

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Table of Contents  
June 30, 2006

	<u>Page</u>	
<b>Officials</b>	1	
<b>Independent Auditor's Report</b>	2-3	
<b>Management's Discussion and Analysis</b>	4-13	
<b>Basic Financial Statements</b>		<u>Exhibit</u>
Government-wide Financial Statements		
Statement of Net Assets	A	15-16
Statement of Activities	B	17-18
Governmental Fund Financial Statements		
Balance Sheet	C	19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	20
Statement of Revenues, Expenditures and Changes in Fund Balances	E	21-22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Funds Financial Statements		
Statement of Net Assets	G	24
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statements		
Statement of Fiduciary Net Assets	J	27
Statement of Changes in Fiduciary Net Assets	K	28
<b>Notes to Financial Statements</b>		29-39
<b>Required Supplementary Information</b>		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Funds		41
Notes to Required Supplementary Information - Budgetary Reporting		42

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Table of Contents  
June 30, 2006

	<u>Schedule</u>	<u>Page</u>
<b>Other Supplementary Information</b>		
Nonmajor Governmental Funds		
Combining Balance Sheet	1	44
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	45-46
Nonmajor Proprietary Funds		
Combining Statement of Net Assets	3	47
Combining Statement of Revenues, Expenditures and Changes in Fund Net Assets	4	48
Combining Statement of Cash Flows	5	49
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	6	50
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	7	51
 <b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters</b>		 52-53
 <b>Schedule of Findings</b>		 54-56
 <b>Audit Staff</b>		 57

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
(Before September 2005 Election)		
Charles Clark	Board President	2007
Angie Kemp	Board Member	2005
Randy Schlutz	Board Member	2006
Riley Padgett	Board Member	2006
David Bieri	Board Member	2007
(After September 2005 Election)		
Charles Clark	Board President	2007
Randy Schlutz	Board Member	2006
Riley Padgett	Board Member	2006
David Bieri	Board Member	2007
Angie Kemp	Board Member	2008
<b>School Officials</b>		
John Dotson	Superintendent	2006
Karron Stineman	District Secretary/Treasurer	2006
Duane Goedken	Attorney	2006

# KAY L. CHAPMAN, CPA PC

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

## Independent Auditor's Report

To the Board of Education  
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Louisa-Muscatine Community School District, Letts, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Louisa-Muscatine Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated October 10, 2006 on my consideration of Louisa-Muscatine Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 41 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisa-Muscatine Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Kay L. Chapman, CPA PC  
October 10, 2006

---

---

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

---

---

Louisa-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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$6,985,710 in fiscal 2005 to \$7,247,839 in fiscal 2006 and General Fund expenditures increased from \$6,457,030 in fiscal 2005 to \$6,937,452 in fiscal 2006. The District's General Fund balance increased from \$1,157,520 in fiscal 2005 to \$1,505,407 in fiscal 2006, a 30% increase.
- The District again received 4% allowable growth and continued the pattern of a somewhat stable enrollment, down just 2.2 students from the previous year. Enrollment stability is a critical element in maintaining a sound financial foundation.
- The State boosted teacher's salaries through increased Teacher Quality funds and added 2 additional "pots" of money, totaling an almost \$50,000 increase in funds over the previous year.
- The District was granted nearly \$30,000 in Empowerment Funds from Muscatine and Louisa Counties to start an early childhood program for the birth-to-school age children of the district.
- The increase in expenditures was due to the usual increases in the negotiated salary and benefits and personnel costs, along with increased fuel and utility costs. High fuel costs were passed on by vendors in all areas of purchasing.

### **USING THIS ANNUAL REPORT**

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

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

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

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

statements provide financial information about activities for which Louisa-Muscatine Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

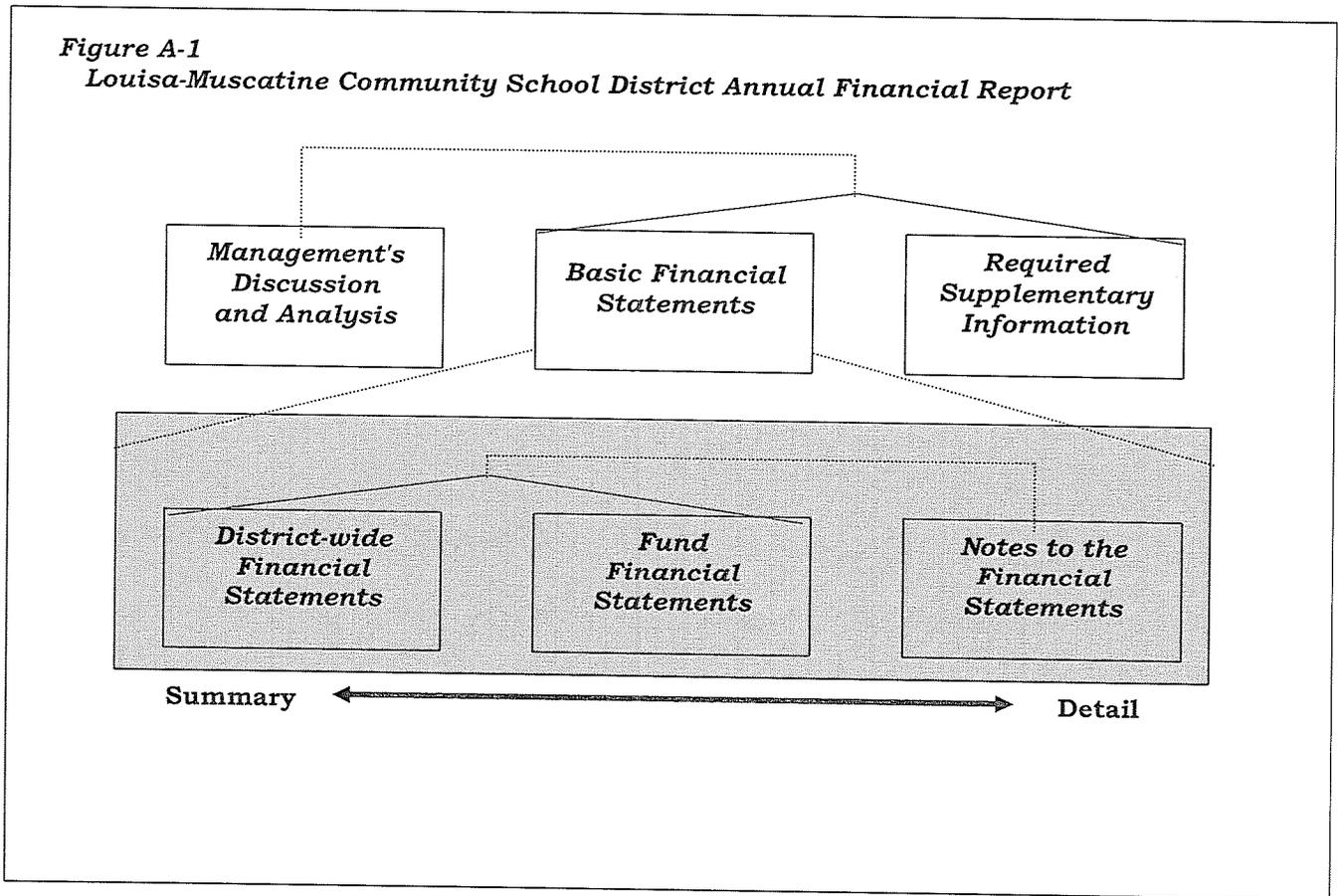


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-wide and Fund Financial Statements**

	Government-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: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<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, 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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring 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 government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Current and other assets	\$ 6,642,610	\$ 6,339,086	\$ 148,403	\$ 118,373	\$ 6,791,013	\$ 6,457,459	5.17%
Capital assets	<u>7,718,121</u>	<u>8,037,905</u>	<u>23,844</u>	<u>4,505</u>	<u>7,741,965</u>	<u>8,042,410</u>	-3.74%
Total assets	<u>14,360,731</u>	<u>14,376,991</u>	<u>172,247</u>	<u>122,878</u>	<u>14,532,978</u>	<u>14,499,869</u>	0.23%
Long-term obligations	2,664,005	3,206,435	-	-	2,664,005	3,206,435	-16.92%
Other liabilities	<u>3,892,428</u>	<u>3,933,616</u>	<u>27,641</u>	<u>26,043</u>	<u>3,920,069</u>	<u>3,959,659</u>	-1.00%
Total liabilities	<u>6,556,433</u>	<u>7,140,051</u>	<u>27,641</u>	<u>26,043</u>	<u>6,584,074</u>	<u>7,166,094</u>	-8.12%
Net assets							
Invested in capital assets, net of related debt	5,113,121	4,987,905	23,844	4,505	5,136,965	4,992,410	2.90%
Restricted	1,185,770	1,146,021	-	-	1,185,770	1,146,021	3.47%
Unrestricted	<u>1,505,407</u>	<u>1,103,014</u>	<u>120,762</u>	<u>92,330</u>	<u>1,626,169</u>	<u>1,195,344</u>	36.04%
Total net assets	<u>\$ 7,804,298</u>	<u>\$ 7,236,940</u>	<u>\$ 144,606</u>	<u>\$ 96,835</u>	<u>\$ 7,948,904</u>	<u>\$ 7,333,775</u>	8.39%

The District's combined net assets increased by approximately 8%, or \$615,129, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$39,749, or approximately 3% over the prior year. The slight increase was largely due to the one-cent sales tax revenue and PPEL funds that were accumulated for large infrastructure items such as the roofing project at the Junior-Senior high.

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 – increased \$430,825, or approximately 36%. This increase in unrestricted net assets was a result of the increased ending cash balance in the General Fund. Efforts to prudently fund the district's unspent balance to continue the district's direction to a strong financial position are apparent.

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

Figure A-4  
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Revenues							
Program revenues							
Charges for service and sales	\$ 784,232	\$ 791,543	\$ 326,707	\$ 291,450	\$ 1,110,939	\$ 1,082,993	2.58%
Operating grants	800,161	672,377	155,609	151,401	955,770	823,778	16.02%
General revenues							
Property tax	3,449,038	3,357,337	-	-	3,449,038	3,357,337	2.73%
Sales and services tax	462,621	410,607	-	-	462,621	410,607	12.67%
Unrestricted state grants	3,039,991	3,153,008	-	-	3,039,991	3,153,008	-3.58%
Contributions and donations	11,723	8,343	-	-	11,723	8,343	40.51%
Unrestricted investment earnings	34,609	23,539	1,211	1,074	35,820	24,613	45.53%
Other	<u>6,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,097</u>	<u>-</u>	100.00%
Total revenues	<u>8,588,472</u>	<u>8,416,754</u>	<u>483,527</u>	<u>443,925</u>	<u>9,071,999</u>	<u>8,860,679</u>	2.38%
Program expenses							
Governmental activities							
Instruction	4,631,627	4,593,520	-	-	4,631,627	4,593,520	0.83%
Support services	2,369,928	2,145,323	-	-	2,369,928	2,145,323	10.47%
Non-instructional programs	162	4,049	449,854	442,912	450,016	446,961	0.68%
Other expenses	1,023,484	786,264	-	-	1,023,484	786,264	30.17%
Loss on disposal of capital assets	<u>-</u>	<u>19,002</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,002</u>	-100.00%
Total expenses	<u>8,025,201</u>	<u>7,548,158</u>	<u>449,854</u>	<u>442,912</u>	<u>8,475,055</u>	<u>7,991,070</u>	6.06%
Change in net assets	<u>\$ 563,271</u>	<u>\$ 868,596</u>	<u>\$ 33,673</u>	<u>\$ 1,013</u>	<u>\$ 596,944</u>	<u>\$ 869,609</u>	-31.35%

In fiscal 2006, property tax and unrestricted state grants account for 75% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.7% of the revenue from business type activities.

The District's total revenues were \$9,071,999 of which \$8,588,472 was for governmental activities and \$483,527 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.38% increase in revenues and a 6.06% increase in expenses. Property tax increased \$91,701 to fund increases in expenditures. The increases in expenses are attributed to the usual increases in the negotiated salary and benefits and the cost of the roofing project.

### Governmental Activities

Revenues for governmental activities were \$8,588,472 and expenses were \$8,025,201. Careful attention was given to the line-item budget to ensure that expenditures did not exceed expected revenues.

The following table presents the total and net cost of the District's major governmental activities for fiscal 2006: instruction, support services, non-instructional programs and other expenses.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-2006	2006	2005	Change 2005-2006
Instruction	\$ 4,631,627	\$ 4,593,520	0.8%	\$ 3,324,450	\$ 3,392,129	-2.0%
Support services	2,369,928	2,145,323	10.5%	2,359,964	2,131,651	10.7%
Non-instructional programs	162	4,049	-96.0%	162	4,049	-96.0%
Other expenses	<u>1,023,484</u>	<u>786,264</u>	<u>30.2%</u>	<u>756,232</u>	<u>537,407</u>	<u>40.7%</u>
Total expenses	<u>\$ 8,025,201</u>	<u>\$ 7,529,156</u>	<u>6.6%</u>	<u>\$ 6,440,808</u>	<u>\$ 6,065,236</u>	<u>6.2%</u>

- The cost financed by users of the District's programs was \$784,232.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$800,161.
- The net cost of governmental activities was financed with \$3,911,659 in property and other taxes and \$3,039,991 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities were \$483,527, representing an 8% increase over the prior year while expenses totaled \$449,854 a 1% increase over the prior year. The District's business type activities include the School Nutrition Fund and Preschool/Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The Preschool was fortunate to have a rare situation with 9 five year olds in their program in 2005-2006 that generated over \$44,000 from the General Fund as the per pupil cost of those students. Also, for the first time, they also received income for students funded by the Empowerment grant.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, Louisa-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 a combined fund balance of \$2,777,715, well above last year's ending fund balances of \$2,440,867.

### **Governmental Fund Highlights**

- The General Fund balance increased from \$1,157,520 in 2005 to \$1,505,407 in fiscal 2006. The District has been vigilant to levy cash reserve, when appropriate, to fund its unspent balance.
- The Capital Project fund balance increased from \$548,372 in fiscal 2005 to \$596,332 in fiscal 2006. Sales tax revenues continue to increase annually. The District has been reserving the funds to improve the infrastructure of the district, most recently replacing the roof on a large portion of the Junior-Senior high school building.

### **Proprietary Fund Highlights**

Enterprise Fund net assets increased from \$110,933 at June 30, 2005 to \$144,606 at June 30, 2006, representing an increase of approximately 30%. Nine five-olds that were eligible for certified enrollment, generated over \$44,000 for the Preschool in FY06, along with several students funded by the Empowerment grant.

## **BUDGETARY HIGHLIGHTS**

During the fiscal year, Louisa-Muscatine Community School District amended its annual budget one time to reflect additional expenditures associated with the roofing project at the Junior-Senior high.

The District's receipts were \$177,147 more than budgeted receipts, a variance of approximately 1%. The budget is certified in the spring prior to the beginning of the fiscal year. At that time a number of items are estimated, including grant allocations. The majority of the 1% variance can be attributed to Federal and State grant receipts being more than estimated.

Overall total expenditures were \$933,522 less than budgeted. The District budgets expenditures at the maximum authorized spending authority for the General Fund then controls spending through the line-item budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$7,741,965, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of almost 4% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$406,312.

The original cost of the District's capital assets was \$14,995,161. Governmental funds account for \$14,801,778, with the remainder of \$193,383 accounted for in the Proprietary, School Nutrition Fund.

All categories, except land and furniture and equipment decreased in worth, due to annual depreciation. Furniture and equipment increased mainly because of the addition of a bus to the inventory.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total
	Activities		Activities		School District		
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Land	\$ 90,976	\$ 90,976	\$ -	\$ -	\$ 90,976	\$ 90,976	0.00%
Buildings and improvements	7,217,034	7,516,951	-	-	7,217,034	7,516,951	-3.99%
Improvements, other than buildings	182,795	292,404	-	-	182,795	292,404	-37.49%
Furniture and equipment	<u>227,316</u>	<u>137,574</u>	<u>23,844</u>	<u>4,505</u>	<u>251,160</u>	<u>142,079</u>	76.77%
Totals	<u>\$7,718,121</u>	<u>\$8,037,905</u>	<u>\$23,844</u>	<u>\$ 4,505</u>	<u>\$7,741,965</u>	<u>\$8,042,410</u>	-3.74%

### Long-Term Debt

At June 30, 2006, the District had \$2,664,005 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 17% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The debt for the district decreased because no new debt was added and the early retirement incentives for employees have been phased out.

The general obligation bonds for the elementary school were re-financed during fiscal 2005 at a savings of over \$100,000 to the taxpayers. At June 30, 2006, the outstanding amount owed on the general obligation bonds was \$1,880,000. This bond issue will be completely retired in fiscal 2011.

At June 30, 2006, \$725,000 was outstanding for revenue bonds that were issued with the local option sales and services taxes to finance the Junior-Senior high addition. This bond issue will be completely retired in fiscal 2011.

Figure A-7

Outstanding Long-term Obligations

	Total		Total
	School District		Change
	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
General obligation bonds	\$ 1,880,000	\$ 2,200,000	-14.55%
Revenue bonds	725,000	850,000	-14.71%
Early retirement	<u>59,005</u>	<u>156,435</u>	-62.28%
Total	<u>\$ 2,664,005</u>	<u>\$ 3,206,435</u>	-16.92%

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

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

- The District's enrollment decreased by only 2.2 students in the FY06 year. However, in FY07 we gained 22.5 students. Unfortunately our students who have opened enrolled out to other districts increased by 27.5 students, negating any positive increase we might have realized. Under Iowa's school funding formula, District funding is highly dependent upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.

**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 Karron Stineman, Board Secretary/Treasurer and Business Manager, Louisa-Muscatine Community School District, 14478 170<sup>th</sup> Street, Letts, Iowa 52754.

## Basic Financial Statements

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2006

Exhibit A

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,142,439	\$ 141,071	\$ 3,283,510
Receivables			
Property tax			
Delinquent	29,165	-	29,165
Succeeding year	3,128,188	-	3,128,188
Accounts receivable	122,173	-	122,173
Due from other governments	220,645	-	220,645
Inventories	-	7,332	7,332
Capital assets, net of accumulated depreciation	7,718,121	23,844	7,741,965
Total assets	<u>14,360,731</u>	<u>172,247</u>	<u>14,532,978</u>
<b>LIABILITIES</b>			
Accounts payable	31,710	1,627	33,337
Salaries and benefits payable	703,684	26,014	729,698
Accrued interest payable	27,533	-	27,533
Deferred revenue - succeeding year property tax	3,128,188	-	3,128,188
Deferred revenue - unspent grant proceeds	1,313	-	1,313
Long-term liabilities			
Portion due within one year			
Bonds payable	340,000	-	340,000
Revenue bonds payable	130,000	-	130,000
Early retirement payable	59,005	-	59,005
Portion due after one year			
Bonds payable	1,540,000	-	1,540,000
Revenue bonds payable	595,000	-	595,000
Total liabilities	<u>6,556,433</u>	<u>27,641</u>	<u>6,584,074</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2006

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 5,113,121	\$ 23,844	\$ 5,136,965
Restricted for			
Capital projects	596,332	-	596,332
Debt service	249,355	-	249,355
Management levy	168,468	-	168,468
Physical plant and equipment levy	127,536	-	127,536
Other special revenue purposes	44,079	-	44,079
Unrestricted	<u>1,505,407</u>	<u>120,762</u>	<u>1,626,169</u>
Total net assets	<u>\$ 7,804,298</u>	<u>\$ 144,606</u>	<u>\$ 7,948,904</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities							
Instruction							
Regular instruction	\$ 3,135,450	\$ 684,799	\$ 370,517	\$ -	\$ (2,080,134)	\$ -	\$ (2,080,134)
Special instruction	722,969	89,469	137,196	-	(496,304)	-	(496,304)
Other instruction	773,208	-	25,196	-	(748,012)	-	(748,012)
Support services	4,631,627	774,268	532,909	-	(3,324,450)	-	(3,324,450)
Student services	197,184	-	-	-	(197,184)	-	(197,184)
Instructional staff services	423,431	-	-	-	(423,431)	-	(423,431)
Administration services	717,832	-	-	-	(717,832)	-	(717,832)
Operation and maintenance of plant services	592,998	1,673	-	-	(591,325)	-	(591,325)
Transportation services	438,483	8,291	-	-	(430,192)	-	(430,192)
Non-instructional programs	2,369,928	9,964	-	-	(2,359,964)	-	(2,359,964)
Other expenditures	162	-	-	-	(162)	-	(162)
Facilities acquisition	289,884	-	7,980	-	(281,904)	-	(281,904)
Long-term debt interest	145,080	-	-	-	(145,080)	-	(145,080)
AEA flowthrough	259,272	-	259,272	-	-	-	-
Depreciation (unallocated) *	329,248	-	-	-	(329,248)	-	(329,248)
Total governmental activities	1,023,484	-	267,252	-	(756,232)	-	(756,232)
	8,025,201	784,232	800,161	-	(6,440,808)	-	(6,440,808)

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2006

Exhibit B

	Program Revenues			Capital Grants, Contributions and Restricted Interest		Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	
<b>Functions/Programs (continued)</b>							
Business type activities							
Non-instructional programs							
Nutrition services	\$ 377,544	\$ 225,994	\$ 155,609	\$ -	\$ 4,059	\$ 4,059	\$ 4,059
Daycare and preschool	72,310	100,713	-	-	28,403	28,403	28,403
Total business type activities	449,854	326,707	155,609	-	32,462	32,462	32,462
Total	\$ 8,475,055	\$ 1,110,939	\$ 955,770	\$ -	\$ 32,462	\$ 32,462	\$ (6,408,346)
<b>General Revenues</b>							
Property tax levied for							
General purposes				2,843,445	-	-	2,843,445
Debt service				424,250	-	-	424,250
Capital projects				181,343	-	-	181,343
Local option sales and services tax				462,621	-	-	462,621
Unrestricted state grants				3,039,991	-	-	3,039,991
Unrestricted investment earnings				34,609	1,211	1,211	35,820
Contributions and donations				11,723	-	-	11,723
Miscellaneous				6,097	-	-	6,097
Total general revenues				7,004,079	1,211	1,211	7,005,290
Change in net assets				563,271	33,673	33,673	596,944
Net assets, beginning of year, as adjusted				7,241,027	110,933	110,933	7,351,960
Net assets, end of year				\$ 7,804,298	\$ 144,606	\$ 144,606	\$ 7,948,904

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

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet  
Governmental Funds  
June 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and pooled investments	\$ 2,043,177	\$ 437,736	\$ 661,526	\$ 3,142,439
Receivables				
Property tax				
Delinquent	22,695	-	6,470	29,165
Succeeding year	2,504,750	-	623,438	3,128,188
Accounts receivable	122,173	-	-	122,173
Due from other governments	41,069	171,596	7,980	220,645
Total assets	<u>\$ 4,733,864</u>	<u>\$ 609,332</u>	<u>\$ 1,299,414</u>	<u>\$ 6,642,610</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 18,710	\$ 13,000	\$ -	\$ 31,710
Salaries and benefits payable	703,684	-	-	703,684
Deferred revenue				
Succeeding year property tax	2,504,750	-	623,438	3,128,188
Other	1,313	-	-	1,313
Total liabilities	<u>3,228,457</u>	<u>13,000</u>	<u>623,438</u>	<u>3,864,895</u>
Fund balances				
Designated				
Board-approved purpose	44,624	-	-	44,624
Reserved for				
Debt sevice	-	-	276,888	276,888
Unreserved				
Special revenue funds	-	-	399,088	399,088
Other governmental funds	1,460,783	596,332	-	2,057,115
Total fund balances	<u>1,505,407</u>	<u>596,332</u>	<u>675,976</u>	<u>2,777,715</u>
Total liabilities and fund balances	<u>\$ 4,733,864</u>	<u>\$ 609,332</u>	<u>\$ 1,299,414</u>	<u>\$ 6,642,610</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2006

Exhibit D

Total fund balances of governmental funds	\$2,777,715
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	7,718,121
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(27,533)
Long-term liabilities, including early retirement, bonds payable, revenue bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,664,005)</u>
Net assets of governmental activities	<u>\$7,804,298</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2006

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$ 2,742,016	\$ 462,621	\$ 705,237	\$ 3,909,874
Tuition	553,280	-	-	553,280
Other	118,979	9,698	154,604	283,281
State sources	3,659,167	-	393	3,659,560
Federal sources	174,397	-	7,980	182,377
Total revenues	<u>7,247,839</u>	<u>472,319</u>	<u>868,214</u>	<u>8,588,372</u>
Expenditures				
Current				
Instruction				
Regular instruction	3,122,207	-	109,037	3,231,244
Special instruction	722,969	-	-	722,969
Other instruction	622,928	-	148,711	771,639
	<u>4,468,104</u>	<u>-</u>	<u>257,748</u>	<u>4,725,852</u>
Support services				
Student services	196,478	-	459	196,937
Instructional staff services	422,907	-	524	423,431
Administration services	677,442	-	27,821	705,263
Operation and maintenance	548,215	-	50,543	598,758
Transportation services	365,034	-	82,668	447,702
	<u>2,210,076</u>	<u>-</u>	<u>162,015</u>	<u>2,372,091</u>
Non-instructional programs	-	-	162	162
Other expenditures				
Facilities acquisition	-	260,902	39,488	300,390
Long-term debt				
Principal	-	-	445,000	445,000
Interest and fiscal charges	-	-	148,857	148,857
AEA flowthrough	259,272	-	-	259,272
	<u>259,272</u>	<u>260,902</u>	<u>633,345</u>	<u>1,153,519</u>
Total expenditures	<u>6,937,452</u>	<u>260,902</u>	<u>1,053,270</u>	<u>8,251,624</u>
Excess (deficiency) of revenues over (under) expenditures	<u>310,387</u>	<u>211,417</u>	<u>(185,056)</u>	<u>336,748</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2006

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Other financing sources (uses)				
Sale of materials and supplies	\$ -	\$ -	\$ 100	\$ 100
Interfund operating transfers in	37,500	539,800	163,457	740,757
Interfund operating transfers (out)	-	(703,257)	(37,500)	(740,757)
Total other financing sources (uses)	<u>37,500</u>	<u>(163,457)</u>	<u>126,057</u>	<u>100</u>
Net change in fund balances	347,887	47,960	(58,999)	336,848
Fund balance, beginning of year, as adjusted	<u>1,157,520</u>	<u>548,372</u>	<u>734,975</u>	<u>2,440,867</u>
Fund balance, end of year	<u>\$ 1,505,407</u>	<u>\$ 596,332</u>	<u>\$ 675,976</u>	<u>\$ 2,777,715</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2006

Exhibit F

Net change in fund balances - total governmental funds		\$ 336,848
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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:</p>		
Capital outlays	\$ 78,881	
Depreciation expense	<u>(398,665)</u>	(319,784)
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.		445,000
<p>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.</p>		
Early retirement		97,430
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		<u>3,777</u>
Change in net assets of governmental activities		<u>\$ 563,271</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2006

Exhibit G

	<u>Nonmajor Enterprise</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 141,071
Inventories	7,332
Capital assets, net of accumulated depreciation	<u>23,844</u>
Total assets	<u>172,247</u>
 <b>LIABILITIES</b>	
Accounts payable	1,627
Salaries and benefits payable	<u>26,014</u>
Total liabilities	<u>27,641</u>
 <b>NET ASSETS</b>	
Invested in capital assets	23,844
Unrestricted	<u>120,762</u>
Total net assets	<u>\$ 144,606</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2006

Exhibit H

	<u>Nonmajor Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 326,707</u>
Operating expenses	
Support services	
Administration services	
Salaries	23,090
Benefits	366
Purchased services	<u>956</u>
	<u>24,412</u>
Non-instructional programs	
Food service operations	
Salaries	138,794
Benefits	31,829
Purchased services	6,625
Supplies	168,237
Depreciation	<u>7,647</u>
	<u>353,132</u>
Preschool and daycare operations	
Salaries	55,016
Benefits	12,395
Supplies	<u>4,899</u>
	<u>72,310</u>
Total operating expenses	<u>449,854</u>
Operating loss	<u>(123,147)</u>
Non-operating revenue	
Interest income	1,211
State sources	4,790
Federal sources	<u>150,819</u>
Total non-operating revenue	<u>156,820</u>
Net income	33,673
Net assets, beginning of year, as adjusted	<u>110,933</u>
Net assets, end of year	<u>\$ 144,606</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCAITNE COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2006

Exhibit I

	<u>Nonmajor Enterprise</u>
Cash flows from operating activities	
Cash received from sale of meals	\$ 225,994
Cash received from sale of services	100,763
Cash payments to employees for services	(261,519)
Cash payments to suppliers for goods and services	<u>(161,674)</u>
Net cash used in operating activities	<u>(96,436)</u>
Cash flows from non-capital financing activities	
State grants received	4,790
Federal grants received	<u>134,328</u>
Net cash provided by non-capital financing activities	<u>139,118</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(12,888)</u>
Cash flows from investing activities	
Interest on investments	<u>1,211</u>
Net increase in cash and cash equivalents	31,005
Cash and cash equivalents, beginning of year	<u>110,066</u>
Cash and cash equivalents, end of year	<u><u>\$ 141,071</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (123,147)
Adjustments to reconcile operating loss to net cash used in operating activities	
Commodities used	16,491
Depreciation	7,647
Decrease in accounts receivable	50
Decrease in inventories	925
Increase in accounts payable	1,627
(Decrease) in accrued salaries and benefits	<u>(29)</u>
Net cash used in operating activities	<u><u>\$ (96,436)</u></u>

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

During the year ended June 30, 2006, the District received \$16,491 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
Fiduciary Fund  
June 30, 2006

Exhibit J

	<u>Private Purpose Trust Scholarships</u>
Assets	
Cash and pooled investments	\$ 750
Liabilities	
	<u>      -</u>
Net assets	
Reserved for scholarships	<u>\$ 750</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2006

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$ 1,500
Deductions	
Other instruction	
Scholarships	<u>2,250</u>
Change in net assets	(750)
Net assets, beginning of year	<u>1,500</u>
Net assets, end of year	<u>\$ 750</u>

See notes to financial statements and Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

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

The Louisa-Muscatine Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the Cities of Letts, Grandview and Fruitland, Iowa, and the agricultural territory in Louisa and Muscatine Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Louisa-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. The Louisa-Muscatine Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt 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 imposed by management which can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

The District reports no major proprietary funds. However, it reports two nonmajor enterprise funds. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool/Daycare Fund is used to account for the operation of the preschool and daycare programs.

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.

### C. Measurement Focus and Basis of Accounting

The government-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, early retirement and claims and judgments are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales

and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

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

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

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings and improvements	5-40 years
Improvements other than buildings	15-20 years
Furniture and equipment	3-20 years

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

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2006. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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

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

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

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

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

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted, nor did District exceed its General Fund unspent authorized budget.

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

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2006, the District had no investments.

### Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Student Activity	\$ 37,500
Capital Projects	Capital Projects	539,800
Debt Service	Capital Projects	<u>163,457</u>
Total		<u>\$ 740,757</u>

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

### Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 90,976	\$ -	\$ -	\$ 90,976
Capital assets being depreciated:				
Buildings and improvements	12,802,455	11,056	-	12,813,511
Improvements other than buildings	828,503	-	-	828,503
Furniture and equipment	<u>1,027,963</u>	<u>67,825</u>	<u>27,000</u>	<u>1,068,788</u>
Total capital assets being depreciated	<u>14,658,921</u>	<u>78,881</u>	<u>27,000</u>	<u>14,710,802</u>
Less accumulated depreciation for:				
Buildings and improvements	5,285,505	310,972	-	5,596,477
Improvements other than buildings	613,848	31,860	-	645,708
Furniture and equipment	<u>812,639</u>	<u>55,833</u>	<u>27,000</u>	<u>841,472</u>
Total accumulated depreciation	<u>6,711,992</u>	<u>398,665</u>	<u>27,000</u>	<u>7,083,657</u>
Total capital assets being depreciated, net	<u>7,946,929</u>	<u>(319,784)</u>	-	<u>7,627,145</u>
Governmental activities capital assets, net	<u>\$ 8,037,905</u>	<u>\$(319,784)</u>	<u>\$ -</u>	<u>\$7,718,121</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 180,495	\$ 12,888	\$ -	193,383
Less accumulated depreciation	<u>161,892</u>	<u>7,647</u>	-	<u>169,539</u>
Business type activities capital assets, net	<u>\$ 18,603</u>	<u>\$ 5,241</u>	<u>\$ -</u>	<u>\$ 23,844</u>

Depreciation expense was charged to the following functions:

**Governmental activities**

Instruction		
Regular		\$ 1,636
Other		1,569
Support services		
Student		247
Administration		12,569
Operation and maintenance of plant		1,269
Transportation		52,127
Unallocated depreciation		<u>329,248</u>
Total governmental activities depreciation expense		<u>\$ 398,665</u>

**Business type activities**

Food services		<u>\$ 7,647</u>
---------------	--	-----------------

**Note 5. Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 2,200,000	\$ -	\$ (320,000)	\$ 1,880,000	\$ 340,000
Revenue bonds	850,000	-	(125,000)	725,000	130,000
Early retirement	<u>156,435</u>	<u>-</u>	<u>(97,430)</u>	<u>59,005</u>	<u>59,005</u>
Totals	<u>\$ 3,206,435</u>	<u>\$ -</u>	<u>\$ (542,430)</u>	<u>\$ 2,664,005</u>	<u>\$ 529,005</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, who meet certain eligibility guidelines. This voluntary early retirement plan is offered annually at the board's discretion. Eligible employees must have been at least age fifty-five and have completed fifteen years of consecutive service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. Benefits can be received in a lump sum payment in the year following retirement, in two annual payments beginning in the year following retirement or by participation in the District's 125 cafeteria plan until the employee reaches age 65. Early retirement benefits paid during the year ended June 30, 2006 totaled \$97,430.

Bonds Payable

Details of the district's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of March 3, 2004			
	Interest Rates	Interest	Principal	Total
2007	5.00	\$ 94,000	\$ 340,000	\$ 434,000
2008	5.00	77,000	360,000	437,000
2009	5.00	59,000	375,000	434,000
2010	5.00	40,250	395,000	435,250
2011	5.00	<u>20,500</u>	<u>410,000</u>	<u>430,500</u>
Totals		<u>\$ 290,750</u>	<u>\$ 1,880,000</u>	<u>\$ 2,170,750</u>

Revenue Bonds Payable

On July 23, 2001, the District issued School Infrastructure Sales and Services Tax Revenue Bonds. The proceeds of the bonds are to be used to construct an addition to the high school building. The bonds will be repaid by the collection of the local option sales and services tax for school infrastructure. The bonds were for \$1,195,000 and are secured by a Reserve Fund, which was established under the Bond Resolution. A Sinking Fund has been established into which collections of the local option sales and services tax revenues will be deposited. Interest and principal on the bonds will be paid from the Sinking Fund. Details of the District's June 30, 2006 revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of Sept 1, 1993			
	Interest Rates	Interest	Principal	Total
2007	5.00	\$ 31,332	\$ 130,000	\$ 161,332
2008	4.50	24,933	140,000	164,933
2009	4.65	18,411	145,000	163,411
2010	4.80	11,440	150,000	161,440
2011	4.90	<u>3,920</u>	<u>160,000</u>	<u>163,920</u>
Totals		<u>\$ 90,036</u>	<u>\$ 725,000</u>	<u>\$ 815,036</u>

## **Note 6. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$265,027, \$257,508 and \$250,529 respectively, equal to the required contributions for each year.

## **Note 7. Risk Management**

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

## **Note 8. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$259,272 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## **Note 9. Related Party Transactions**

During the year ended June 30, 2006, the District had business transactions between the District and a company owned by a district official and her spouse totaling \$2,599.

## **Note 10. Potential Litigation**

At June 30, 2006 there were two cases of potential litigation involving the District. These cases are expected to be resolved without material expense to the District. However, it is difficult to estimate the outcome of the litigation and the potential damages involved. Therefore, no liability for potential payments has been calculated.

**Note 11. Beginning Balance**

During the year ending June 30, 2006, the District discovered errors in the previous balance reported for the General Fund. As a result, the beginning balance of the General Fund and the Governmental Activities have been increased by \$4,087.

The District also discovered that the amount reported for the School Nutrition Fund accumulated depreciation in the prior fiscal year, was not correct. Therefore, the beginning balance of the School Nutrition Fund and Business Type Activities has been increased by \$14,098.

Required Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual  
 All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 For the Year Ended June 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>	Budgeted Amounts <u>Original</u>	<u>Final</u>	Final to Actual <u>Variance</u>
Revenues						
Local sources	\$ 4,746,435	\$ 327,918	\$ 5,074,353	\$ 4,873,982	\$ 4,873,982	\$ 200,371
State sources	3,659,560	4,790	3,664,350	3,755,770	3,755,770	(91,420)
Federal sources	182,377	150,819	333,196	265,000	265,000	68,196
Total revenues	<u>8,588,372</u>	<u>483,527</u>	<u>9,071,899</u>	<u>8,894,752</u>	<u>8,894,752</u>	<u>177,147</u>
Expenditures						
Instruction	4,725,852	-	4,725,852	5,055,500	5,055,550	329,698
Support services	2,372,091	24,412	2,396,503	2,452,158	2,605,690	209,187
Non-instructional programs	162	425,442	425,604	463,225	500,000	74,396
Other expenditures	1,153,519	-	1,153,519	953,877	1,473,760	320,241
Total expenditures	<u>8,251,624</u>	<u>449,854</u>	<u>8,701,478</u>	<u>8,924,760</u>	<u>9,635,000</u>	<u>933,522</u>
Excess (deficiency) of revenues						
over (under) expenditures	336,748	33,673	370,421	(30,008)	(740,248)	1,110,669
Other financing sources, net	<u>100</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
Excess (deficiency) of revenues and other						
financing sources over (under) expenditures	336,848	33,673	370,521	(30,008)	(740,248)	1,110,769
Balance, beginning of year, as adjusted	2,440,867	110,933	2,551,800	1,940,729	1,940,729	611,071
Balance, end of year	<u>\$ 2,777,715</u>	<u>\$ 144,606</u>	<u>\$ 2,922,321</u>	<u>\$ 1,910,721</u>	<u>\$ 1,200,481</u>	<u>\$ 1,721,840</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2006

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

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 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 expenditures by \$710,240.

During the year ended June 30, 2006, District expenditures did not exceed the amounts budgeted in any of the four functions or the General Fund unspent authorized budget.

Other Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006

Schedule 1

	Special Revenue				<u>Total</u>
	<u>Student Activity</u>	<u>Management</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	
<b>ASSETS</b>					
Cash and pooled investments	\$ 44,079	\$ 226,551	\$ 117,895	\$ 273,001	\$ 661,526
Receivables					
Property tax					
Current year delinquent	-	922	1,661	3,887	6,470
Succeeding year	-	-	189,038	434,400	623,438
Due from other governments	-	-	7,980	-	7,980
Total assets	<u>\$ 44,079</u>	<u>\$ 227,473</u>	<u>\$ 316,574</u>	<u>\$ 711,288</u>	<u>\$ 1,299,414</u>
<b>LIABILITIES AND FUND BALANCE</b>					
Liabilities					
Deferred revenue					
Succeeding year property tax	\$ -	\$ -	\$ 189,038	\$ 434,400	\$ 623,438
Fund Balance					
Reserved for debt service	-	-	-	276,888	276,888
Unreserved fund balances	44,079	227,473	127,536	-	399,088
Total fund balance	<u>44,079</u>	<u>227,473</u>	<u>127,536</u>	<u>276,888</u>	<u>675,976</u>
Total liabilities and fund balance	<u>\$ 44,079</u>	<u>\$ 227,473</u>	<u>\$ 316,574</u>	<u>\$ 711,288</u>	<u>\$ 1,299,414</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2006

Schedule 2

	Special Revenue				
	Student Activity	Management	Physical Plant and Equipment Levy	Debt Service	Total
Revenues					
Local sources					
Local taxes	-	\$ 99,981	\$ 181,242	\$ 424,014	\$ 705,237
Other	142,265	7,609	733	3,997	154,604
State sources	-	56	101	236	393
Federal sources	-	-	7,980	-	7,980
Total revenues	142,265	107,646	190,056	428,247	868,214
Expenditures					
Current					
Instruction					
Regular instruction	-	109,037	-	-	109,037
Other instruction	148,711	-	-	-	148,711
Support services					
Student services	-	459	-	-	459
Instructional staff services	-	524	-	-	524
Administration services	-	26,896	925	-	27,821
Operation & maintenance of plant	660	41,903	7,980	-	50,543
Transportation services	-	21,322	61,346	-	82,668
Non-instructional programs	-	162	-	-	162

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2006

Schedule 2

	Special Revenue			
	Student Activity	Management	Physical Plant and Equipment Levy	Debt Service
	\$	\$	\$	\$
Expenditures (continued)				
Other expenditures	-	-	39,488	-
Facilities acquisition	-	-	-	445,000
Long-term debt	-	-	-	148,857
Principal				
Interest and fiscal charges				
Total expenditures	149,371	200,303	109,739	593,857
Excess (deficiency) of revenues over (under) expenditures	(7,106)	(92,657)	80,317	(185,056)
Other financing sources (uses)				
Sale of materials and supplies	-	-	100	-
Interfund operating transfer in (out)	(37,500)	-	-	163,457
Total other financing sources (uses)	(37,500)	-	100	163,457
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(44,606)	(92,657)	80,417	(2,153)
Fund balances, beginning of year	88,685	320,130	47,119	279,041
Fund balances, end of year	\$ 44,079	\$ 227,473	\$ 127,536	\$ 276,888
				\$ 675,976

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Combining Statement of Net Assets  
Nonmajor Proprietary Funds  
June 30, 2006

Schedule 3

	Enterprise		<u>Total</u>
	School Nutrition	Daycare & Preschool	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 111,156	\$ 29,915	\$141,071
Inventories	7,332	-	7,332
Capital assets, net of accumulated depreciation	23,844	-	23,844
Total assets	142,332	29,915	172,247
<b>LIABILITIES</b>			
Accounts payable	1,627	-	1,627
Salaries and benefits payable	26,014	-	26,014
Total liabilities	27,641	-	27,641
<b>NET ASSETS</b>			
Invested in capital assets	23,844	-	23,844
Unrestricted	90,847	29,915	120,762
Total net assets	\$ 114,691	\$ 29,915	\$144,606

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets  
Nonmajor Proprietary Funds  
For the Year Ended June 30, 2006

Schedule 4

	Enterprise		
	School Nutrition	Daycare & Preschool	Total
Operating revenue			
Local sources			
Charges for service	<u>\$ 225,994</u>	<u>\$ 100,713</u>	<u>\$ 326,707</u>
Operating expenses			
Support services			
Administration services			
Salaries	23,090	-	23,090
Benefits	366	-	366
Purchased services	956	-	956
Non-instructional programs			
Salaries	138,794	55,016	193,810
Benefits	31,829	12,395	44,224
Purchased services	6,625	-	6,625
Supplies	168,237	4,899	173,136
Depreciation	7,647	-	7,647
Total operating expenses	<u>377,544</u>	<u>72,310</u>	<u>449,854</u>
Operating income (loss)	<u>(151,550)</u>	<u>28,403</u>	<u>(123,147)</u>
Non-operating revenue			
Interest income	1,113	98	1,211
State sources	4,790	-	4,790
Federal sources	150,819	-	150,819
Total non-operating revenue	<u>156,722</u>	<u>98</u>	<u>156,820</u>
Net income	5,172	28,501	33,673
Net assets, beginning of year, as adjusted	<u>109,519</u>	<u>1,414</u>	<u>110,933</u>
Net assets, end of year	<u>\$ 114,691</u>	<u>\$ 29,915</u>	<u>\$ 144,606</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2006

Schedule 5

	<u>School Nutrition</u>	<u>Daycare &amp; Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of meals	\$ 225,994	\$ -	\$ 225,994
Cash received from sale of services	-	100,763	100,763
Cash payments to employees for services	(194,079)	(67,440)	(261,519)
Cash payments to suppliers for goods and services	<u>(156,775)</u>	<u>(4,899)</u>	<u>(161,674)</u>
Net cash provided by (used in) operating activities	<u>(124,860)</u>	<u>28,424</u>	<u>(96,436)</u>
Cash flows from non-capital financing activities			
State grants received	4,790	-	4,790
Federal grants received	<u>134,328</u>	<u>-</u>	<u>134,328</u>
Net cash provided by non-capital financing activities	<u>139,118</u>	<u>-</u>	<u>139,118</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets	<u>(12,888)</u>	<u>-</u>	<u>(12,888)</u>
Cash flows from investing activities			
Interest on investments	<u>1,113</u>	<u>98</u>	<u>1,211</u>
Net increase in cash and cash equivalents	2,483	28,522	31,005
Cash and cash equivalents, beginning of year	<u>108,673</u>	<u>1,393</u>	<u>110,066</u>
Cash and cash equivalents, end of year	<u>\$ 111,156</u>	<u>\$ 29,915</u>	<u>\$ 141,071</u>
 <b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	\$ (151,550)	\$ 28,403	\$ (123,147)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Commodities used	16,491	-	16,491
Depreciation	7,647	-	7,647
Decrease in accounts receivable	-	50	50
Decrease in inventories	925	-	925
Increase in accounts payable	1,627	-	1,627
(Decrease) in accrued salaries and benefits	<u>-</u>	<u>(29)</u>	<u>(29)</u>
Net cash provided by (used in) operating activities	<u>\$ (124,860)</u>	<u>\$ 28,424</u>	<u>\$ (96,436)</u>

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

During the year ended June 30, 2006, the District received \$16,491 of federal commodities.

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
For the Year Ended June 30, 2006

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Athletics	\$ 3,390	\$ 51,951	\$ 61,153	\$ 5,813	\$ 1
Cheerleading	923	1,332	411	-	1,844
Athletic fundraising	1,623	-	-	(1,623)	-
Athletic resale	619	2,419	242	(619)	2,177
Ads and posters	(55)	-	-	55	-
Jr high	4,700	418	2,064	269	3,323
Elementary activity	11,076	6,206	13,393	-	3,889
Concessions	37,275	23,696	47,301	(5,363)	8,307
FFA	12,564	24,453	29,508	(1,214)	6,295
FFA vending	1,812	3,639	3,871	-	1,580
FFA greenhouse	(799)	-	415	1,214	-
Band	4,901	18,694	15,467	-	8,128
Speech	(721)	-	560	1,281	-
Drama	773	-	-	-	773
Student council	1,217	765	1,490	-	492
Yearbook	3,306	3,104	4,770	-	1,640
Vocal music	2,896	833	1,685	-	2,044
TAG	113	-	60	-	53
Senior class	435	2,085	2,903	619	236
Junior class	269	236	-	(505)	-
NHS	(73)	1,993	1,578	73	415
Interest	2,441	441	-	-	2,882
Totals	<u>\$ 88,685</u>	<u>\$ 142,265</u>	<u>\$ 186,871</u>	<u>\$ -</u>	<u>\$ 44,079</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Four Years

Schedule 7

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues				
Local sources				
Local tax	\$ 3,909,874	\$ 3,766,108	\$ 3,099,130	\$ 3,522,994
Tuition	553,280	508,531	621,015	539,427
Other	283,281	314,894	271,674	321,710
State sources	3,659,560	3,661,562	3,247,182	3,491,187
Federal sources	182,377	165,659	204,663	141,145
Total revenues	<u>\$ 8,588,372</u>	<u>\$ 8,416,754</u>	<u>\$ 7,443,664</u>	<u>\$ 8,016,463</u>
Expenditures				
Instruction				
Regular instruction	3,231,244	3,082,267	3,129,887	3,102,802
Special instruction	722,969	804,476	843,113	676,892
Other instruction	771,639	645,212	496,931	482,769
Support services				
Student services	196,937	232,680	220,136	212,637
Instructional staff services	423,431	373,511	236,691	253,328
Administration services	705,263	601,085	606,526	587,014
Operation and maintenance of plant services	598,758	533,134	549,730	523,154
Transportation services	447,702	428,106	415,983	458,646
Non-instructional programs	162	4,049	2,545	3,623
Other expenditures				
Facilities acquisition	300,390	62,814	122,785	266,312
Long-term debt				
Principal	445,000	433,338	3,033,740	863,813
Interest and other charges	148,857	201,910	271,131	249,195
AEA flowthrough	259,272	248,857	241,253	253,388
Total expenditures	<u>\$ 8,251,624</u>	<u>\$ 7,651,439</u>	<u>\$ 10,170,451</u>	<u>\$ 7,933,573</u>

See accompanying Independent Auditor's Report.

# KAY L. CHAPMAN, CPA PC

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

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

To the Board of Education  
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated November 21, 2006. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing my audit, I considered Louisa-Muscatine Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud 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. My consideration of the internal control over financial reporting 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. However, of the reportable conditions described above, I believe item (A) Segregation of Duties, is a material weakness.

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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



Kay L. Chapman, CPA PC  
November 21, 2006

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2006

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

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

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

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

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

Conclusion - Response accepted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Schedule of Findings  
 For the Year Ended June 30, 2006

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

1. Certified Budget - Expenditures for the year ended June 30, 2006 did not exceed the amounts budgeted.
2. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Angie Kemp, board member part owner of Kemp & Son, Inc.	snow removal and repairs	\$ 2,599

The transactions with Board Member Kemp's business appear to represent a conflict of interest since the total exceeded \$2,500 for the fiscal year, as allowed by Chapter 279.7A of the Code of Iowa and they were not competitively bid.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will review the situation.

Conclusion - Response accepted.

5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2006

8. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2006

This audit was performed by

Kay Chapman, CPA  
Tammy Calvert, staff accountant