



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ August 19, 2010

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on City of Moravia, Iowa.

The City's receipts totaled \$426,349 for the year ended June 30, 2009. The receipts included \$86,644 in property tax, \$172,615 from charges for service, \$116,929 from operating grants, contributions and unrestricted interest and \$51,161 from local option sales tax.

Disbursements for the year totaled \$432,413, and included \$128,059 for public works, \$59,565 for general government and \$50,619 for public safety. Also, disbursements for business type activities totaled \$160,284.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at:

<http://auditor.iowa.gov/reports/0921-0019-B00F.pdf>

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CITY OF MORAVIA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2009

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City of Moravia

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Mihalovich	Mayor	Jan 2010
John Baty	Council Member	Jan 2010
Dave Fenton	Council Member	Jan 2010
Gary Dhority	Council Member	Jan 2010
Charles Turner	Council Member	Jan 2012
Mike Gray	Council Member	Jan 2012
Jean Ballanger	Clerk/Treasurer	Indefinite
Debra George	Attorney	Indefinite

City of Moravia



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Moravia, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Moravia's management. 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.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund of the City of Moravia as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 9, 2010 on our consideration of the City of Moravia'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 11 and 24 through 25 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 the City of Moravia's basic financial statements. Other supplementary information included in Schedules 1 and 2 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 9, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Moravia provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased \$8,492, primarily due to increased spending on street improvement projects.
- The cash basis net assets of the City's business type activities increased \$2,428, mainly due to lower water billing delinquencies than in the prior year.

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 City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include the General Fund and the Special Revenue, Road Use Tax Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

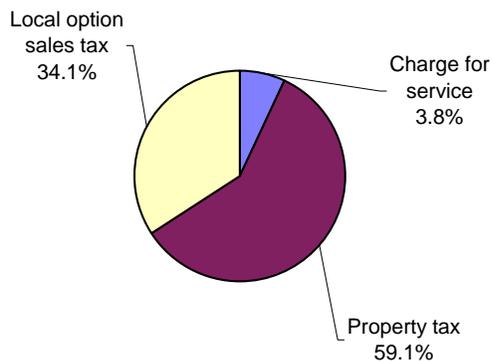
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

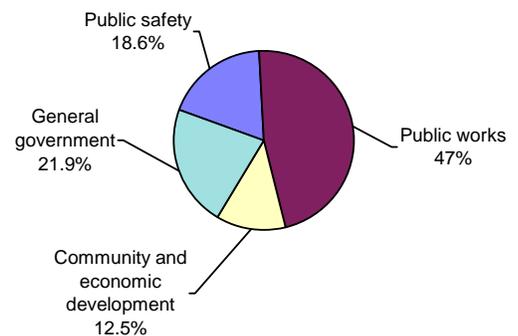
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$238,887 to \$230,395. The following analysis focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service	\$ 9,903
Operating grants, contributions and restricted interest	116,929
General receipts:	
Property tax	86,644
Local option sales tax	50,161
Total receipts	<u>263,637</u>
Disbursements:	
Public safety	50,619
Public works	128,059
Community and economic development	33,885
General government	59,566
Total disbursements	<u>272,129</u>
Change in cash basis net assets	(8,492)
Cash basis net assets beginning of year	<u>238,887</u>
Cash basis net assets end of year	<u><u>\$ 230,395</u></u>

Receipts by Source



Disbursements by Function



INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Moravia completed the year, its governmental funds reported a combined fund balance of \$230,395, a decrease of \$8,492 from last year's total of \$238,887. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$35,329 from the prior year to \$258,765.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$43,821 to (\$28,370) during the fiscal year due to new street projects during the year.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2009
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 83,856
Sewer	78,856
Total receipts	<u>162,712</u>
Disbursements:	
Water	95,369
Sewer	64,915
Total disbursements	<u>160,284</u>
Change in cash basis net assets	2,428
Cash basis net assets beginning of year	<u>24,691</u>
Cash basis net assets end of year	<u>\$ 27,119</u>

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$11,513 to \$721, due primarily to higher operating costs and the Clerk's salary being paid almost entirely from the Water Fund.
- The Sewer Fund cash balance increased \$13,941 to \$26,398. The increase in cash balance is due to fewer sewer improvements during fiscal year 2009.

BUDGETARY HIGHLIGHTS

The City did not amend its budget during the course of the year.

The City's receipts were \$43,974 more than budgeted. This was due to the City receiving more in property tax and miscellaneous receipts than originally budgeted.

Total disbursements were \$54,606 more than budgeted disbursements. The City exceeded the disbursement amounts budgeted in the public safety, public works, culture and recreation and general government functions for the year ended June 30, 2009.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$337,635 in notes and other long-term debt outstanding. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2009	2008
Revenue note	\$ 262,086	277,252
Bank loan	75,549	96,806
Total	\$ 337,635	374,058

Principal payments in fiscal year 2009 reduced outstanding debt \$36,423 without the issuance of any new debt.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding debt is \$337,635, which is below its constitutional debt limit of \$403,824.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Moravia's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities. The City's fiscal year 2010 property valuations increased \$748,733 over the fiscal year 2009 level.

The fiscal year 2010 budget includes receipts of \$409,490 and disbursements of \$372,989.

The fiscal year 2010 levy is \$8.10 per \$1,000 of assessed property valuation, which is consistent with the fiscal year 2009 levy.

These parameters were taken into account when adopting the budget for fiscal year 2010.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jean Ballanger, City Clerk, P.O. Box 246, 116 S. Williams St, Moravia, Iowa 52571.

City of Moravia

Basic Financial Statements

City of Moravia

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

	<u>Disbursements</u>	<u>Program Receipts</u>	
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$ 50,619	-	40,562
Public works	128,059	-	59,157
Culture and recreation	33,885	4,093	8,095
General government	59,566	5,810	9,115
Total governmental activities	<u>272,129</u>	<u>9,903</u>	<u>116,929</u>
Business type activities:			
Water	95,369	83,856	-
Sewer	64,915	78,856	-
Total business type activities	<u>160,284</u>	<u>162,712</u>	<u>-</u>
Total	<u>\$ 432,413</u>	<u>172,615</u>	<u>116,929</u>
General Receipts:			
Property and other city tax levied for general purposes			
Local option sales tax			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Unrestricted			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(10,057)	-	(10,057)
(68,902)	-	(68,902)
(21,697)	-	(21,697)
(44,641)	-	(44,641)
(145,297)	-	(145,297)
-	(11,513)	(11,513)
-	13,941	13,941
-	2,428	2,428
(145,297)	2,428	(142,869)
86,644	-	86,644
50,161	-	50,161
136,805	-	136,805
(8,492)	2,428	(6,064)
238,887	24,691	263,578
\$ 230,395	27,119	257,514
\$ 230,395	27,119	257,514

Exhibit B

City of Moravia
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2009

	<u>Special Revenue</u>		
	General	Road Use Tax	Total
Receipts:			
Property tax	\$ 86,644	-	86,644
Other city tax	25,080	25,081	50,161
Licenses and permits	683	-	683
Use of money and property	5,244	-	5,244
Intergovernmental	28,203	59,157	87,360
Miscellaneous	33,545	-	33,545
Total receipts	<u>179,399</u>	<u>84,238</u>	<u>263,637</u>
Disbursements:			
Operating:			
Public safety	50,619	-	50,619
Public works	-	128,059	128,059
Culture and recreation	33,885	-	33,885
General government	59,566	-	59,566
Total disbursements	<u>144,070</u>	<u>128,059</u>	<u>272,129</u>
Excess (deficiency) of receipts over (under) disbursements	35,329	(43,821)	(8,492)
Cash balances beginning of year	223,436	15,451	238,887
Cash balances end of year	<u>\$ 258,765</u>	<u>(28,370)</u>	<u>230,395</u>
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 258,765	-	258,765
Special revenue fund	-	(28,370)	(28,370)
Total cash basis fund balances	<u>\$ 258,765</u>	<u>(28,370)</u>	<u>230,395</u>

See notes to financial statements.

City of Moravia

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2009

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 83,856	78,856	162,712
Operating disbursements:			
Business type activities	95,369	35,694	131,063
Excess (deficiency) of operating receipts over (under) operating disbursements	(11,513)	43,162	31,649
Non-operating disbursements:			
Debt service	-	(29,221)	(29,221)
Excess (deficiency) of receipts over (under) disbursements	(11,513)	13,941	2,428
Cash balances beginning of year	12,234	12,457	24,691
Cash balances end of year	\$ 721	26,398	27,119
Cash Basis Fund Balances			
Reserved for debt service	\$ -	2,437	2,437
Unreserved	721	23,961	24,682
Total cash basis fund balances	\$ 721	26,398	27,119

See notes to financial statements.

City of Moravia

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Moravia is a political subdivision of the State of Iowa located in Appanoose County. It was first incorporated in 1851 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Moravia has included all funds, organizations, agencies, boards, commissions and authorities. The City 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 City are such that exclusion would cause the City'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 City 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 City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Appanoose County Assessor's Conference Board, Appanoose County Emergency Management Commission and the Appanoose County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which 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 Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

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

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

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts 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 on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts 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 disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Special Revenue, Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation and general government functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City 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 City Council; 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.

(3) Notes Payable

Annual debt service requirements to maturity for the bank loan and sewer revenue note are as follows:

Year Ending June 30,	Bank Loan		Sewer Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 22,456	3,596	15,923	13,286	38,379	16,882
2011	23,722	2,329	16,719	12,479	40,441	14,808
2012	25,059	993	17,555	11,663	42,614	12,656
2013	4,312	30	18,433	10,742	22,745	10,771
2014	-	-	19,355	9,807	19,355	9,807
2015-2019	-	-	112,300	33,320	112,300	33,320
2020-2022	-	-	61,801	5,397	61,801	5,397
Total	\$ 75,549	6,948	262,086	96,694	337,635	103,642

Bank Loan

On August 14, 2002, the City entered into a loan agreement with the local bank for \$200,000. The funds were used for street improvements. The loan bears 5.50% per annum interest and is paid in monthly installments of \$2,171, including interest, beginning September 14, 2002 and ending August 14, 2012. The principal balance of the loan at June 30, 2009 was \$75,549.

Sewer Revenue Note

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$350,000 of sewer revenue notes issued in October 2003. Proceeds from the notes provided financing for the construction of improvements to the sanitary sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2022. Annual principal and interest payments on the notes are expected to require less than 68% of net receipts. The total principal and interest remaining to be paid on the notes is \$358,780. For the current year, principal and interest paid and total customer net receipts were \$29,221 and \$43,162, respectively.

The resolution providing for the issuance of the sewer revenue note includes the following provisions:

- (a) The note is payable solely from future net revenues of the municipal sewer system of the City and a sufficient portion is to be set aside and pledged for that purpose.
- (b) Under no circumstances will the City be liable for the failure of net revenues to be sufficient for payment of this note.
- (c) The gross revenues of the utility shall be set aside into a separate Sewer Revenue Fund.
- (d) Sufficient monthly transfers shall be made to a separate sewer revenue sinking fund for the purpose of making principal and interest payments when due.
- (e) Monthly transfers into the sinking fund shall not be less than 1/6 of the installment of interest due on the next interest payment date plus 1/12 of the next principal installment.

The City has not established a sinking fund as required by the note resolution.

(4) Pension and Retirement Benefits

The City 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.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2009 was \$6,012, equal to the required contribution for the year.

(5) Risk Management

The City is member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automotive physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions from the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2009 were \$12,756.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, policy professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the members' risk sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of time not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by the amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Deficit Balance

The Special Revenue, Road Use Tax Fund had a deficit balance of \$28,370 at June 30, 2009. The deficit balance was a result of disbursements for street projects in fiscal year 2009.

Required Supplementary Information

City of Moravia

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original and Final	Final to Total Variance
Receipts:					
Property tax	\$ 86,644	-	86,644	81,289	5,355
Other city tax	50,161	-	50,161	51,312	(1,151)
Licenses and permits	683	-	683	740	(57)
Use of money and property	5,244	-	5,244	1,650	3,594
Intergovernmental	87,360	-	87,360	84,198	3,162
Charges for service	-	162,712	162,712	162,686	26
Miscellaneous	33,545	-	33,545	500	33,045
Total receipts	<u>263,637</u>	<u>162,712</u>	<u>426,349</u>	<u>382,375</u>	<u>43,974</u>
Disbursements:					
Public safety	50,619	-	50,619	44,455	(6,164)
Public works	128,059	-	128,059	106,197	(21,862)
Culture and recreation	33,885	-	33,885	20,124	(13,761)
General government	59,566	-	59,566	46,745	(12,821)
Business type activities	-	160,284	160,284	160,286	2
Total disbursements	<u>272,129</u>	<u>160,284</u>	<u>432,413</u>	<u>377,807</u>	<u>(54,606)</u>
Excess (deficiency) of receipts over (under) disbursements	(8,492)	2,428	(6,064)	4,568	(10,632)
Balances beginning of year	<u>238,887</u>	<u>24,691</u>	<u>263,578</u>	<u>193,423</u>	<u>70,155</u>
Balances end of year	<u>\$ 230,395</u>	<u>27,119</u>	<u>257,514</u>	<u>197,991</u>	<u>59,523</u>

See accompanying independent auditor's report.

City of Moravia

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. There were no budget amendments during the year.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation and general government functions.

City of Moravia

Other Supplementary Information

City of Moravia
Statement of Indebtedness
As of and for the year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Bank loan: Streets	Aug 14, 2002	5.50%	\$ 200,000
Revenue note: Sewer	Oct 17, 2003	5.00%	\$ 350,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 96,806	-	21,257	75,549	4,795
\$ 277,252	-	15,166	262,086	14,055

Schedule 2

City of Moravia

Note Maturities

Year ended June 30, 2009

Year Ending June 30,	Bank Loan - Streets		Sewer Revenue Note	
	Issued August 14, 2002		Issued October 17, 2003	
	Interest Rates	Amount	Interest Rates	Amount
2010	5.50%	\$ 22,456	5.00%	\$ 15,923
2011	5.50	23,722	5.00	16,719
2012	5.50	25,059	5.00	17,555
2013	5.50	4,312	5.00	18,433
2014	-	-	5.00	19,355
2015	-	-	5.00	20,323
2016	-	-	5.00	21,339
2017	-	-	5.00	22,407
2018	-	-	5.00	23,527
2019	-	-	5.00	24,704
2020	-	-	5.00	25,939
2021	-	-	5.00	27,236
2022	-	-	5.00	8,626
Total		<u>\$ 75,549</u>		<u>\$ 262,086</u>

See accompanying independent auditor's report.

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

City of Moravia



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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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 Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Moravia, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated July 9, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, 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 the City of Moravia'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 the City of Moravia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Moravia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in 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 we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Moravia'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 (A), (B), (C), (E), (F) and (I) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Moravia'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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. 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.

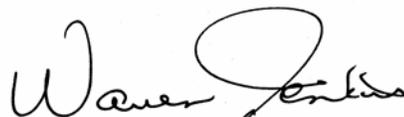
The City of Moravia's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Moravia's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Moravia and other parties to whom the City of Moravia 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 City of Moravia 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 9, 2010

City of Moravia
Schedule of Findings
Year ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(A) 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. One person has control over each of the following areas:

- (1) Cash – reconciling bank accounts, custody of petty cash, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Long term debt – recording and reconciling.
- (3) Receipts – collecting, depositing and posting.
- (4) Utility receipts – billing, collecting, depositing and posting.
- (5) Disbursements – purchasing, check signing, recording and reconciling.
- (6) Payroll – preparing, recording, custody and distributing.
- (7) Accounting system – performing all general accounting functions and having custody of City assets.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer.

Response – The checks and balance system will be reviewed by the Council or Mayor and changes in internal control will be made as needed.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies each month. The Council should review the reconciliations and monitor delinquencies.

Response – The Clerk will reconcile the utility accounts on a monthly basis and also compare to bank statements.

Conclusion – Response accepted.

(C) Health Insurance Premiums – Certain City employees pay health insurance premiums directly and are reimbursed by the City, but not through a flexible benefit or cafeteria plan.

City of Moravia
Schedule of Findings
Year ended June 30, 2009

Recommendation – The City should establish a flexible benefit or cafeteria plan for health insurance premiums or the payments to the employee should be reported as taxable income to the employee.

Response – The City will include premiums reimbursed to employees on employee's W-2 as taxable income.

Conclusion – Response accepted.

- (D) Debt Service Disbursements – The City budgeted and made debt payments from the Road Use Tax Fund in the public works function. Debt payments would be more appropriately budgeted in the debt service function.

Recommendation – The City should budget debt payments in the debt service function.

Response – The City will budget debt payments for road use in the debt service function.

Conclusion – Response accepted.

- (E) Records of Accounts/Separately Maintained Records – The Moravia Fire Fighters, the Moravia Library and the Moravia First Responders each maintain their bank accounts and accounting records separate from the City Clerk's records. The transactions and the resulting balances were not reported to the City Council each month and the transactions were not recorded in the City Clerk's records. Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose."

Also, the Moravia Fire Fighters and the Moravia First Responders have one person who has primary control over receipts, deposits, disbursements and bank reconciliations.

Recommendation – The Moravia Fire Fighters, Moravia Library and the Moravia First Responders financial transactions and balances should be included in the City Clerk's monthly financial reports. Internal controls could be strengthened and operating efficiency could be increased by integrating the accounting of receipts and disbursements for each of these organizations with the City's accounting records.

Response – The City will obtain financial information from the library, fire department and first responders and include on monthly reports.

Conclusion – Response accepted.

- (F) Information Systems – During our review of the internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted:

City of Moravia
Schedule of Findings
Year ended June 30, 2009

The City does not have a written policies for:

- Personal use of City computers and software.
- Requiring password changes every 60 to 90 days.
- Running the anti-virus program on a regular basis.
- Usage of the internet.
- Ensuring only software licensed to the City is installed on computers.

Also, the City does not have a written disaster recovery plan. The City also does not maintain backup tapes in a secured off-site location.

Recommendation – The City should develop a written policy addressing the above items to improve the City’s control over computer based systems. A written disaster recovery plan should be developed and backup tapes should be secured in an off-site location.

Response – The City will write policies allowing only City licensed software, usage of internet and running anti-virus program on a regular basis. Clerk will begin taking back up tapes home.

Conclusion – Response accepted.

- (G) Travel Policy – The City has not adopted a policy on travel or mileage by City employees.

Recommendation – The City should adopt a travel policy.

Response – The City will adopt a travel policy stating the mileage rate reimbursed.

Conclusion – Response accepted.

- (H) City Water Ordinance – The City water ordinance requires water service to be discontinued under certain conditions. The City is not following its water ordinance for discontinuing water service. Also, certain water accounts have outstanding balances over two months. The total balance of outstanding water accounts is \$8,758.69 at June 30, 2009.

Recommendation – The City should follow its water ordinance or change the ordinance to reflect the current practice.

Response – The City will follow the Ordinance and discontinue service as needed on a monthly basis.

Conclusion – Response accepted.

- (I) Claims Approval – The City Clerk pays claims prior to Council approval by applying the Mayor’s signature stamp.

Recommendation – The City Clerk should prepare checks for the Council’s review and the Mayor should manually sign checks prior to mailing.

Response – The Clerk will prepare checks for Council’s review and Mayor will sign after approved.

Conclusion – Response accepted.

City of Moravia
Schedule of Findings
Year ended June 30, 2009

- (J) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- 1) Aid in training additional or replacement staff.
- 2) Help achieve uniformity in accounting and in the application of policies and procedures.
- 3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- 4) Ensure city accounts are appropriately utilized.

Response – The City will develop an accounting policies and procedures manual.

Conclusion – Response accepted.

City of Moravia
 Schedule of Findings
 Year ended June 30, 2009

Findings Related to Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the City. However, the maximum deposit amount was not identified.

Recommendation – Chapter 12C.2 of the Code of Iowa requires the City, by written resolution, to name each depository approved for depositing all City funds and specify the maximum dollar amount which may be kept on deposit at each depository. The City should monitor deposit amounts to ensure deposits do not exceed the specified maximum dollar amount.

Response – The City will include a maximum amount when designating the official depository.

Conclusion – Response accepted.

- (2) Certified Budget – During the year ended June 30, 2009, disbursements exceeded the amount budgeted for the public safety, public works, culture and recreation, and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended prior to disbursements exceeding the budgeted amount.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
John Baty, Council Member, Owner of Baty Electric	Purchase of various electronic items	\$ 1,596
	Tree removal	5,000
Ellis Paxton, Council Member, Owner of Ely’s Repair	Purchase of auto parts	87

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with John Baty may represent a conflict of interest since the total transactions were greater than \$2,500 during the fiscal year.

City of Moravia
Schedule of Findings
Year ended June 30, 2009

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will consult with its attorney to determine disposition of this matter.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Emergency and Employee Benefits Fund – The City has not established separate funds to account for the emergency and employee benefits tax levies. The property tax collected from the emergency and employee benefits tax levies were reported in the General Fund.

Recommendation – The City should establish Special Revenue Funds for Emergency and Employee Benefits to separately account for these property tax collections.

Response – The City will establish separate funds for the emergency and employee benefit levies.

Conclusion – Response accepted.

- (8) Check Images – The City does not receive images of the back of checks in its bank statements.

Recommendation – The City should request images of the back of checks be included in the City's bank statements.

Response – The City will request images of the backs of checks from Iowa Trust and Savings Bank.

Conclusion – Response accepted.

- (9) Publication – Gross salaries were not published in accordance with Iowa Code Chapter 372.13.

Recommendation – Annual salaries should be published in the City's official publication.

Response – The City will publish the annual salaries in the local paper.

Conclusion – Response accepted.

City of Moravia
Schedule of Findings
Year ended June 30, 2009

- (10) Chart of Accounts – The City has not implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee on September 25, 2002. As a result, certain receipts and disbursement were not properly reported in the Annual Financial Report. These were reclassified and resolved for audit purposes.

Recommendation – To provide better information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments.

Response – The City will implement the Uniform Chart of Accounts for Iowa City Governments.

Conclusion – Response accepted.

- (11) Bank Reconciliation – City fund balances did not reconcile to bank balances. As a result, the fund balances reported by the City on the Annual Financial Report for fiscal year 2009 were not correct.

Recommendation – City fund balances should be reconciled to the bank balances monthly. Any variances should be investigated and corrected in a timely manner. Also the Clerk should revise the beginning fund balances when filing the fiscal year 2010 Annual Financial Report.

Response – The City will reconcile fund balances to bank balances monthly and revise beginning fund balances on the 2010 Annual Financial Report.

Conclusion – Response accepted.

- (12) Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance at June 30, 2009 of \$28,370.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The City will return this fund to a sound financial position.

Conclusion – Response accepted.

- (13) Revenue Note – The City did not establish a separate sewer revenue sinking fund as required by City Council Resolution.

Recommendation – The City should establish a sewer revenue sinking fund in accordance with the Resolution.

Response – The City will establish a sewer revenue sinking fund.

Conclusion – Response accepted.

City of Moravia

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Shannan M. Hoffman, Staff Auditor
Lara K. Van Wyk, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, looped initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State