

**MUSCATINE COMMUNITY SCHOOL DISTRICT**

**INDEPENDENT AUDITORS' REPORTS**  
**BASIC FINANCIAL STATEMENTS,**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2005**

**TAYLOR, REES, BECKEY & CO., P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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MUSCATINE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2004 Election)</b>		
Ann Hart	President	2004
Robin Krueger	Vice President	2006
Paul Reeb	Board Member	2004
Bob Leech	Board Member	2005
Tom Welk	Board Member	2005
Jerry Lange	Board Member	2006
Paul Brooks	Board Member	2006

**Board of Education  
(After September 2004 Election)**

Tom Welk	President	2005
Jerry Lange	Vice President	2006
Bob Leech	Board Member	2005
Paul Brooks	Board Member	2006
Robin Krueger	Board Member	2006
Clyde Evans	Board Member	2007
Ann Hart	Board Member	2007

**School Officials**

Tom Williams	Superintendent	2005
Jean K. Long	District Treasurer	2005
Diannia McDonald	District Secretary	2005
Duane J. Goedken	Attorney	2005
Stanley, Lande & Hunter	Attorney	2005
Trissel, Graham & Toole, Inc	Insurance	2005
Taylor, Rees, Beckey & Co., P.C.	Auditors	2005

**Muscatine Community School District**

## Independent Auditors' Report

To the Board of Education of  
Muscatine 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 Muscatine Community School District, Muscatine, Iowa, as of and for the year ended June 30, 2005, and its discretely presented Component Unit as of and for the year ended December 31, 2004, 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 Muscatine Community School District as of June 30, 2005, and its discretely presented Component Unit as of and for the year ended December 31, 2004, 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 reports dated November 17, 2005, on our consideration of Muscatine 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 17 and 43 through 45 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muscatine Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments and Non-Profit Organizations, 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.

TAYLOR, REES, BECKEY & CO., P.C.  
Certified Public Accountants

Muscatine, Iowa  
November 17, 2005

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Muscatine Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **Financial Highlights**

- General Fund revenues increased slightly from \$38,050,244 in fiscal 2004 to \$39,855,431 in fiscal 2005, while General Fund expenditures increased from \$37,619,129 in fiscal 2004 to \$39,940,241 in fiscal 2005. This resulted in a slight decrease in the District's General Fund balance from \$8,339,933 in fiscal 2004 to \$8,255,123 in fiscal 2005, a 1 percent decrease from the prior year.
- The slight increase in General Fund revenues was attributable to increases in state and federal grant revenue in fiscal 2005. The increase in expenditures was due to a increase in instructional purchases.
- The school District has begun building a new facilities/operations building. The project was awarded June 13, 2005 for \$634,000. the project is due for completion in the winter 2005.
- A major construction and renovation project at West Middle School was completed in fiscal year 2005. Through Federal grants and proceeds from the Local Option Sales Tax, the \$4.0 million project consists of new gymnasium/auditorium, life safety and air conditioning.
- An early retirement program was reinstated in fiscal year 2005. Fifteen employees chose to participate in the program.

## Overview of the Financial Statements

This report consists of three parts: management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District’s operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year.

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

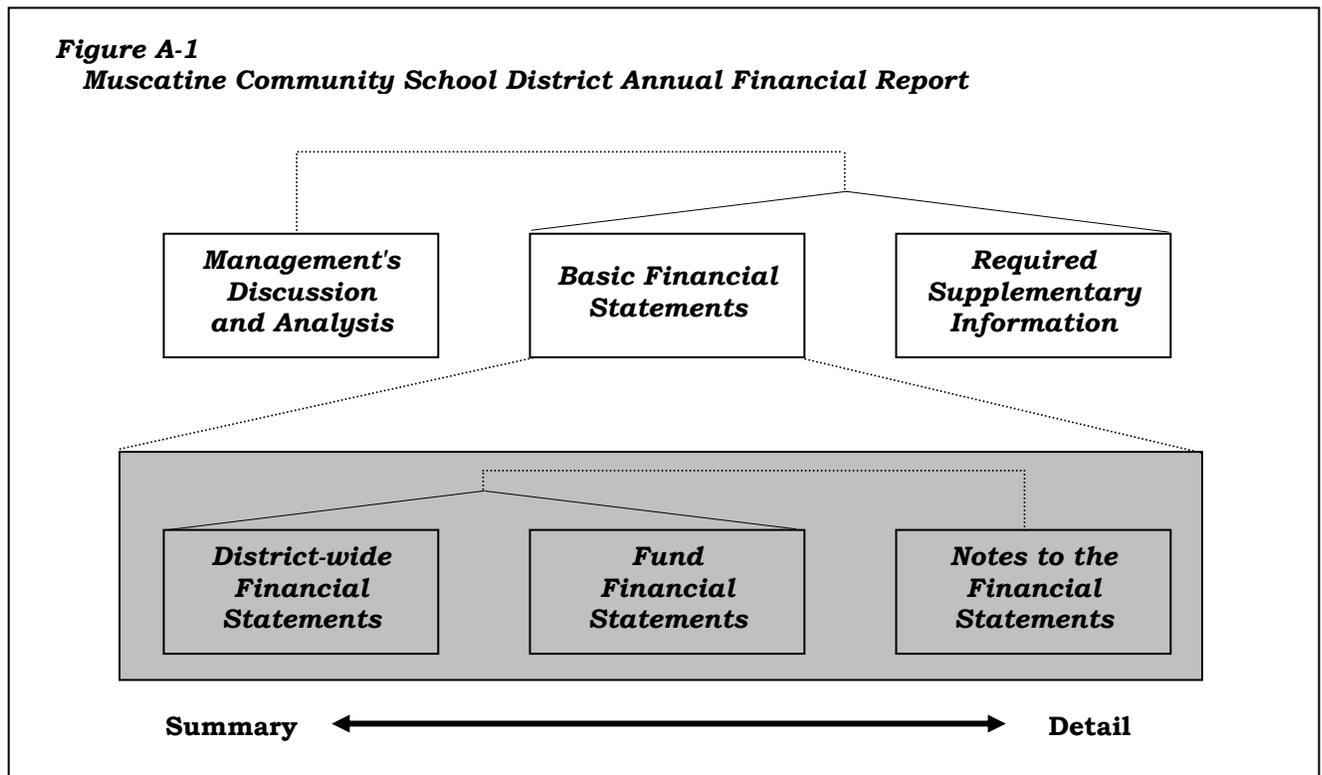


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

<b>Figure A-2 Major Features of the District-Wide and Fund Financial Statements</b>				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: nutrition services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

### District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-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 District-wide statements report the District’s *net assets* and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or position.

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

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

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

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District 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 three kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental 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. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
  - The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
  - The District's Enterprise Funds, 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.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.
  - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
  - Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

## Financial Analysis of the District as a Whole

**Net assets** - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005, compared to 2004.

<b>Figure A-3</b>							
<b>Condensed Statement of Net Assets</b>							
<b>(expressed in thousands)</b>							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	17,040	13,045	767	588	17,807	13,633	30.6%
Capital assets	21,290	18,316	38	42	21,328	18,358	16.2%
Total assets	<u>38,330</u>	<u>31,361</u>	<u>805</u>	<u>630</u>	<u>39,135</u>	<u>31,991</u>	<u>22.3%</u>
Long-term obligations	2,850	3,486	-	-	2,850	3,486	-18.2%
Other liabilities	4,604	300	82	28	4,686	328	1328.7%
Total liabilities	<u>7,454</u>	<u>3,786</u>	<u>82</u>	<u>28</u>	<u>7,536</u>	<u>3,814</u>	<u>97.6%</u>
<b>Net assets</b>							
Invested in capital assets, net of related debt	20,531	16,821	38	42	20,569	16,863	22.0%
Restricted	2,633	2,069	55	72	2,688	2,141	25.5%
Unrestricted	7,712	8,685	630	488	8,342	9,173	-9.1%
Total net assets	<u>30,876</u>	<u>27,575</u>	<u>723</u>	<u>602</u>	<u>31,599</u>	<u>28,177</u>	<u>12.1%</u>

The District's combined net assets were greater at June 30, 2005, than June 30, 2004. The increase occurred primarily in the governmental funds as a result of the Muscatine High School \$6.5 million construction project and West Middle School \$4 million construction project being completed.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$547,000, or 25.5% over the prior year. The increase was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund.

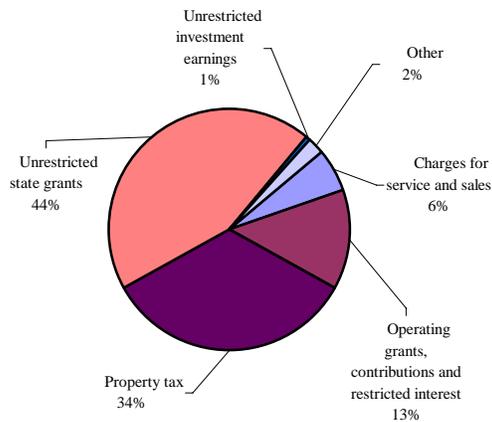
Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$831,000, or 9%. This reduction in unrestricted net assets was a result of the district going to GAAP accounting – the largest portion of which is the accruing of payroll payable.

**Changes in net assets** – Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

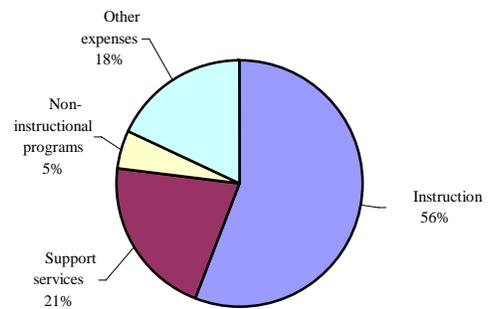
**Figure A-4**  
**Changes in Net Assets**  
**(expressed in thousands)**

	Governmental Activities		Business-type Activities		Total School District	
	2005	2004	2005	2004	2005	2004
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for service and sales	1,769	1,712	1,149	1,141	2,918	2,853
Operating grants, contributions and restricted interest	5,308	5,120	1,189	847	6,497	5,967
Capital grants, contributions and restricted interest	-	-	-	-	-	-
<b>General revenues:</b>						
Property tax	16,478	16,382	-	-	16,478	16,382
Unrestricted state grants	21,666	20,569	-	-	21,666	20,569
Unrestricted investment earnings	276	158	3	3	279	161
Other	1,041	965	1	-	1,042	965
<b>Total revenues</b>	<b>46,538</b>	<b>44,906</b>	<b>2,342</b>	<b>1,991</b>	<b>48,880</b>	<b>46,897</b>
<b>Program expenses:</b>						
<b>Governmental activities:</b>						
Instruction	25,354	22,023	-	-	25,354	22,023
Support services	9,674	9,284	-	-	9,674	9,284
Non-instructional programs	5	77	2,221	1,975	2,226	2,052
Other expenses	8,204	9,107	-	-	8,204	9,107
<b>Total expenses</b>	<b>43,237</b>	<b>40,491</b>	<b>2,221</b>	<b>1,975</b>	<b>45,458</b>	<b>42,466</b>
<b>Increase (decrease) in net assets</b>	<b>3,301</b>	<b>4,415</b>	<b>121</b>	<b>16</b>	<b>3,422</b>	<b>4,431</b>
<b>Net assets beginning of year</b>	<b>27,575</b>	<b>23,160</b>	<b>602</b>	<b>586</b>	<b>28,177</b>	<b>23,746</b>
<b>Net assets end of year</b>	<b>30,876</b>	<b>27,575</b>	<b>723</b>	<b>602</b>	<b>31,599</b>	<b>28,177</b>

**Revenue by Source**



**Expenditure by Program**



The District's net assets increased by approximately \$3,422,000 during the year. Revenues increased by approximately \$1,983,000 over the prior year, with Unrestricted State Grant Revenue increasing \$1,097,000 and Property Taxes \$96,000.

Property tax and unrestricted state grants account for 78 percent of the total revenue. The District's expenses primarily relate to instruction and support services which account for 77 percent of the total expenses.

**Governmental Activities**

Revenues for governmental activities were approximately \$46,538,000 in the current year compared to approximately \$44,906,000 in the prior year. Expenses were approximately \$43,237,000 in the current year compared to approximately \$40,491,000 in the prior year.

Property tax and unrestricted state grants account for 82 percent of the total revenue. The District's expenses primarily relate to instruction and support services which account for 81 percent of the total expenses.

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

Figure A-5 Total and Net Cost of Governmental Activities (expressed in thousand)		
	Total Cost of Services	Net Cost of Services
Instruction	25,354	20,120
Support Services	9,674	9,412
Non-instructional programs	5	5
Other expenses	8,204	6,623
Totals	43,237	36,160

The cost financed by users of the District's programs was \$1,768,520.

Federal and state governments subsidized certain programs with grants and contributions totaling \$5,308,379.

- The net cost of governmental activities was financed with \$16,478,288 in property tax, \$21,666,405 in state foundation aid and \$275,490 in interest income.

**Business-Type Activities**

Revenues of the District's business-type activities were approximately \$2,342,000 in the current year as compared to approximately \$1,991,000 in the prior year. Expenses were approximately \$2,221,000 in the current year as compared to approximately \$1,975,000 in the prior year. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, federal grants, and investment income.

## **Financial Analysis of the District's Funds**

As previously noted, the Muscatine 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 combined fund balances of \$30,875,650, well above last year's ending fund balances of \$27,575,015.

### **Governmental Fund Highlights**

- The District's General Fund financial position remained stable. Growth during the year in unrestricted state grants resulted in an increase in revenues. However, the increase in revenues was offset by an increase in spending for the instructional programs resulting in little change in the fund balance.
- The General Fund balance decreased slightly from \$8,339,933 to \$8,255,123 attributable in part to a larger commitment in instructional expenditures, with a smaller increase in property taxes collected in fiscal year 2005 and state aid.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$1,367,214 in fiscal 2004 to \$1,995,013 in fiscal 2005. While expenditures remained approximately the same, revenues increased due to a down payment on the sale of the previous administration center and donations for the new synthetic turf field.
- The Capital Projects Fund balance decreased from \$1,939,544 in fiscal year 2004 to \$1,318,155 in fiscal 2005 due to a transfer of funds from the PPEL Fund to the Debt Service Fund.

### **Proprietary Fund Highlights**

- The School Nutrition Fund net assets increased from \$601,769 at June 30, 2004 to \$722,749 at June 30, 2005. This slight increase was primarily due to the matching of expenditures to revenues collected.

## **Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Over the course of the year, the District amended its annual budget one time to reflect additional expenditures associated with instruction due to the budget conversion from cash to GAAP basis; for non-instructional programs primarily in the Nutrition fund for cafeteria equipment, and the other expenditure area due to additional capital projects; the high school cafeteria and new maintenance facility. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 43 and 44.

### **Legal Budgetary Highlights**

The District's total actual receipts were approximately \$862,555 more than the total budgeted receipts, a variance of less than 2%.

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 the actual expenditures during the year.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2005, the District had invested over \$21 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 amount represents a net increase of 16 percent from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year exceeded \$1.3 million.

The largest change in capital asset activity during the year occurred in the construction in progress and building categories. The District's construction in progress totaled \$130,440 at June 30, 2005, compared to \$2,468,746 reported at June 30, 2004. This significant decrease resulted from the completion of the Muscatine High School and West Middle School construction and renovation projects financed by the local option sales tax and Physical Plant and Equipment Levy. The building and building improvement totaled \$18,148,195 at June 30, 2005, compared to \$13,652,839 reported at June 30, 2004. This significant increase resulted from the completion of the Muscatine High School and West Middle School construction and renovation projects.

**Figure A-6**  
**Capital Assets, net of Depreciation**  
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-2005
Land	694	679	-	-	694	679	2.2%
Construction in progress	131	2,469	-	-	131	2,469	-94.7%
Buildings	18,148	13,653	-	-	18,148	13,653	32.9%
Improvements other than buildings	898	159	-	-	898	159	464.8%
Furniture and equipment	1,419	1,356	38	42	1,457	1,398	4.2%
Totals	21,290	18,316	38	42	21,328	18,358	16.2%

### Long-Term Debt

At June 30, 2005, the District had \$2,849,556 in general obligation and other long-term debt outstanding. This represents a decrease of 18.27% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding bonded indebtedness at June 30, 2005, of \$760,000.

**Figure A-7**  
**Outstanding Long-Term Obligations**

	Total		Total
	School District		Change
	2005	2004	2004-2005
General obligation bonds	760,000	1,495,000	-49.2%
Early retirement	2,089,556	1,991,432	4.9%
Totals	2,849,556	3,486,432	-18.3%

## Factors Bearing on the District's Future

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

- The district wrote and received two grants for the construction and fire (life) safety work for West Middle School that will begin in fiscal year 2004. We received notification of an Iowa Demonstration Construction Grant Award for \$1,000,000 and a fire (life) safety grant for \$275,000. However, these grants will not be received until the fall of 2005.
- With the move of the Administration Center to 2900 Mulberry, the District no longer needs the property at 1403 Park Avenue. The District has approved the sale the property to Muscatine Community College. A down payment has been received and sale completion will take place in the fall of 2005.
- With the District sale of the property at 1403 Park Avenue, we have begun building a new facilities/operations building which is being located at Muscatine High School. The project was awarded to Wendler Engineering for \$634,000 on June 13, 2005.
- The District has switched to the GAAP (generally accepted accounting principles) form of budgeting in fiscal year 2005. We previously budgeted under the cash or modified accrual basis. This change will impact the timing and recording of revenue and expenditures, which may significantly effect the financial statements and the comparability of past and future statements.
- Remodeling and replacement of antiquated equipment at the High School cafeteria is being considered in hopes of increasing the participation of our students in the hot lunch program.
- Fiscal year 2006 is the last year of General obligation bonded indebtedness.
- An early retirement incentive program will be offered to eligible district employees in fiscal years 2006 and 2007. It is anticipated that approximately 60 employees will retire over the next few years.
- The district negotiated two year collective bargaining agreements for all employee groups for fiscal years 2006 and 2007. The two year agreements will provide total package increases of 4.2% and 3.5%.
- The districts regular program cost per pupil increased 4% from \$4,741 to \$4,931 from fiscal year 2005 to 2006.
- The school districts certified enrollment decreased .6 FTE from 5,569.4 students in September 2004 to 5,568.8 students in September 2005.
- With the federal No Child Left Behind legislation, all schools must annually meet numerous accountability standards or be placed on a leveled sanction list. To meet the sanctions, districts must provide increased professional development for the certified staff. Professional development requires increased financial resources that include additional teacher compensation, purchasing curriculum materials, staff attendance at out-of-district workshops, and the hiring of outside consultants.

Muscatine High School was cited as a School in Need of Assistance (SINA) due to testing participation rate. The building has shown improvement for two consecutive years and is anticipating that it will be removed from the list for the 2006-07 year. However, the high school was also placed on the watch list in 2005-06 due to graduation rate and student achievement. It is projected that MHS will be moved to the SINA list for the 2006-07 school years for these two reasons. Removal from this list will require the district to spend additional funds for professional development.

West Middle School was placed on the SINA list for 2005-06 due to student achievement. They will remain on the list until they have shown two consecutive years of improved test scores. To address the student academic needs, additional funds will need to be allocated for professional development.

The Iowa Department of Education has implemented two additional initiatives that will require resource allocation. The Iowa Professional Development Model and the Individual Career Development Plan requires that all buildings within a district develop and implement a comprehensive professional development plan for all teachers in the building.

Iowa is the only state to not have state standards due to the emphasis on local control. Because of this, each district must develop, write, and implement standards and benchmarks for every curricular area. This requires that teachers work in the summer to complete these curriculum guides.

Currently NCLB requires that testing scores be disaggregated and reported for grades 4, 8, and 11. This is a time consuming process. Information from the Department of Education indicates that the reporting grades will be expanded to include grades 3-8 and 11. This increase in the number of grades reported will require additional staff hours to disaggregate, analyze, and report the data to students, parents, staff, board of education, and community.

Another part of NCLB requires paraprofessionals who work in a Title One building be highly qualified. To meet this standard, paraprofessionals must have additional training which is provided on an ongoing basis by district personnel.

### **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 Jean Long, Director of Finance and Budgeting, Muscatine Community School District, 2900 Mulberry Avenue, Muscatine, Iowa, 52761.

## **Basic Financial Statements**

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2005

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents			
Cash on hand	2,525	-	2,525
Cash	10,888,011	712,362	11,600,373
Certificate of deposit (short term)	4,684,041	-	4,684,041
Receivables:			
Local tax	143,742	-	143,742
Accrued interest:			
Certificates of Deposit	4,291	-	4,291
Governmental claims:			
Other Government	816,614	-	816,614
Due from PPEL Fund	-	-	-
Other	152,961	77	153,038
Inventories	29,316	54,511	83,827
Prepaid expenditures	317,790	-	317,790
Capital Assets not being depreciated:			
Land	694,271	-	694,271
Construction in progress	130,440	-	130,440
Capital Assets, net of accumulated depreciation (note 6)	20,465,709	37,664	20,503,373
<b>Total assets</b>	<b>38,329,711</b>	<b>804,614</b>	<b>39,134,325</b>
<b>Liabilities</b>			
Accounts Payable	188,913	-	188,913
Accrued Payroll and Other Expenses	4,116,356	58,275	4,174,631
Student Meal Prepayments	-	23,590	23,590
Deferred Revenues	98,236	-	98,236
Deposit on Future			
Sale of Real Property	201,000	-	201,000
Long-term liabilities (note 7):			
Portion due within one year:			
Capital leases	-	-	-
Bonds payable	760,000	-	760,000
Early Retirement	438,821	-	438,821
Portion due after one year:			
Capital leases	-	-	-
Bonds payable	-	-	-
Early Retirement	1,650,735	-	1,650,735
<b>Total liabilities</b>	<b>7,454,061</b>	<b>81,865</b>	<b>7,535,926</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	20,530,420	37,664	20,568,084
Restricted for:			
State programs	198,413	-	198,413
Other reserves	39,316	-	39,316
Debt service levy	51,752	-	51,752
PPEL levy	1,995,013	-	1,995,013
Other special revenue purposes	348,820	54,511	403,331
Unrestricted	7,711,916	630,574	8,342,490
<b>Total net assets</b>	<b>30,875,650</b>	<b>722,749</b>	<b>31,598,399</b>

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Governmental activities:</b>				
Instruction:				
Regular instruction	13,826,036	1,321,862	2,022,808	
Special instruction	10,372,197	346,365	298,190	
Other instruction	1,156,007		1,244,718	
	<u>25,354,240</u>	<u>1,668,227</u>	<u>3,565,716</u>	<u>-</u>
Support Services:				
Student services	1,235,871		161,438	
Instructional staff services	1,409,808			
Administrative services	2,446,449	-	-	
Operation and maintenance of plant services	3,332,293	37,113		
Transportation services	1,246,545	63,180		
Central support services	3,024			
	<u>9,673,990</u>	<u>100,293</u>	<u>161,438</u>	<u>-</u>
Non-instructional services	5,514			
Other expenditures:				
Facilities acquisition	6,466,253			
Long-term debt interest	47,869			
AEA flowthrough	1,581,225		1,581,225	
Loss on Disposition of Fixed Assets	97,951			
Depreciation(unallocated)*	10,251			
	<u>8,203,549</u>	<u>-</u>	<u>1,581,225</u>	<u>-</u>
Total governmental activities	43,237,293	1,768,520	5,308,379	-
Business-Type activities:				
Non-instructional programs:				
Nutrition services	2,221,435	1,149,214	1,188,879	
Total	<u>45,458,728</u>	<u>2,917,734</u>	<u>6,497,258</u>	<u>-</u>

**General Revenues:**

Property tax levied for:  
 General purposes  
 Management  
 Capital outlay  
 Debt service  
 PPEL  
 Unrestricted state grants  
 Unrestricted investment earnings  
 Other  
 Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

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

Exhibit B

Net(Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(10,481,366)		(10,481,366)
(9,727,642)		(9,727,642)
88,711		88,711
(20,120,297)	-	(20,120,297)
(1,074,433)		(1,074,433)
(1,409,808)		(1,409,808)
(2,446,449)		(2,446,449)
(3,295,180)		(3,295,180)
(1,183,365)		(1,183,365)
(3,024)		(3,024)
(9,412,259)	-	(9,412,259)
(5,514)	-	(5,514)
(6,466,253)		(6,466,253)
(47,869)		(47,869)
-		-
(97,951)		(97,951)
(10,251)		(10,251)
(6,622,324)	-	(6,622,324)
(36,160,394)	-	(36,160,394)
-	116,658	116,658
(36,160,394)	116,658	(36,043,736)
11,184,280	-	11,184,280
973,442	-	973,442
2,701,832	-	2,701,832
-	-	-
1,618,734	-	1,618,734
21,666,405	-	21,666,405
275,490	3,246	278,736
1,040,846	1,076	1,041,922
39,461,029	4,322	39,465,351
3,300,635	120,980	3,421,615
27,575,015	601,769	28,176,784
30,875,650	722,749	31,598,399

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Balance Sheet  
Governmental Funds  
June 30, 2005

	General Fund	Management Fund	Capital Projects Fund	Nonmajor Special Revenue	Total
<b>Assets</b>					
Cash and cash equivalents:					
Cash on hand	25	-	-	2,500	2,525
Cash	7,199,033	348,814	927,756	2,412,408	10,888,011
Certificate of deposit (short term)	4,676,541	-	-	7,500	4,684,041
Receivables:					
Local tax	118,564	10,319	-	14,859	143,742
Local Option Tax	-	-	390,399	-	390,399
Accrued interest:					
Certificates of Deposit	4,110	-	-	181	4,291
Governmental claims:					
State Aid	-	-	-	-	-
Other Government	426,215	-	-	-	426,215
Due from PPEL Fund					
Other	150,697	-	-	2,264	152,961
Inventories	29,316	-	-	-	29,316
Prepaid expenditures	10,000	307,790	-	-	317,790
<b>Total Assets</b>	<b>12,614,501</b>	<b>666,923</b>	<b>1,318,155</b>	<b>2,439,712</b>	<b>17,039,291</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	162,807	-	-	26,106	188,913
Accrued Payroll and Other Expenses	4,098,335	-	-	18,021	4,116,356
Deferred Revenues	98,236	-	-	-	98,236
Due to General Fund	-	-	-	-	-
Total Liabilities	4,359,378	-	-	44,127	4,403,505
Fund Balances:					
Reserved:					
Federal/State programs	198,413	-	-	-	198,413
Inventories/prepays/encumbrances	39,316	-	-	-	39,316
Debt service	-	-	-	51,752	51,752
Unreserved:					
Designated	688,441	-	-	348,820	1,037,261
Undesignated	7,328,953	666,923	1,318,155	1,995,013	11,309,044
Total Fund Balances	8,255,123	666,923	1,318,155	2,395,585	12,635,786
<b>Total Liabilities and Fund Balances</b>	<b>12,614,501</b>	<b>666,923</b>	<b>1,318,155</b>	<b>2,439,712</b>	<b>17,039,291</b>

See notes to financial statements

MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Balance Sheet - Governmental Funds  
 to the Statement of Net Assets  
 June 30, 2005

<b>Total fund balances of governmental funds (Exhibit C)</b>	12,635,786
<b>Amount reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial recourses and, therefore, are not reported as assets in the governmental funds	21,290,420
Deposit on Future Sale of Real Property	(201,000)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(2,849,556)
<b>Net assets of governmental activities (Exhibit A)</b>	<b>30,875,650</b>
See notes to financial statements.	

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2005

	General Fund	Management Fund	Capital Projects Fund	Nonmajor Special Revenue	Total
<b>REVENUES:</b>					
Local sources:					
Local Taxes	11,176,093	973,442	2,701,832	1,617,717	16,469,084
Tuition	532,156	-	-	563,405	1,095,561
Other	1,162,075	4,915	14,912	805,257	1,987,159
Intermediate sources				-	-
State Sources	24,925,476	-	-	1,017	24,926,493
Federal sources	2,057,495	-	-	-	2,057,495
Other Sources	2,136	-	-	201,000	203,136
Total Revenues	<u>39,855,431</u>	<u>978,357</u>	<u>2,716,744</u>	<u>3,188,396</u>	<u>46,738,928</u>
<b>EXPENDITURES:</b>					
Instruction:					
Regular	18,365,707	585,670	-	-	18,951,377
Special	9,525,384	-	-	846,813	10,372,197
Other	1,156,007	-	-	-	1,156,007
Support Services:					
Student services	1,246,159	17,838	-	-	1,263,997
Instructional staff services	1,206,800	6,817	-	148,865	1,362,482
Administrative services	2,333,471	144,961	-	-	2,478,432
Operation and maintenance of plant services	3,262,892	125,668	-	-	3,388,560
Transportation services	1,227,380	66,190	-	18,303	1,311,873
Central support services	-	3,024	-	-	3,024
Non-instructional programs	35,216	33,290	-	-	68,506
Other Expenditures:					
Facilities acquisition and construction services	-	-	2,555,264	1,572,683	4,127,947
Long-term debt:					
Principal	-	-	-	735,000	735,000
Interest and fiscal charges	-	-	-	47,869	47,869
AEA Flowthrough	1,581,225	-	-	-	1,581,225
Total Expenditures	<u>39,940,241</u>	<u>983,458</u>	<u>2,555,264</u>	<u>3,369,533</u>	<u>46,848,496</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(84,810)</u>	<u>(5,101)</u>	<u>161,480</u>	<u>(181,137)</u>	<u>(109,568)</u>
<b>OTHER FINANCING SOURCES(USES):</b>					
Transfers In	-	-	-	782,869	782,869
Transfers (Out)	-	-	(782,869)	-	(782,869)
Sale of Materials/bonds	-	-	-	-	-
Total Other Financing Sources(Uses)	<u>-</u>	<u>-</u>	<u>(782,869)</u>	<u>782,869</u>	<u>-</u>
Net change in fund balances	(84,810)	(5,101)	(621,389)	601,732	(109,568)
Fund balances beginning of year	<u>8,339,933</u>	<u>672,024</u>	<u>1,939,544</u>	<u>1,793,853</u>	<u>12,745,354</u>
Fund balances end of year	<u>8,255,123</u>	<u>666,923</u>	<u>1,318,155</u>	<u>2,395,585</u>	<u>12,635,786</u>

See notes to financial statements

MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds  
 Year Ended June 30, 2005

**Net change in fund balances - total governmental funds** (109,568)  
**(Exhibit E)**

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Construction in progress	(2,338,306)	
Loss on disposition of capital outlays	(97,951)	
Capital outlays	6,768,760	
Depreciation Expense	(1,358,175)	2,974,328

Deposit on Future Sale of Real Property (201,000)

Repayment of Long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 735,000

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

Early retirement	(98,125)	
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**Changes in net assets of governmental activities (Exhibit B)** 3,300,635

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Fund  
Year Ended June 30, 2005

	School Nutrition Fund
<b>Assets</b>	
Cash and cash equivalents	712,362
Accounts receivable	77
Inventories	54,511
Capital assets, net of accumulated depreciation	37,664
<b>Total assets</b>	804,614
 <b>Liabilities</b>	
Accounts payable	-
Accrued Payroll and Other Expenses	58,275
Other payables	23,590
<b>Total liabilities</b>	81,865
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	37,664
Unrestricted	685,085
<b>Total net assets</b>	722,749

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Fund  
Year Ended June 30, 2005

	School Nutrition Fund
Operating Revenue:	
Local sources:	
Sale of lunches and breakfasts	1,149,214
Other local revenue	1,076
Total operating revenues	1,150,290
 Operating Expenses:	
Student services programs:	
Salaries & benefits	933,803
Food	771,610
Commodities consumed	110,264
Supplies	169,026
Purchased services	213,450
Depreciation	18,591
Miscellaneous	4,691
Total operating expenses	2,221,435
 Operating Loss	(1,071,145)
 Non-operating Revenues:	
Other:	
Interest on investments	3,246
State appropriations	
Net commodities received	92,543
State programs	24,011
Federal appropriations:	
Lunch program claims	1,072,325
Total non-operating revenues	1,192,125
 Changes in net assets	120,980
 Net assets beginning of year	601,769
 Net assets end of year	722,749
 See notes to financial statements	

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Fund  
Year Ended June 30, 2005

	Proprietary Fund Types
	School Nutrition Fund
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	1,149,214
Cash received from miscellaneous operating activities	1,076
Cash payments to employees for services	(875,528)
Cash payments to suppliers for goods or services	(1,163,312)
Net cash used in operating activities	(888,550)
Cash flows from non-capital financing activities:	
State grants received	24,011
Federal grants received	1,072,325
Net cash provided by non-capital financing activities	1,096,336
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(14,319)
Cash flows from investing activities:	
Interest on investments	3,246
Transfers out	-
Net increase in cash and cash equivalents	196,713
Cash and cash equivalents at beginning of year	515,649
Cash and cash equivalents at end of year	712,362

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Fund  
Year Ended June 30, 2005

Proprietary  
Fund Types  


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School Nutrition  
Fund  


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**Reconciliation of operating income(loss) to net cash  
provided by operating activities:**

Operating Income(Loss)	(1,071,145)
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:	
Commodities Used	110,264
(Increase) in receivables	(24)
(Increase) in inventory	(334)
Depreciation	18,591
Increase in accrued payroll payable	58,275
(Decrease) in accounts payable	(6,960)
Increase in meal prepayments	2,783
Transfer Out	-
	<hr/>
Net cash used by operating activities	<u><u>(888,550)</u></u>

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

During the year ended June 30, 2004, the district received \$92,543 of federal commodities.

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
Fuduciary Funds  
June 30, 2005

	Private Purpose		Total
	Trust Funds	Agency Fund	
<b>Assets</b>			
Cash and cash equivalents:			
Cash on hand	24,843	308,871	333,714
Certificate of deposit (short term)	38,106	-	38,106
Receivables:			
Accrued interest:			
Certificates of Deposit	426	-	426
Restricted assets			
Treasury notes (long term)	99,360	-	99,360
 Total Assets	 162,735	 308,871	 471,606
<b>Liabilities</b>			
Liabilities:			
Accounts payable	-	-	-
Other payables	-	308,871	308,871
Total Liabilities	-	308,871	308,871
Net Assets:			
Reserved for scholarships	162,735	-	162,735

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2005

	Private Purpose Trusts		
	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Total
Additions			
Local sources:			
Interest on investments	6,782	3,599	10,381
Miscellaneous revenue	-	-	-
Total	6,782	3,599	10,381
Deductions			
Support services:			
Scholarships awarded	3,000	2,000	5,000
Total	3,000	2,000	5,000
Change in net assets	3,782	1,599	5,381
Net Assets beginning of year	98,236	59,118	157,354
Net Assets end of year	102,018	60,717	162,735

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Assets, Liabilities and Net Assets - Cash Basis  
Component Unit  
December 31, 2004

Assets	
Cash and Cash Equivalents	206,580
Certificates of Deposit	440,536
Investments	<u>253,837</u>
Total Assets	<u><u>900,953</u></u>
Liabilities	-
Net Assets	
Restricted Net Assets	870,553
Unrestricted Net Assets	<u>30,400</u>
Total Liabilities and Net Assets	<u><u>900,953</u></u>

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Support and Revenue, Expenses and  
Changes in Net Assets - Cash Basis  
Component Unit  
Year Ended December 31, 2004

	Restricted Funds	Unrestricted Funds	Total All Funds
Support and Revenue			
Interest	15,302	666	15,968
Donations	226,173	3,630	229,803
Dividends	1,905	-	1,905
Gain or (Loss) on Sale of Investments	-	-	-
Unrealized Gain (Loss) on Investments	19,118	-	19,118
Other	240	500	740
Total Support and Revenue	<u>262,738</u>	<u>4,796</u>	<u>267,534</u>
Expenses			
Supplies	99	111	210
Scholarships	57,476	3,500	60,976
Grants	16,662	-	16,662
High School Student Commons	98,847	-	98,847
Contracted Services	3,712	-	3,712
Audits	-	1,400	1,400
Total Expenses	<u>176,796</u>	<u>5,011</u>	<u>181,807</u>
Other Financing Sources & (Uses)	(7,185)	7,185	-
Excess of Support and Revenue (Deficiency) Over Expenses	78,757	6,970	85,727
Net Assets, Beginning of Year	<u>791,796</u>	<u>23,430</u>	<u>815,226</u>
Net Assets, End of Year	<u><u>870,553</u></u>	<u><u>30,400</u></u>	<u><u>900,953</u></u>

See notes to financial statements

Muscatine Community School District

Notes to Financial Statements

June 30, 2005

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

Muscatine 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 Muscatine, Iowa, and the predominate agricultural territory in Muscatine County. 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, Muscatine 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.

These financial statements present Muscatine Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District. Certain disclosures about the component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the District.

Discrete Component Unit – Muscatine Community School Foundation is a legally separate not-for-profit foundation. The Foundation was established for the purpose of accepting and investing gifts of money and property which will be used for the exclusive purpose of giving financial assistance to the Muscatine Community School District and granting scholarships to its students who will attend community colleges and universities. The Foundation is governed by a Board of Directors who are appointed by the School District Board.

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

B. Basis of Presentation

District-wide financial statements - The statement of net assets and the statement of activities report information on all of the non-fiduciary 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 non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major 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 receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Management Fund is a tax that can be levied in excess of any tax limits imposed by statute. The management levy can only be used for the specific purposes listed in the statute. The management levy may be used for an early retirement program, unemployment compensation, tort liability and insurance by meeting the statutory requirements for each of these areas. The amount of the levy is the amount deemed necessary by the school board to meet the obligations allowed under the levy Iowa Code 298.4.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private-purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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 entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

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

Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

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

Property Tax Receivable – Property tax in the 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.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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.

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

Land	2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	250
Other furniture and equipment	2,500

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

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable- Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been recognized as expenses.

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

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term obligations – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund 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 District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District’s deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

(3) **Interfund Receivables and Payables**

There were no interfund receivable or payable balances as of June 30, 2005.

(4) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:	Capital Projects	
Debt		<u>782,869</u>
Total		<u>782,869</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 does not participate in the Iowa Schools Cash Anticipation Program (ISCAP).

**(6) Capital Assets**

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	679,271	15,000	-	694,271
Construction in progress	2,468,746	3,880,654	6,218,960	130,440
Total capital assets not being depreciated	3,148,017	3,895,654	6,218,960	824,711
Capital assets being depreciated:				
Buildings and improvements	27,828,515	5,446,356	-	33,274,871
Improvements other than buildings	918,741	772,604	560,000	1,131,345
Furniture and equipment	4,553,705	534,800	400,468	4,688,037
Total capital assets being depreciated	33,300,961	6,753,760	960,468	39,094,253
Less accumulated depreciation for:				
Buildings and improvements	14,175,676	951,000	-	15,126,676
Improvements other than buildings	759,812	33,252	560,000	233,064
Furniture and equipment	3,197,397	373,923	302,516	3,268,804
Total accumulated depreciation	18,132,885	1,358,175	862,516	18,628,544
Total capital assets being depreciated, net	15,168,076	5,395,585	97,952	20,465,709
Governmental activities capital assets, net	18,316,093	9,291,239	6,316,912	21,290,420

	Balance Beginning of Year	Increases	Decreases	Balance End
<b>Business-type activities:</b>				
Furniture and equipment	111,148	14,320	-	125,468
Less accumulated depreciation	69,213	18,591	-	87,804
Business-type activities capital assets, net	41,935	(4,271)	-	37,664

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	1,062,724
Special	-
Other	-

Support services:

Student Services	720
Instructional staff	10,833
Administration	20,365
Operation and maintenance of plant	28,605
Transportation	224,677

1,347,924

Unallocated depreciation

10,251

Total governmental activities depreciation expense

1,358,175

Business-type activities:

Food services	18,591
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## (7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Net Additions	Reductions	Balance End Of Year	Due Within One Year
General obligation bonds	1,495,000	-	735,000	760,000	-
Leases payable	-	-	-	-	-
Early retirement	1,991,432	516,483	418,359	2,089,556	438,821
Total	3,486,432	516,483	1,153,359	2,849,556	438,821

### Early Retirement

The District did not offer a voluntary early retirement plan in fiscal year 2005. Early retirement expenditures for the year ended June 30, 2005, totaled \$418,358.

Details of the District's Early Retirement indebtedness are as follows:

	General	Management	Total
2006	15,841	422,980	438,821
2007	15,841	393,621	409,462
2008	15,841	356,251	372,092
2009	15,841	307,012	322,853
2010-2014	15,840	530,489	546,329
Total	79,204	2,010,353	2,089,557

Bonds Payable

Details of the District's general obligation bonded indebtedness are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	760,000	21,474	781,474

Bond Maturity Schedule

<u>Year Ending June 30</u>	<u>Interest Rate</u>	<u>Amount</u>
2006	3.65/3.80	<u>760,000</u>
Total		<u>760,000</u>

Capital Leases

The District has paid off all lease-purchase agreements for the purchase of copiers, as of June 30, 2004.

**(8) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$1,483,309, \$1,428,618 and \$1,443,899, respectively, equal to the required contributions for each year.

**(9) Risk Management**

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

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,581,225 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Construction Commitment**

The District has entered into contracts totaling \$2,081,693 for various remodeling and construction projects. As of June 30, 2005, costs of \$130,440 had been incurred against the contracts. Balances of \$1,951,253 remaining at June 30, 2005, will be paid as work on projects concludes.

## **Required Supplementary Information**

MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -  
 Budget and Actual (GAAP Basis) - All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 Year ended June 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts		
Local Sources	19,754,940	1,153,536
Intermediate sources	-	-
State sources	24,926,493	116,554
Federal sources	2,057,495	1,072,325
Total receipts	<u>46,738,928</u>	<u>2,342,415</u>
Disbursements:		
Instruction	30,479,581	-
Support Services	9,808,368	-
Non-instructional programs	68,506	2,221,435
Other expenditures	6,492,041	-
Total disbursements	<u>46,848,496</u>	<u>2,221,435</u>
Excess (deficiency) of receipts over (under) disbursements	(109,568)	120,980
Other financing sources, net	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(109,568)	120,980
Balances beginning of year (As restated)*	<u>12,745,354</u>	<u>601,769</u>
Balances end of year	<u>12,635,786</u>	<u>722,749</u>
* Balance beginning of year- cash basis	12,224,110	494,894
Net Accrual adjustments	521,244	106,875
Balance beginning of year- GAAP basis	<u>12,745,354</u>	<u>601,769</u>

See accompanying independent auditors' report.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
20,908,476	20,273,027	20,273,027	635,449
-	-	-	-
25,043,047	25,180,386	25,180,386	(137,339)
3,129,820	2,765,375	2,765,375	364,445
49,081,343	48,218,788	48,218,788	862,555
30,479,581	29,622,828	30,842,546	(362,965)
9,808,368	10,122,153	10,122,153	(313,785)
2,289,941	2,099,570	2,447,321	(157,380)
6,492,041	5,872,051	7,914,216	(1,422,175)
49,069,931	47,716,602	51,326,236	(2,256,305)
11,412	502,186	(3,107,448)	3,118,860
-	-	-	-
11,412	502,186	(3,107,448)	3,118,860
13,347,123	11,312,784	11,312,784	2,034,339
13,358,535	11,814,970	8,205,336	5,153,199

Muscatine Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2005

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 the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$3,609,634.

**Muscatine Community School District**

## **Other Supplementary Information**

**Muscatine Community School District**

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2005

	Student Activity Fund	Debt Fund	PPEL Fund	Total
<b>ASSETS</b>				
Cash and cash equivalents:				
Cash on hand	2,500	-	-	2,500
Cash	380,502	51,752	1,980,154	2,412,408
Certificate of deposit (short term)	7,500	-	-	7,500
Receivables:				
Property tax	-	-	14,859	14,859
Sales & Use Taxes	-	-	-	-
Accrued interest:				
Bank Accounts	-	-	-	-
Certificates of Deposit	181	-	-	181
Other	2,264	-	-	2,264
<b>TOTAL ASSETS</b>	<b>392,947</b>	<b>51,752</b>	<b>1,995,013</b>	<b>2,439,712</b>
<b>LIABILITIES AND FUND EQUITY</b>				
Liabilities:				
Accounts payable	26,106	-	-	26,106
Accrued Payroll and Other Expenses	18,021	-	-	18,021
Deferred Revenue	-	-	-	-
Due to General Fund	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>44,127</b>	<b>-</b>	<b>-</b>	<b>44,127</b>
Fund Equity:				
Fund balances:				
Designated	348,820	51,752	-	400,572
Undesignated	-	-	1,995,013	1,995,013
<b>Total Fund Equity</b>	<b>348,820</b>	<b>51,752</b>	<b>1,995,013</b>	<b>2,395,585</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>392,947</b>	<b>51,752</b>	<b>1,995,013</b>	<b>2,439,712</b>

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
Year Ended June 30, 2005

	Activity Fund	Debt Service Fund	PPEL Fund	Total
<b>REVENUES:</b>				
Local sources:				
Local Taxes	-	-	1,617,717	1,617,717
Tuition	563,405	-	-	563,405
Other	272,615	3,029	529,613	805,257
Intermediate sources				
State Sources	-	-	1,017	1,017
Federal sources	-	-	-	-
Other Sources	-	-	201,000	201,000
Total Revenues	836,020	3,029	2,349,347	3,188,396
<b>EXPENDITURES:</b>				
Instruction:				
Regular	-	-	-	-
Special	846,813	-	-	846,813
Other	-	-	-	-
Support Services:				
Student services	-	-	-	-
Instructional staff services	-	-	148,865	148,865
Administrative services	-	-	-	-
Operation and maintenance of plant services	-	-	-	-
Transportation services	18,303	-	-	18,303
Central support services	-	-	-	-
Non-instructional programs	-	-	-	-
Other Expenditures:				
Facilities acquisition and construction services	-	-	1,572,683	1,572,683
Long-term debt:				
Principal	-	735,000	-	735,000
Interest and fiscal charges	-	47,869	-	47,869
AEA Flowthrough	-	-	-	-
Total Expenditures	865,116	782,869	1,721,548	3,369,533
Excess (deficiency) of revenues over (under) expenditures	(29,096)	(779,840)	627,799	(181,137)
<b>OTHER FINANCING SOURCES(USES):</b>				
Transfers In	-	782,869	-	782,869
Transfers (Out)	-	-	-	-
Total Other Financing Sources (uses)	-	782,869	-	782,869
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	(29,096)	3,029	627,799	601,732
Fund balances beginning of year	377,916	48,723	1,367,214	1,793,853
Fund balances end of year	348,820	51,752	1,995,013	2,395,585

MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 Year Ended June 30, 2005

<u>Account</u>	<u>Balance June 30, 2004</u>	<u>Revenues and Interfund Transfers</u>	<u>Expenditures</u>	<u>Balance June 30, 2005</u>
<u>High School:</u>				
Academic decathlon	21	(21)	-	-
Activity ticket	1,967	-	-	1,967
Special Ed Wk Experience	11,530	48,468	42,967	17,031
Russian Exchange	115	(115)	-	-
Prof. staff scholarship	17	-	-	17
Student commons	11,639	14,896	12,309	14,226
Athletics	(7,411)	215,776	219,562	(11,197)
Cheerleaders	3,803	16,002	17,428	2,377
Donation fund	11,705	9,738	9,144	12,299
Pom-pom girls	3,790	8,251	12,619	(578)
Sport calendar	15,848	8,230	23,283	795
AP fund	3,743	17,651	18,928	2,466
Band	5,817	10,091	12,339	3,569
Chorus	887	8,924	4,521	5,290
Clubs	31,441	99,374	103,310	27,505
Dramatics	9,493	24,693	26,155	8,031
Forensics	3,592	9,731	4,894	8,429
Young ambassadors	843	(843)	-	-
Annual auroran	3,315	49,646	47,581	5,380
Weekly auroran	779	3,245	3,640	384
Tournament	6,098	(4,942)	376	780
Total MHS	119,032	538,795	559,056	98,771

MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 Year Ended June 30, 2005

<u>Account</u>	<u>Balance June 30, 2004</u>	<u>Revenues and Interfund Transfers</u>	<u>Expenditures</u>	<u>Balance June 30, 2005</u>
<u>Central Middle School:</u>				
Athletics	1,426	3,401	3,213	1,614
Fund raisers	8,749	38,224	36,356	10,617
Transportation	-	-	-	-
Student council	1,642	5,228	4,801	2,069
General activity	6,619	6,843	2,005	11,457
Little store	998	579	295	1,282
Music/drama	3,540	6,346	4,936	4,950
Yearbook	2,866	4,512	5,084	2,294
Juice	3,775	3,385	4,747	2,413
Officials	353	6,713	5,984	1,082
Book fairs	1,026	3,499	3,584	941
Total CMS	30,994	78,730	71,005	38,719
<u>West Middle School:</u>				
Athletics	2,456	2,265	3,847	874
Fund raisers	9,951	9,138	630	18,459
General activity	26,261	10,609	16,156	20,714
Juice	2,024	11,299	10,912	2,411
Little store	288	131	100	319
Music/drama	5,595	11,884	12,761	4,718
Periodicals	2,874	1,553	1,719	2,708
Yearbook	332	4,030	4,004	358
Math-A-Thon	5,410	1,493	1,032	5,871
Officials	(2,087)	4,250	2,258	(95)
Book fairs	1,496	1,219	1,245	1,470
Student council	2,240	3,728	5,968	-
Total WMS	56,840	61,599	60,632	57,807

MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 Year Ended June 30, 2005

<u>Account</u>	<u>Balance June 30, 2004</u>	<u>Revenues and Interfund Transfers</u>	<u>Expenditures</u>	<u>Balance June 30, 2005</u>
<u>Elementary:</u>				
Colorado general acct.	6,022	12,378	12,168	6,232
Franklin general acct.	5,458	7,676	8,061	5,073
Garfield general acct.	10,096	3,925	4,017	10,004
Grant general acct.	6,100	14,057	14,281	5,876
Jefferson general acct.	12,568	6,830	12,627	6,771
Madison general acct.	5,373	8,675	8,671	5,377
McKinley general acct.	25,299	25,372	31,758	18,913
Mulberry general acct.	7,880	12,230	12,674	7,436
Washington general acct.	5,997	10,860	10,916	5,941
Madison friends of playground	7,645	36		7,681
Total Elementary	92,438	102,039	115,173	79,304
<u>Other:</u>				
Interest from investments	33,661	3,265	3,119	33,807
Miscellaneous	66	-	-	66
Adult education	28	81	-	109
Activity van	33,427	15,483	20,295	28,615
MHS College for kids	8,930	36,028	35,836	9,122
Total other	76,112	54,857	59,250	71,719
Total before petty cash	375,416	836,020	865,116	346,320
Petty cash	2,500	-	-	2,500
Total Activity Fund	377,916	836,020	865,116	348,820

See accompanying independent auditors' report.

MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Assets and Liabilities  
Agency Fund  
Year Ended June 30, 2005

	Agency Fund
Balance beginning of year	286,631
<u>ADDITIONS:</u>	
Collections	2,980
Interest	342
Miscellaneous revenue	585,535
State Sources: Early Childhood	360,773
Admin Mentoring	-
Total additions	949,630
<u>DEDUCTIONS:</u>	
Miscellaneous	
Total deductions	927,390
Balance end of year	308,871

See accompanying independent auditors' report.

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

	Modified Accrual Basis			
	2005	2004	2003	2002
<b>REVENUES:</b>				
Local sources:				
Local Taxes	16,469,084	16,371,805	15,230,547	14,920,027
Tuition	1,095,561	1,182,937	1,181,545	1,193,459
Other	1,987,159	1,640,959	1,785,997	1,492,727
Intermediate sources	-	-	-	-
State Sources	24,926,493	23,761,286	23,971,741	23,243,190
Federal sources	2,057,495	1,938,482	1,742,263	1,853,611
Other Sources	203,136	13	10,015	30,352
Total Revenues	<u>46,738,928</u>	<u>44,895,482</u>	<u>43,922,108</u>	<u>42,733,366</u>
<b>EXPENDITURES:</b>				
Instruction:				
Regular	18,951,377	17,678,401	17,285,335	17,369,114
Special	10,372,197	9,765,835	9,553,538	9,093,555
Other	1,156,007	1,117,281	1,114,601	1,420,846
Support Services:				
Student services	1,263,997	1,183,036	1,237,413	1,131,624
Instructional staff services	1,362,482	1,380,395	1,187,895	1,148,616
Administrative services	2,478,432	2,166,956	2,134,009	2,245,082
Operation and maintenance of plant services	3,388,560	3,376,632	3,259,034	2,871,051
Transportation services	1,311,873	937,431	1,029,789	895,045
Central support services	3,024	176,779	163,494	154,988
Non-instructional programs	68,506	81,022	42,689	788,989
Other Expenditures:				
Facilities acquisition and construction services	4,127,947	4,765,109	4,288,396	2,688,875
Long-term debt:				
Principal	735,000	869,478	761,525	550,000
Interest and fiscal charges	47,869	69,953	119,877	165,940
AEA Flowthrough	1,581,225	1,561,603	1,659,652	1,636,274
Total	<u>46,848,496</u>	<u>45,129,911</u>	<u>43,837,247</u>	<u>42,159,999</u>

See accompanying independent auditors' report.

MUSCATINE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2005

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
Department of Agriculture:			
National School Lunch Program	10.555	FY05	<u>772,733</u>
School Breakfast Program	10.553	FY05	<u>257,886</u>
Special Milk Program	10.556	FY05	<u>1,372</u>
Summer Food Service Program for Children	10.559	FY05	<u>40,334</u>
Food Distribution*	10.550	FY05	<u>110,264</u>
Department of Interior:			
Flood Control Projects	12.106	FY05	<u>30,977</u>
Department of Education:			
Title I			
Language Development Program for Migrant Children	84.011		<u>79,211</u>
Language Development Program for Elementary Children	84.010		628,873
Language Development Program for Elementary Children	84.010		<u>154,520</u>
			<u>783,393</u>
State Grants for Innovative Programs	84.298	FY05	<u>30,036</u>
Carl Perkins Vocational Education Program	84.048A	FY05	<u>69,223</u>
Drug-Free Schools and Communities	84.186	FY05	<u>38,117</u>
Title II	84.340	FY05	<u>259,117</u>
Comprehensive School Reform	84.332	FY05	<u>117,860</u>
Success 4	84.027	FY05	<u>11,977</u>
Special Ed-Federal Part B	84.027	FY05	<u>280,036</u>
IPTV STAR Connectivity Grant	84.215K	FY05	<u>94,502</u>
Early Reading First	84.359B	FY05	<u>31,549</u>
Title III-ELL	84.365	FY05	<u>34,421</u>
Title VI	84.369	FY05	<u>31,926</u>
Elementary Counselor Grant	84.215E	FY05	<u>129,859</u>
Total			<u>\$3,204,793</u>

\* Noncash expenditures, value of commodities used in the Nutrition Programs.

**Basis of presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Muscatine Community School District and is presented on accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

See accompanying independent auditors' report

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

To the Board of Education of  
Muscatine 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 Muscatine Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 17, 2005. 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 Muscatine Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muscatine 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Muscatine Community School District and other parties to whom Muscatine Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Muscatine 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.

TAYLOR, REES, BECKEY & CO., P.C.  
Certified Public Accountants

Muscatine, Iowa  
November 17, 2005

**Independent Auditors' Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance**

**Muscatine Community School District**

Independent Auditors' Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance

To the Board of Education of  
Muscatine Community School District:

Compliance

We have audited the compliance of Muscatine Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Muscatine Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Muscatine Community School District's management. Our responsibility is to express an opinion on Muscatine Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muscatine Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Muscatine Community School District's compliance with those requirements.

In our opinion, Muscatine Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Muscatine Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Muscatine Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirement program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Muscatine Community School District and other parties to whom Muscatine Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

TAYLOR, REES, BECKEY & CO., P.C.  
Certified Public Accountants

Muscatine, Iowa  
November 17, 2005

Muscatine Community School District  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2005

**Part I: Summary of the Independent Auditors' Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 – Title I Language Development Program for Elementary Children
  - Clustered programs:
    - CFDA Number 10.553 – School Breakfast Program
    - CFDA Number 10.555 – National School Lunch Program
    - CFDA Number 10.556 – Special Milk Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Muscatine Community School District qualified as a low-risk auditee.

Muscatine Community School District  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2005

**Part II: Findings Related to the General Purpose Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**MATERIAL WEAKNESSES:**

None

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

None

**MATERIAL WEAKNESSES:**

None

**Other Findings Related To Statutory Reporting:**

- IV-A-04 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- IV-B-04 Certified Budget – Disbursements for the year ended June 30, 2005, did not exceed the amended certified budget.
- IV-C-04 Questionable Expenditures – 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.
- IV-D-04 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.
- IV-E-04 Business Transactions – No business transactions between the District and District officials or employees were noted.
- IV-F-04 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.
- IV-G-04 Board Minutes – No transaction requiring Board approval which had not been approved by the Board were noted.
- IV-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

IV-I-04 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.

IV-J-04 Certified Annual Report – The Certified Annual Report was filed with the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-04 Deficit Balances – Two student activity accounts had deficit balances at June 30, 2005.

Recommendation – The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response – The District is continuing to investigate alternatives to eliminate deficits in the student activity accounts at the end of the fiscal year.

Conclusion – Response accepted.