>	<u>411,739</u>	<u>-</u>	<u>(1,630,822)</u>	<u>-</u>	<u>(1,630,822)</u>
Support services:							
Student	90,307	-	-	-	(90,307)	-	(90,307)
Instructional staff	29,639	-	-	-	(29,639)	-	(29,639)
Administration	436,077	-	-	-	(436,077)	-	(436,077)
Operation and maintenance of plant	238,659	-	31,572	-	(207,087)	-	(207,087)
Transportation	214,491	-	-	-	(214,491)	-	(214,491)
	<u>1,009,173</u>	<u>-</u>	<u>31,572</u>	<u>-</u>	<u>(977,601)</u>	<u>-</u>	<u>(977,601)</u>
Non-instructional programs	482	-	-	-	(482)	-	(482)
Other expenditures:							
Facilities acquisition	75,961	-	-	-	(75,961)	-	(75,961)
Long-term debt interest	16,737	-	-	-	(16,737)	-	(16,737)
AEA flowthrough	103,255	-	103,255	-	-	-	-
Depreciation (unallocated)*	56,463	-	-	-	(56,463)	-	(56,463)
	<u>252,416</u>	<u>-</u>	<u>103,255</u>	<u>-</u>	<u>(149,161)</u>	<u>-</u>	<u>(149,161)</u>
Total governmental activities	3,701,624	396,992	546,566	-	(2,758,066)	-	(2,758,066)
Business type activities:							
Non-instructional programs:							
Food service operations	182,318	85,535	90,721	-	-	(6,062)	(6,062)
Total	<u>\$ 3,883,942</u>	<u>482,527</u>	<u>637,287</u>	<u>-</u>	<u>(2,758,066)</u>	<u>(6,062)</u>	<u>(2,764,128)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 867,627	-	867,627
Debt service					102,126	-	102,126
Capital outlay					22,086	-	22,086
Local option sales and services tax					173,506	-	173,506
Income surtax					114,785	-	114,785
Unrestricted state grants					1,290,586	-	1,290,586
Unrestricted investment earnings					28,761	-	28,761
Other					1,295	-	1,295
Total general revenues					<u>2,600,772</u>	<u>-</u>	<u>2,600,772</u>
Change in net assets					(157,294)	(6,062)	(163,356)
Net assets beginning of year					1,868,653	32,053	1,900,706
Net assets end of year					<u>\$ 1,711,359</u>	<u>25,991</u>	<u>1,737,350</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, 2008

	General	Special Revenue Moravia Education Foundation	Debt Service	Nonmajor	Total
Assets					
Cash and pooled investments:					
Other	\$ 57,428	58,091	48,544	110,990	275,053
Receivables:					
Property tax:					
Delinquent	23,526	-	2,966	2,105	28,597
Succeeding year	860,491	-	101,477	73,400	1,035,368
Accounts	3,623	-	-	1,762	5,385
Accrued interest:					
ISCAP	1,330	-	-	-	1,330
Prepaid expenses	41,664	-	-	-	41,664
Due from other funds	105,594	-	-	26,263	131,857
Due from other governments	218,189	-	-	35,771	253,960
Total assets	\$1,311,845	58,091	152,987	250,291	1,773,214
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ -	-	-	2,523	2,523
Bank overdraft	-	-	-	81,218	81,218
Due to other governments	11,166	-	-	-	11,166
Due to other funds	23,689	-	52,124	48,358	124,171
Deferred revenue:					
Succeeding year property tax	860,491	-	101,477	73,400	1,035,368
Other	106,773	-	-	-	106,773
Total liabilities	1,002,119	-	153,601	205,499	1,361,219
Fund balances:					
Reserved for debt service	-	-	(614)	-	(614)
Reserved - donor specified	-	49,787	-	-	49,787
Unreserved	309,726	8,304	-	44,792	362,822
Total fund balances	309,726	58,091	(614)	44,792	411,995
Total liabilities and fund balances	\$1,311,845	58,091	152,987	250,291	1,773,214

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, 2008

Total fund balances of governmental funds (page 20)	\$ 411,995
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,607,506
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.	(1,165)
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.	<u>(413,750)</u>
Net assets of governmental activities (page 18)	<u><u>\$ 1,711,359</u></u>

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, 2008

	General	Special Revenue Moravia Education Foundation	Debt Service	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 932,012	-	102,126	245,993	1,280,131
Tuition	222,893	-	-	-	222,893
Other	89,012	(72,678)	-	187,823	204,157
State sources	1,664,519	-	-	-	1,664,519
Federal sources	172,633	-	-	-	172,633
Total revenues	3,081,069	(72,678)	102,126	433,816	3,544,333
Expenditures:					
Current:					
Instruction:					
Regular	1,489,616	3,081	-	56,061	1,548,758
Special	329,319	-	-	1,795	331,114
Other	372,702	-	-	193,711	566,413
	2,191,637	3,081	-	251,567	2,446,285
Support services:					
Student	89,782	-	-	525	90,307
Instructional staff	29,472	-	-	167	29,639
Administration	423,833	-	-	12,244	436,077
Operation and maintenance of plant	227,918	-	-	19,534	247,452
Transportation	187,835	-	-	6,825	194,660
	958,840	-	-	39,295	998,135
Non-instructional programs	-	-	-	482	482
Other expenditures:					
Facilities acquisition	-	-	-	230,147	230,147
Long-term debt:					
Principal	-	-	85,000	-	85,000
Interest and fiscal charges	-	-	16,935	-	16,935
AEA flowthrough	103,255	-	-	-	103,255
	103,255	-	101,935	230,147	435,337
Total expenditures	3,253,732	3,081	101,935	521,491	3,880,239
Excess (deficiency) of revenues over (under) expenditures	(172,663)	(75,759)	191	(87,675)	(335,906)
Other financing sources (uses):					
Operating transfers in	-	750	-	-	750
Operating transfers out	(750)	-	-	-	(750)
Total other financing sources (uses)	(750)	750	-	-	-
Net change in fund balances	(173,413)	(75,009)	191	(87,675)	(335,906)
Fund balances beginning of year	483,139	133,100	(805)	132,467	747,901
Fund balances end of year	\$ 309,726	58,091	(614)	44,792	411,995

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, 2008

Net change in fund balances - total governmental funds (page 22) **\$ (335,906)**

*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 exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 186,948	
Depreciation expense	<u>(102,284)</u>	84,664

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>85,000</u>	85,000

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.

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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		8,750
------------------	--	-------

Change in net assets of governmental activities (page 19) **\$ (157,294)**

See notes to financial statements.

Moravia Community School District

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2008

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ -
Due from other governments	8,624
Accounts receivable	2,890
Inventories	2,407
Capital assets, net of accumulated depreciation	<u>22,814</u>
Total assets	<u>36,735</u>
Liabilities	
Bank overdraft	3,058
Due to other funds	<u>7,686</u>
Total liabilities	<u>10,744</u>
Net Assets	
Invested in capital assets, net of related debt	22,814
Unrestricted	<u>3,177</u>
Total net assets	<u>\$ 25,991</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, 2008

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 85,535</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	60,957
Benefits	17,480
Purchased services	2,313
Supplies	97,301
Depreciation	<u>4,267</u>
Total operating expenses	<u>182,318</u>
Operating loss	<u>(96,783)</u>
Non-operating revenues:	
State sources	3,977
Federal sources	<u>86,744</u>
Total non-operating revenues	<u>90,721</u>
Net income	(6,062)
Net assets beginning of year	<u>32,053</u>
Net assets end of year	<u><u>\$ 25,991</u></u>

See notes to financial statements.

Moravia Community School District

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
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	<u>(81,125)</u>
Net cash used by operating activities	<u>(84,508)</u>
Cash flows from non-capital financing activities:	
State grants received	3,977
Federal grants received	<u>77,125</u>
Net cash provided by non-capital financing activities	<u>81,102</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(2,353)</u>
Net (decrease) in cash and cash equivalents	(5,759)
Cash and cash equivalents at beginning of year	5,759
Cash and cash equivalents at end of year	<u>\$ -</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (96,783)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	6,388
Depreciation	4,267
(Increase) in accounts receivable	(2,890)
Decrease in inventories	984
Increase in bank overdraft	3,058
Increase in due to other funds	468
Net cash used by operating activities	<u>\$ (84,508)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2008, the District received \$6,388 of federal commodities

See notes to financial statements.

Moravia Community School District

Notes to Financial Statements

June 30, 2008

(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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2007.

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

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, 2008, expenditures in the other expenditure functional area exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2008 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, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 239,929

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, 2008, the Foundation no longer held any stock. The Foundation's investments are all category 1, which means that the investments are held by the Foundation in the Foundation's name.

(3) Due From and Due to Other Funds

The details of interfund receivables and payables at June 30, 2008 are as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Management Levy	\$ 22,066
	Student Activity	2,783
	Physical Plant and Equipment Levy	20,935
	Debt Service	52,124
	Enterprise:	
	School Nutrition	<u>7,686</u>
		105,594
Capital Projects	General	23,689
	Special Revenue:	
	Management Levy	<u>2,574</u>
		<u>26,263</u>
	Total	<u>\$ 131,857</u>

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

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:		
Moravia Education Foundation	General	<u>\$ 750</u>

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

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa 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, 2008 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	\$ -	1,330	-	-
Total			\$ -	1,330	-	-

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, 2008.

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%

(6) **Capital Assets**

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,000	12,000	-	13,000
Construction in progress	27,000	-	27,000	-
Total capital assets not being depreciated	28,000	12,000	27,000	13,000
Capital assets being depreciated:				
Buildings	2,752,780	20,154	-	2,772,934
Improvements other than buildings	26,690	23,078	-	49,768
Furniture and equipment	398,667	158,716	-	557,383
Total capital assets being depreciated	3,178,137	201,948	-	3,380,085
Less accumulated depreciation for:				
Buildings	1,371,381	56,464	-	1,427,845
Improvements other than buildings	17,349	2,163	-	19,512
Furniture and equipment	294,568	43,654	-	338,222
Total accumulated depreciation	1,683,298	102,281	-	1,785,579
Total capital assets being depreciated, net	1,494,839	99,667	-	1,594,506
Governmental activities capital assets, net	\$ 1,522,839	111,667	27,000	1,607,506
Business type activities:				
Furniture and equipment	\$ 113,201	2,353	-	115,554
Less accumulated depreciation	88,473	4,267	-	92,740
Business type activities capital assets, net	\$ 24,728	(1,914)	-	22,814

Depreciation expense was charged to the following functions:

Government activities:

Instruction:

Regular	\$ 1,250
Other	768

Support services:

Operation and maintenance of plant	14,284
Transportation	29,516

Unallocated

45,818
56,463

Total depreciation expense - governmental activities

\$ 102,281

Business type activities:

Food service operations

\$ 4,267

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 490,000	-	85,000	405,000	85,000
Early retirement	17,500	-	8,750	8,750	8,750
Total	\$ 507,500	-	93,750	413,750	93,750

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Bond Issue of March 1, 2003				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
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		\$ 405,000	41,562	446,562

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 15th of the year of retirement and July 15th of the year following retirement. Early retirement incentive benefits paid during the year ended June 30, 2008 totaled \$8,750. At June 30, 2008 the District has an obligation to one participant with a total liability of \$8,750.

(8) Operating Lease

The District has entered into an operating lease for various electronic equipment. Payments under these leases totaled \$5,719 during the fiscal year. Future minimum lease payments in relation to these leases are as follows:

Year Ending June 30,	Amount
2009	\$ 8,170
2010	8,170
2011	8,170
2012	8,170
Total	<u>\$ 32,680</u>

(9) 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 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$123,659, \$109,362, and \$104,676, respectively, equal to the required contributions for each year.

(10) 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.

(11) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$103,255 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Deficit Fund Balances

The Special Revenue Fund – Physical Plant and Equipment Levy Fund had a deficit balance of \$1,239 at June 30, 2008. The Capital Projects Fund had a deficit balance of \$21,489 at June 30, 2008. The Debt Service Fund had a deficit fund balance of \$614 at June 30, 2008.

(13) 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, 2008, the District determined that \$49,787 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/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original	Final to Actual Variance
Revenues:					
Local sources	\$ 1,707,181	85,535	1,792,716	2,205,663	(412,947)
State sources	1,664,519	3,977	1,668,496	1,708,080	(39,584)
Federal sources	172,633	86,744	259,377	461,800	(202,423)
Total revenues	<u>3,544,333</u>	<u>176,256</u>	<u>3,720,589</u>	<u>4,375,543</u>	<u>(654,954)</u>
Expenditures/Expenses:					
Instruction	2,446,285	-	2,446,285	2,514,164	67,879
Support services	998,135	-	998,135	1,510,980	512,845
Non-instructional programs	482	182,318	182,800	210,000	27,200
Other expenditures	435,337	-	435,337	186,677	(248,660)
Total expenditures/expenses	<u>3,880,239</u>	<u>182,318</u>	<u>4,062,557</u>	<u>4,421,821</u>	<u>359,264</u>
Excess (deficiency) of revenues over (under) expenditures	(335,906)	(6,062)	(341,968)	(46,278)	(295,690)
Other financing sources (uses), net	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	(335,906)	(6,062)	(341,968)	(46,278)	(295,690)
Balances beginning of year	747,901	32,053	779,954	555,337	224,617
Balances end of year	<u>\$ 411,995</u>	<u>25,991</u>	<u>437,986</u>	<u>509,059</u>	<u>(71,073)</u>

See accompanying independent auditor's report.

Moravia Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2008

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, 2008, expenditures in the other expenditures function exceeded the amounts budgeted.

Other Supplementary Information

Moravia Community School District

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2008

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	
Assets					
Cash and pooled investments	\$ 43,578	48,357	19,055	-	110,990
Receivables:					
Property tax:					
Delinquent	1,464	-	641	-	2,105
Succeeding year	50,000	-	23,400	-	73,400
Accounts	-	1,762	-	-	1,762
Due from other funds	-	-	-	26,263	26,263
Due from other governments	-	-	-	35,771	35,771
Total assets	\$ 95,042	50,119	43,096	62,034	250,291
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ -	218	-	2,305	2,523
Bank overdraft	-	-	-	81,218	81,218
Due to other funds	24,640	2,783	20,935	-	48,358
Deferred revenue:					
Succeeding year property tax	50,000	-	23,400	-	73,400
Total liabilities	74,640	3,001	44,335	83,523	205,499
Fund balances:					
Unreserved	20,402	47,118	(1,239)	(21,489)	44,792
Total fund balances	20,402	47,118	(1,239)	(21,489)	44,792
Total liabilities and fund balances	\$ 95,042	50,119	43,096	62,034	250,291

See accompanying independent auditor's report.

Moravia Community School District

Schedule 2

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

Year ended June 30, 2008

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	
Revenues:					
Local sources:					
Local tax	\$ 50,400	-	22,085	173,508	245,993
Other	1,297	186,526	-	-	187,823
Total revenues	<u>51,697</u>	<u>186,526</u>	<u>22,085</u>	<u>173,508</u>	<u>433,816</u>
Expenditures:					
Current:					
Instruction:					
Regular	42,813	-	-	13,248	56,061
Special	1,795	-	-	-	1,795
Other	2,250	191,461	-	-	193,711
Support services:					
Student	525	-	-	-	525
Instructional staff	167	-	-	-	167
Administration	12,244	-	-	-	12,244
Operation and maintenance of plant	10,650	-	8,884	-	19,534
Transportation	6,825	-	-	-	6,825
Non-instructional programs	482	-	-	-	482
Other expenditures:					
Facilities acquisition	-	-	15,205	214,942	230,147
Total expenditures	<u>77,751</u>	<u>191,461</u>	<u>24,089</u>	<u>228,190</u>	<u>521,491</u>
Excess (deficiency) of revenues over (under) expenditures	(26,054)	(4,935)	(2,004)	(54,682)	(87,675)
Fund balances beginning of year	<u>46,456</u>	<u>52,053</u>	<u>765</u>	<u>33,193</u>	<u>132,467</u>
Fund balances end of year	<u>\$ 20,402</u>	<u>47,118</u>	<u>(1,239)</u>	<u>(21,489)</u>	<u>44,792</u>

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, 2008

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
Interest	\$ -	1,769	-	(1,769)	-
Vocal Music	-	432	1,248	816	-
Variety Show	-	2,439	864	(184)	1,391
Band Trip	11,473	13,639	13,018	(1,500)	10,594
Year book	(1,202)	5,000	9,883	-	(6,085)
Clark Memorial	178	-	-	-	178
High School Cheerleaders	357	1,302	1,316	-	343
Wrestling Cheerleaders	-	45	-	-	45
Drama	1,190	-	1,048	-	142
Spanish Club	190	745	277	-	658
FFA	11,045	27,599	23,305	(7,500)	7,839
FHA	1,675	1,874	8,729	7,500	2,320
Student Council	706	1,746	2,263	-	189
Academic Dream	69	220	328	39	-
Student Development	-	375	-	-	375
Elementary	1,573	23,708	19,886	(2,588)	2,807
Concessions	-	15,772	16,697	925	-
NHS	204	-	107	-	97
Class of 2007	200	-	-	(200)	-
Class of 2008	5,684	11,995	20,050	2,371	-
Class of 2009	3,888	5,024	2,383	-	6,529
Class of 2010	2,179	1,063	257	-	2,985
Class of 2011	3,361	1,675	75	-	4,961
Class of 2012	1,725	1,607	324	-	3,008
Class of 2013	3	2,725	1,285	-	1,443
Class of 2014	7	15	127	105	-
Class of 2015	-	1,843	1,911	200	132
High School Activity	1,881	6,009	7,074	-	816
Europe	200	176	308	-	68
Speech	-	-	285	285	-
Activity Passes	1,586	22,202	25,249	1,500	39
Junior High Athletics	500	-	174	(69)	257
Boys Basketball	-	3,574	2,553	-	1,021
High School Football	211	7,413	6,395	(400)	829
Baseball	(2,356)	4,290	2,533	400	(199)
Boys Track	-	60	-	-	60
Weight Lifting	382	-	-	-	382
Girls Basketball	459	1,054	1,683	500	330
Volleyball	8	1,619	1,031	-	596
Softball	1,382	6,019	4,846	-	2,555
Cross Country	146	136	137	-	145
Girls Track	561	563	384	(500)	240
Football Boosters	2,588	10,799	13,428	69	28
Total	\$ 52,053	186,526	191,461	-	47,118

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 Six Years

	Modified Accrual Basis					
	2008	2007	2006	2005	2004	2003
Revenues:						
Local sources:						
Local tax	\$1,280,131	1,228,530	1,098,441	980,208	914,345	869,461
Tuition	222,893	289,844	250,341	268,743	242,808	298,956
Other	204,157	230,243	211,508	324,919	161,032	254,227
Intermediate sources	-	-	-	61,103	37,477	-
State sources	1,664,519	1,586,760	1,552,826	1,438,737	1,463,061	1,475,475
Federal sources	172,633	248,164	320,572	154,496	203,558	254,823
Total	<u>\$3,544,333</u>	<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>
Expenditures:						
Instruction:						
Regular	\$1,548,758	1,355,157	1,296,673	1,436,641	1,322,066	1,308,063
Special	331,114	398,202	313,993	401,792	299,730	391,663
Other	566,413	489,379	510,474	347,552	430,728	323,152
Support services:						
Student	90,307	85,143	81,765	80,185	72,891	71,131
Instructional staff	29,639	58,090	75,068	40,678	44,222	56,295
Administration	436,077	459,719	441,552	430,681	398,037	380,173
Operation and maintenance of plant	247,452	221,922	196,670	217,573	221,807	236,992
Transportation	194,660	137,340	191,623	142,213	164,001	146,263
Non-instructional programs	482	457	618	495	400	265
Other expenditures:						
Facilities acquisition	230,147	58,392	267,315	53,081	3,364	103,912
Long-term debt:						
Principal	85,000	80,000	75,000	79,676	74,883	836,648
Interest and other charges	16,935	18,634	20,435	22,830	34,948	56,251
AEA flowthrough	103,255	96,106	91,933	87,761	89,358	95,056
Total	<u>\$3,880,239</u>	<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

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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, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 10, 2008. 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, including 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-08, I-C-08, I-E-08, I-F-08, I-G-08 and I-H-08 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, 2008 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

October 10, 2008

Moravia Community School District

Schedule of Findings

Year ended June 30, 2008

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-08 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. In addition, an independent person does not compare the credits per the bank statement with credits as recorded on the general ledger. An independent person does not compare the debits per the bank statement with the debits as recorded on the general ledger. Also, vouchers are sometimes processed, disbursements are recorded, and checks are prepared by the same person. 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-08 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, or the vendors were paid based off of statements. In addition, the Board President does not consistently 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. 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, the Board President will sign the list of approved bills.

Conclusion – Response accepted.

I-C-08 Financial Reporting – During the audit, we identified material amounts of capital asset additions not recorded in the District's financial statements. In addition, we identified a material amount of bond interest expense misposted to the General Fund rather than the Debt Service 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 capital asset additions are identified and included in the District's financial statements. In addition, the District should implement procedures to ensure bond interest expense is properly recorded in the District's financial statements.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2008

Response – This procedure was always done this way in the past, with no indication that we were failing to do something that we should have done. In the future, these entries will be made in advance of the audit. We will also double check our work in the future in order to avoid posting errors.

Conclusion – Response accepted.

- I-D-08 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 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.

For fundraisers, there are no documented procedures in place to reconcile the cash receipts to the amount of money that should have been collected based on the quantity of merchandise purchased for resale or gross profit percentage.

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.

The District should also implement procedures for fundraisers which documents the reconciliation of actual monies collected to the amount of money that should have been collected based on quantity of merchandise purchased for resale or gross profit percentages.

Response – We will review this area.

Conclusion – Response accepted.

- I-E-08 Admission Tickets – Admission tickets were not consistently 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.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2008

I-F-08 Preparation of Full Disclosure Financial Statements – Internal controls over financial reporting include the actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by generally accepted accounting principles. Moravia Community School District does not have the internal resources to prepare the full-disclosure financial statements required by GAAP for external reporting. While this circumstance is not uncommon for most governmental entities, it is the responsibility of management and those charged with governance to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – We recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles in preparing full-disclosure financial statements for external reporting purposes is difficult. However, we recommend that District officials continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – We recognize our limitations, however, it is not fiscally responsible to add additional staff for this purpose.

Conclusion – Response acknowledged.

I-G-08 Receipts – During our review, we noted several instances where receipts were held several months prior to deposit. As a result, these receipts were not deposited timely or intact.

Recommendation – The District implement procedures to ensure all receipts are timely deposited and on an intact basis.

Response – We will attempt to implement this recommendation

Conclusion – Response accepted.

I-H-08 Accounting Records – The District’s bank reconciliations were not accurate as of June 30, 2008. The reconciled book balance as noted on the bank reconciliations were off by several thousand dollars at June 30, 2008. The factors which contributed to this situation included such things as some receipts being recorded two times, some disbursements not recorded, and other factors. This situation was allowed to occur and not be detected by the District in a timely manner because of the lack of segregation of duties and lack of review of the accounting records by either management of the District or the Board. Adjustments were subsequently made by the District to properly include and report these amounts on the financial statements.

Recommendation – The District realizes that bank reconciliations need to be accurately performed, and that management of the District or the Board should review the bank reconciliations and accounting records on a periodic basis, and that all differences are timely followed up on. This situation was extraordinary due to the absence of the board secretary due to surgery during the year.

Response – We will implement this recommendation

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

II-A-08 Certified Budget – Expenditures for the year ended June 30, 2008, exceeded the certified budget amounts in the other expenditures function.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted.

II-B-08 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-08 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-08 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>
Jerry Power, Employee, Owner of Power Insurance	Payroll Insurance	\$2,150 \$42,996
Michelle Chapman, wife of Mitchell Chapman, employee	Painting	\$230

In accordance with the attorney General's opinion dated July 2, 1990, and an Attorney General's opinion dated November 9, 1976, the above transactions do not appear to represent a conflict of interest.

II-E-08 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-08 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.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2008

Instances were noted where the board minutes were either not published at all, or were not timely published. In addition, for one month, the purpose of the claims were not documented. As a result, the District does not appear to be in compliance with Chapter 279.35 of the Code of Iowa.

Recommendation – Procedures should be implemented to ensure all disbursements are approved by the Board. Also, all board minutes, invoices, and purpose of the claims 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.

II-G-08 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 2007 was understated by 1.14 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-08 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-08 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

II-J-08 Payroll Issues – Some I-9's were missing or incomplete. Our review noted that some individuals were over or under paid and employee contracts were not always located which documents rate of pay.

Some employees do not keep timesheets. Some employee compensation is paid as a vendor instead of paid as payroll, even though all compensation should be paid as payroll. It appears the District pays for some employee benefits that the employees have not signed up for. As a result, the District is paying for some employee benefit costs for which it should not be paying.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2008

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 employees are required to keep timesheets, and all employee compensation is paid as payroll. In addition, the District should only pay for employee benefits that the employees have signed up for.

Response – We will implement the above recommendations.

Conclusion – Response accepted.

II-K-08 Financial Condition – Several student activity accounts had deficit balances at June 30, 2008. The Special Revenue Fund – Physical Plant and Equipment Levy Fund had a deficit balance of \$1,239 at June 30, 2008. The Capital Projects Fund had a deficit balance of \$21,489 at June 30, 2008. The Debt Service Fund had a deficit balance of \$614 at June 30, 2008.

Recommendation – The District should continue to monitor the deficit funds noted above 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 these funds and the student activity accounts to a sound financial position.

Conclusion – Response accepted.

II-L-08 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in the manner to include an image of both the front and the back of each cancelled check. The District retains cancelled checks through electronic image, but does not consistently obtain an image of the back of each cancelled check as required.

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

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-M-08 Early Retirement – The District offers an early retirement program incentive which states that for qualified employees who retire, the District will contribute to either a retirement plan or a health care savings plan for the early retiree. The amount paid by the District to these plans is determined by a formula based on years of service to the District. However, during the year, the District had an early retiree who wanted paid her early retirement program incentive through payroll. As a result, the District paid this employee her early retiree program incentive through a payroll check, even though this was not an option according to the early retirement program. As a result, the District ended up paying approximately \$1,400 more in payroll taxes by paying this employee through payroll. The District would not have had to pay the approximate \$1,400 in payroll taxes if the District followed its early retirement policy of either contributing to a retirement plan or a health care savings plan.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2008

Recommendation – The District review this situation and take action as necessary. In addition, in the future, the District should ensure that the early retirement plan is followed. The District should also consult with their Attorney in relation to the approximate \$1,400 overpayment.

Response – We will review this area.

Conclusion – Response accepted.

II-N-08 Compliance Issues - The District did not withhold or match the Medicare tax for an employee. Generally, all District employees are subject to Medicare withholding, with an appropriate match by the District.

It appears the published salary amounts were understated. Chapter 279.35 requires that the salary amount paid to the individual employees be published annually.

Recommendation - The District should ensure that Medicare tax is withheld from all employees, with the appropriate match paid by the District, and that the published salary amounts are accurate.

Response – We will implement these recommendations.

Conclusion – Response accepted.

II-O-08 Transfers/Interfunds – The Board does not approve interfund transfers, or interfund loans between funds. In addition, it does not appear the District has met the Department of Education requirements as outlined in a Declaratory Order Adm. Doc. #4672 in relation to the proper procedure for handling, recording and repayment of interfund loans.

Recommendation – The Board approve all internfund transfers and loans. In addition, the District should implement procedures to ensure the Department of Education requirements are met in relation to the handling, recording and repayment of interfund loans.

Response – We will implement these to the best of our ability.

Conclusion – Response accepted.

II-P-08 Revenue Maximization – The District is still owed approximately \$1,700 from open enrollment in from neighboring Districts. It does not appear that the District made a concerted effort to collect these monies. In addition, the District received a grant for its pre-school program. This grant did not require any local match funds. However, since the District did not spend enough money, the District did not receive \$2,249 in grant funds which the District could have received if the District would have spent \$2,249 more on the pre-school program.

Recommendation – The District should attempt to collect all monies due to them from other Districts for open enrollment in tuition. Any mounts not pursued for collection should be formally approved by the Board. In addition, the District should implement procedures to ensure all grant money is received in the future.

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

Conclusion – Response accepted.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2008

II-Q-08 Disbursements – Repair costs on equipment, and the purchase of equipment which cost less than \$500 per unit were 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-R-08 Moravia Education Foundation – A double entry accounting system is not used by the Foundation. 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. Also, the District should investigate the unaccounted for dividend as explained above.

Response – We will attempt to implement these recommendations. However, we will weigh the costs of having our Attorney review this compared to the potential benefit involved.

Conclusion – Response accepted.