

MUSCATINE COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS,
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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

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MUSCATINE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Tom Welk	President	2005
Jerry Lange	Vice President	2006
Bob Leech	Board Member	2005
Paul Brooks	Board Member	2006
Robin Krueger	Board Member	2006
Clyde Evans	Board Member	2007
Ann Hart	Board Member	2007

**Board of Education
(After September 2005 Election)**

Jerry Lange	President	2006
Ann Hart	Vice President	2007
Robin Krueger	Board Member	2006
Paul Brooks	Board Member	2006
Clyde Evans	Board Member	2007
Bob Leech	Board Member	2008
Tom Welk	Board Member	2008

School Officials

Tom Williams	Superintendent	2006
Jean K. Long	District Treasurer	2006
Diannia McDonald	District Secretary	2006
Duane J. Goedken	Attorney	2006
Stanley, Lande & Hunter	Attorney	2006
Trissel, Graham & Toole, Inc	Insurance	2006
Taylor, Rees, Beckey & Co., P.C.	Auditors	2006

Muscatine Community School District

Independent Auditors' Report

To the Board of Education of
Muscatine Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Muscatine Community School District, Muscatine, Iowa, as of and for the year ended June 30, 2006, and its discretely presented Component Unit as of and for the year ended December 31, 2005 which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Muscatine Community School District at June 30, 2006, and its discretely presented Component Unit as of and for the year ended December 31, 2005 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2006 on our consideration of Muscatine Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 17 and 43 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muscatine Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

December 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Financial Highlights

- General Fund revenues increased slightly from \$39,855,431 in fiscal 2005 to \$40,628,340 in fiscal 2006, while General Fund expenditures increased from \$39,940,241 in fiscal 2005 to \$41,223,850 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$8,255,123 in fiscal 2005 to \$7,659,613 in fiscal 2006, an 8 percent decrease from the prior year.
- The slight increase in General Fund revenues was attributable to increases in state and federal grant revenue in fiscal 2006. The increase in expenditures was due to an increase in overall purchases and salary settlements.
- The school District completed building a new facilities/operations building. The project was awarded June 13, 2005 for \$634,000. The project was completed for \$760,393 in the December of 2005.
- A major construction and renovation project at Central Middle School was started in fiscal year 2006. The \$4.0 million project consists of renovated gymnasium, new industrial arts facilities, expansion of the cafeteria, an elevator and life safety work.
- The school district built a \$730,000 state of the art multi-purpose athletic field thanks to the generous donations and support of the community. The field is used by the student athletes as well as the local community.
- A major renovation of the Muscatine High School Cafeteria began in fiscal year 2005-06. The projected cost of the renovation is \$850,000, which includes purchasing of new serving and preparation equipment and student seating.
- As of June 30, 2006, the district has no general obligation bonded indebtedness.

Overview of the Financial Statements

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

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

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

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

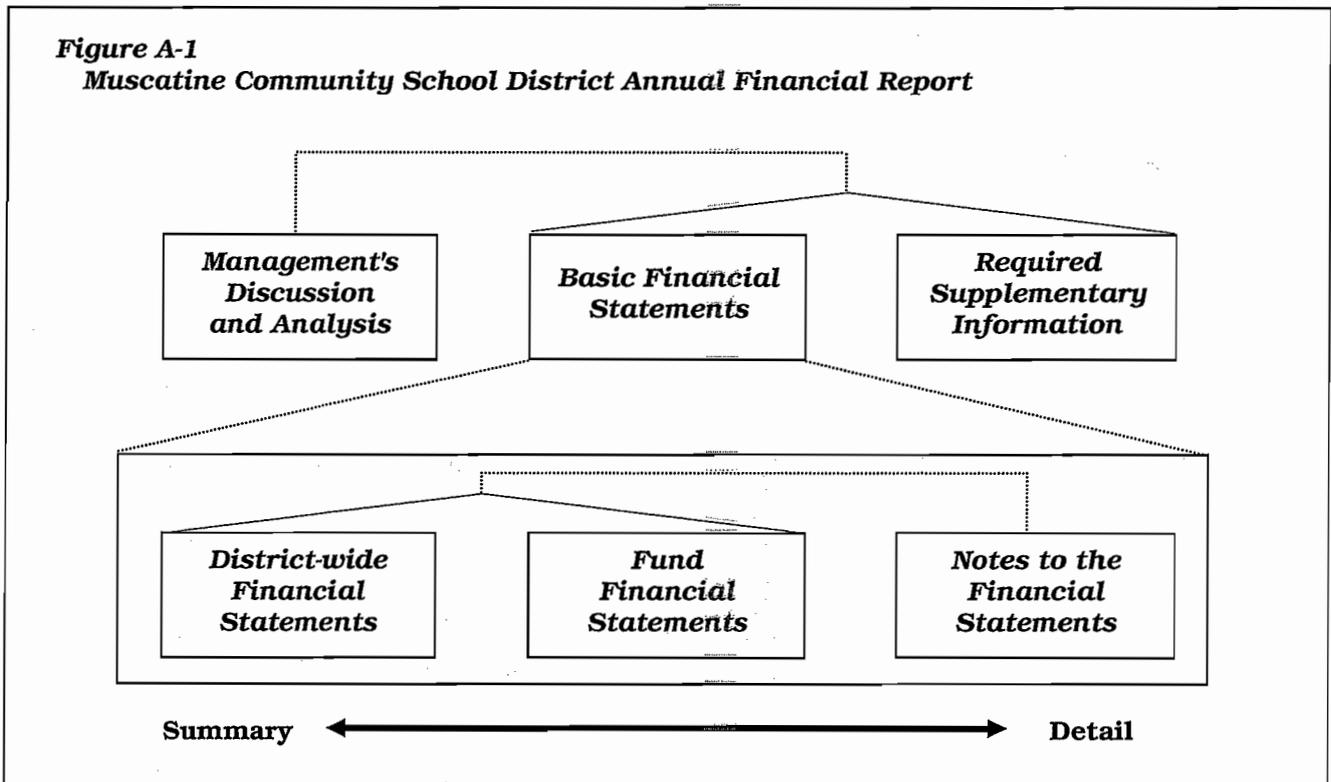


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

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: nutrition services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Statements

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

The two Government-wide statements report the District’s *net assets* and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or position.

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

Financial Analysis of the District as a Whole

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

Figure A-3 Condensed Statement of Net Assets (expressed in thousands)							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	19,680	17,040	940	767	20,620	17,807	15.8%
Capital assets	22,322	21,290	90	38	22,412	21,328	5.1%
Total assets	<u>42,002</u>	<u>38,330</u>	<u>1,030</u>	<u>805</u>	<u>43,032</u>	<u>39,135</u>	<u>10.0%</u>
Long-term obligations	2,194	2,850	-	-	2,194	2,850	-23.0%
Other liabilities	4,377	4,604	148	82	4,525	4,686	-3.4%
Total liabilities	<u>6,571</u>	<u>7,454</u>	<u>148</u>	<u>82</u>	<u>6,719</u>	<u>7,536</u>	<u>-10.8%</u>
Net assets							
Invested in capital assets, net of related debt	22,322	20,531	90	38	22,412	20,569	9.0%
Restricted	1,994	2,633	49	55	2,043	2,688	-24.0%
Unrestricted	11,115	7,712	743	630	11,858	8,342	42.1%
Total net assets	<u>35,431</u>	<u>30,876</u>	<u>882</u>	<u>723</u>	<u>36,313</u>	<u>31,599</u>	<u>14.9%</u>

The District's combined net assets were greater at June 30, 2006, than June 30, 2005. The increase occurred primarily in the governmental funds as a result of the construction of facilities and the decrease in the dollar amount spent on new construction.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$645,000, or a 24% reduction from the prior year.

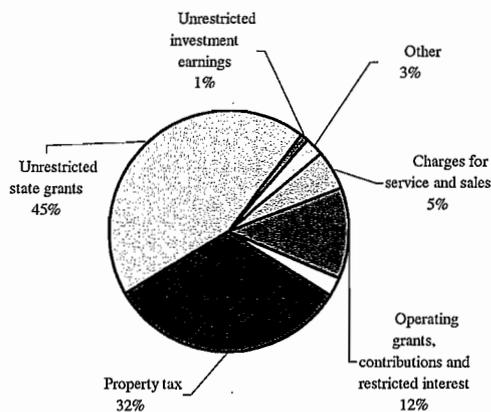
Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$3,213,000, or 38.5% over the prior year. This increase in unrestricted net assets was primarily a result of the increase in the capital projects fund balance.

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

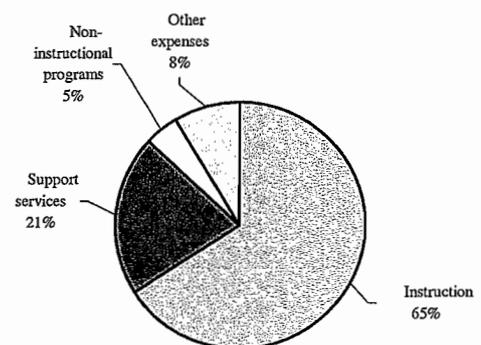
Figure A-4
Changes in Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for service and sales	1,565	1,769	1,154	1,149	2,719	2,918
Operating grants, contributions and restricted interest	5,231	5,308	1,152	1,189	6,383	6,497
Capital grants, contributions and restricted interest	1,275	-	-	-	1,275	-
General revenues:						
Property tax	16,861	16,478	-	-	16,861	16,478
Unrestricted state grants	22,752	21,666	-	-	22,752	21,666
Unrestricted investment earnings	611	276	4	3	615	279
Other	1,281	1,041	19	1	1,300	1,042
Total revenues	49,576	46,538	2,329	2,342	51,905	48,880
Program expenses:						
Governmental activities:						
Instruction	31,308	25,354	-	-	31,308	25,354
Support services	9,927	9,674	-	-	9,927	9,674
Non-instructional programs	12	5	2,170	2,221	2,182	2,226
Other expenses	4,077	8,204	-	-	4,077	8,204
Total expenses	45,324	43,237	2,170	2,221	47,494	45,458
Increase (decrease) in net assets	4,252	3,301	159	121	4,411	3,422
Net assets beginning of year, as Restated (Note 12)	31,179	27,575	723	602	31,902	28,177
Net assets end of year	35,431	30,876	882	723	36,313	31,599

Revenue by Source



Expenditure by Program



The District's net assets increased by approximately \$4,411,000 during the year. Revenues increased by approximately \$3,025,000 over the prior year, with Unrestricted State Grant Revenue increasing \$1,086,000 and Property Taxes \$383,000.

Property tax and unrestricted state grants account for 76 percent of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were approximately \$49,576,000 in the current year compared to approximately \$46,538,000 in the prior year. Expenses were approximately \$45,324,000 in the current year compared to approximately \$43,237,000 in the prior year.

Property tax and unrestricted state grants account for 80 percent of the total revenue. The District's expenses primarily relate to instruction and support services which account for 91 percent of the total expenses.

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

Figure A-5 Total and Net Cost of Governmental Activities (expressed in thousand)		
	Total Cost of Services	Net Cost of Services
Instruction	31,308	26,329
Support Services	9,927	9,762
Non-instructional programs	12	12
Other expenses	4,077	1,150
Totals	45,324	37,253

The cost financed by users of the District's programs was \$1,564,795.

Federal and state governments subsidized certain programs with grants and contributions totaling \$6,506,404.

- The net cost of governmental activities was financed with \$16,861,241 in property tax, \$22,751,569 in state foundation aid and \$611,121 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were approximately \$2,329,000 in the current year as compared to approximately \$2,342,000 in the prior year. Expenses were approximately \$2,170,000 in the current year as compared to approximately \$2,221,000 in the prior year. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, federal grants, and investment income.

Financial Analysis of the District's Funds

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$35,430,850, well above last year's ending fund balances of \$31,178,675, as restated.

Governmental Fund Highlights

- The District's General Fund financial position decreased \$595,510. Growth during the year in unrestricted state grants resulted in an increase in revenues. However, the increase in revenues was offset by an increase in spending for the instructional programs and support services resulting in a slight change in the fund balance.
- The General Fund balance decreased slightly from \$8,255,123 to \$7,659,613 attributable in part to negotiated salary and benefit settlement and existing expenditure commitments of the district.
- The Physical Plant and Equipment Levy (PEEL) Fund balance increased from \$1,995,013 in fiscal 2005 to \$3,170,430 in fiscal 2006. While expenditures remained approximately the same, the district received Capital Grants totaling \$1,275,000 for the West Middle School project.
- The Capital Projects Fund balance increased from \$1,939,544 in fiscal year 2005 to \$3,448,584 in fiscal 2006 due to an increase in revenues and a significant decrease in expenditures.

Proprietary Fund Highlights

- The School Nutrition Fund net assets increased from \$722,749 at June 30, 2005 to \$881,897 at June 30, 2006. This slight increase was primarily due to the matching of expenditures to revenues collected.

Budgetary Highlights

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

Legal Budgetary Highlights

The District's total actual receipts were approximately \$1,672,230 more than the total budgeted receipts, a variance of slightly more than 3%.

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

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the District had invested over \$22 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 6 percent from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year exceeded \$1.5 million.

The largest change in capital asset activity during the year occurred in the construction in progress and improvement categories. The District's construction in progress totaled \$446,000 at June 30, 2006, compared to \$131,000 reported at June 30, 2005. This increase was mainly due to the starting of the Central Middle School project. The improvements, other than building, totaled \$1,331,000 at June 30, 2006, compared to \$898,000 reported at June 30, 2005. This was a result of the addition of the multipurpose field.

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Land	694	694	-	-	694	694	0.0%
Construction in progress	446	131	-	-	446	131	240.5%
Buildings	18,272	18,148	-	-	18,272	18,148	0.7%
Improvements other than buildings	1,331	898	-	-	1,331	898	48.2%
Furniture and equipment	1,579	1,419	38	38	1,617	1,457	11.0%
Totals	22,322	21,290	38	38	22,360	21,328	4.8%

Long-Term Debt

At June 30, 2006, the District had \$2,193,581 in general obligation and other long-term debt outstanding. This represents a decrease of 12.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had no outstanding bonded indebtedness at June 30, 2006.

	Total School District		Total Change
	2006	2005	2005-2006
General obligation bonds	-	760,000	-100.0%
Early retirement	2,193,581	2,089,556	5.0%
Totals	2,193,581	2,849,556	-23.0%

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 has no General obligation bonded indebtedness.
- An early retirement incentive program will be offered to eligible district employees in fiscal years 2007. Plans are to terminate the incentive program at the end of fiscal year 2007. This could influence the number of retirees in fiscal year 2007 because of the uncertainty of having the option to retire with an incentive at a later date. It is anticipated that approximately 30 employees will retire over the next year. This will impact our management levy rate and the general fund expenditures for salaries.
- The district negotiated two year collective bargaining agreements for all employee groups for fiscal years 2006 and 2007. The two year agreements provide total package increases of 4.2% and 3.5%. The district will need to negotiate collective bargaining agreements for all employee groups in 2007. We will again attempt to have to year agreements.
- The State School Budget Review Committee granted requests from school districts state wide for modified allowable growth as a result of the requirement to convert to budgeting under Generally Accepted Accounting Principles from Cash basis budgeting in fiscal year 2007. Each school district had to apply for the allowable growth but the authority was granted by class action for all the districts that applied. This amounted to \$3,750,622 worth of additional budget authority for the district. This greatly impacted our unspent balance which could influence or collective bargaining settlements in the future.
- The district's regular program cost per pupil increased 4% from \$4,931 to \$5,128 from fiscal year 2006 to 2007. The legislators also approved a 4% increase for fiscal year 2008 which would result in the district's regular program cost per pupil of \$5,333. This is an important figure as the district's budget is mostly determined by multiplying this figure times the certified enrollment. This positively impacts our budget.
- The school district's certified enrollment decreased 12.6 FTE from 5,569.4 students in September 2004 to 5,556.8 students in September 2005. It also decreased another 46.7 FTE students in October 2006 resulting in a certified enrollment of 5,510.1. These are important figures as the district's budget is determined by multiplying this figure times the regular program district cost. With declining enrollment this negatively impacts our budget. This is something we are going to have to deal with in setting the budget and during negotiations.
- With the federal No Child Left Behind legislation, all schools must annually meet numerous accountability standards or be placed on a leveled sanction list. To meet the sanctions, districts must provide increased professional development for the certified staff. Professional development requires increased financial resources that include additional teacher compensation, purchasing curriculum materials, staff attendance at out-of-district workshops, and the hiring of outside consultants.

Muscatine High School was cited as a School in Need of Assistance (SINA) due to testing participation rate. The building has shown improvement for two consecutive years and has been removed from the list. However the High School was placed back on the School in Need of Assistance (SINA) list due to student achievement for the 2005-06 year. They will remain on the list until they have demonstrated improved student achievement for two consecutive years. Removal from this list will require the district to spend additional funds for professional development.

West Middle School was placed on the School in Need of Assistance (SINA) list for 2004-05 due to student achievement. They have been moved to delayed status as result of improved student achievement in 2005-06. In continuing to address the student academic needs, additional funds will need to be allocated for professional development.

Central Middle School was placed on the NCLB watch list due to student achievement in academic year 2005-06. They must show improvement during the 2006-07 academic school year to avoid being placed on the School in Need of Assistance (SINA) list. To address the student academic needs, additional funds will need to be allocated for professional development.

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

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

Currently NCLB requires that testing scores be disaggregated and reported for grades 3 – 8 and 11. This is a time consuming process. This mandate will require additional staff hours to disaggregate, analyze, and report the data to students, parents, staff, board of education, and community.

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

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jean Long, Director of Finance and Budgeting, Muscatine Community School District, 2900 Mulberry Avenue, Muscatine, Iowa, 52761.

Basic Financial Statements

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

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents			
Cash on hand	2,525	-	2,525
Cash	13,999,499	890,740	14,890,239
Certificate of deposit (short term)	4,764,601	-	4,764,601
Receivables:			
Local tax	184,009	-	184,009
Accrued interest:			
Certificates of Deposit	16,438	-	16,438
Governmental claims:			
Other Government	531,267	-	531,267
Due from PPEL Fund	-	-	-
Other	131,198	111	131,309
Inventories	40,560	48,943	89,503
Prepaid expenditures	10,000	-	10,000
Capital Assets not being depreciated:			
Land	694,270	-	694,270
Construction in progress	445,634	-	445,634
Capital Assets, net of accumulated depreciation (note 6)	21,182,091	90,451	21,272,542
Total assets	42,002,092	1,030,245	43,032,337
Liabilities			
Accounts Payable	251,752	76,547	328,299
Accrued Payroll and Other Expenses	4,047,966	46,964	4,094,930
Student Meal Prepayments	-	24,837	24,837
Deferred Revenues	76,777	-	76,777
Federal Intergovernmental Payable	1,166	-	1,166
Deposit on Future			
Sale of Real Property	-	-	-
Long-term liabilities (note 7):			
Portion due within one year:			
Capital leases	-	-	-
Bonds payable	-	-	-
Early Retirement	565,000	-	565,000
Portion due after one year:			
Capital leases	-	-	-
Bonds payable	-	-	-
Early Retirement Benefit	1,628,581	-	1,628,581
Total liabilities	6,571,242	148,348	6,719,590
Net assets			
Invested in capital assets, net of related debt	22,321,995	90,451	22,412,446
Restricted for:			
State programs	228,761	-	228,761
Other reserves	50,560	-	50,560
Debt service levy	2,241	-	2,241
PPEL levy	3,170,430	-	3,170,430
Capital Projects Fund	3,448,584	-	3,448,584
Other special revenue purposes	388,204	48,943	437,147
Unrestricted	5,820,075	742,503	6,562,578
Total net assets	35,430,850	881,897	36,312,747

See notes to financial statements

Exhibit B

Net(Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(16,039,315)		(16,039,315)
(9,820,718)		(9,820,718)
(468,510)		(468,510)
(26,328,543)	-	(26,328,543)
(1,280,533)		(1,280,533)
(1,774,111)		(1,774,111)
(2,459,351)		(2,459,351)
(2,704,359)		(2,704,359)
(1,346,153)		(1,346,153)
(197,781)		(197,781)
(9,762,288)	-	(9,762,288)
(11,621)	-	(11,621)
(1,124,209)		(1,124,209)
(21,773)		(21,773)
-		-
(4,660)		(4,660)
-		-
(1,150,642)	-	(1,150,642)
(37,253,094)	-	(37,253,094)
-	135,942	135,942
(37,253,094)	135,942	(37,117,152)
10,914,700	-	10,914,700
1,037,794	-	1,037,794
3,158,570	-	3,158,570
76,651	-	76,651
1,673,526	-	1,673,526
22,751,569	-	22,751,569
611,121	4,129	615,250
299,955	-	299,955
981,383	19,077	1,000,460
41,505,269	23,206	41,528,475
4,252,175	159,148	4,411,323
31,178,675	722,749	31,901,424
35,430,850	881,897	36,312,747

MUSCATINE COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2006

	General Fund	PPEL Fund	Capital Projects Fund	Nonmajor Special Revenue	Total
Assets					
Cash and cash equivalents:					
Cash on hand	25	-	-	2,500	2,525
Cash	6,600,803	3,183,381	3,205,231	1,010,084	13,999,499
Certificate of deposit (short term)	4,757,101	-	-	7,500	4,764,601
Receivables:					
Local tax	148,931	20,001	-	15,077	184,009
Local Option Tax	-	-	243,353	-	243,353
Accrued interest:					
Certificates of Deposit	16,277	-	-	161	16,438
Governmental claims:					
State Aid	-	-	-	-	-
Other Government	287,914	-	-	-	287,914
Due from PPEL Fund	-	-	-	-	-
Other	127,703	-	-	3,495	131,198
Inventories	40,560	-	-	-	40,560
Prepaid expenditures	10,000	-	-	-	10,000
Total Assets	11,989,314	3,203,382	3,448,584	1,038,817	19,680,097
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	204,663	32,952	-	14,137	251,752
Accrued Payroll and Other Expenses	4,047,095	-	-	871	4,047,966
Deferred Revenues	76,777	-	-	-	76,777
Federal Intergovernmental Payable	1,166	-	-	-	1,166
Total Liabilities	4,329,701	32,952	-	15,008	4,377,661
Fund Balances:					
Reserved:					
Federal/State programs	228,761	-	-	-	228,761
Inventories/prepays/encumbrances	50,560	-	-	-	50,560
Debt service	-	-	-	2,241	2,241
Unreserved:					
Designated	690,559	-	-	388,204	1,078,763
Undesignated	6,689,733	3,170,430	3,448,584	633,364	13,942,111
Total Fund Balances	7,659,613	3,170,430	3,448,584	1,023,809	15,302,436
Total Liabilities and Fund Balances	11,989,314	3,203,382	3,448,584	1,038,817	19,680,097

See notes to financial statements

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

Total fund balances of governmental funds (Exhibit C) 15,302,436

**Amount reported for governmental activities in the
statement of net assets are different because:**

Capital assets used in governmental activities are not
financial recourses and, therefore, are not reported as
assets in the governmental funds 22,321,995

Long-term liabilities, including bonds payable, are not due and
payable in the current period and, therefore, are not reported as
liabilities in the governmental funds. (2,193,581)

Net assets of governmental activities (Exhibit A) 35,430,850

See notes to financial statements.

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

	General Fund	PPEL Fund	Capital Projects Fund	Nonmajor Special Revenue	Total
REVENUES:					
Local sources:					
Local Taxes	10,914,700	1,673,526	3,158,570	1,114,445	16,861,241
Tuition	627,827	-	-	-	627,827
Other	1,096,576	505,119	87,787	833,726	2,523,208
Intermediate sources					
State Sources	26,377,373	-	-	-	26,377,373
Federal sources	1,604,013	1,275,000	-	-	2,879,013
Other Sources	7,851	149,000	-	-	156,851
Total Revenues	40,628,340	3,602,645	3,246,357	1,948,171	49,425,513
EXPENDITURES:					
Instruction:					
Regular	18,112,730	-	-	689,117	18,801,847
Special	9,759,397	-	-	765,793	10,525,190
Other	1,538,951	-	-	-	1,538,951
Support Services:					
Student services	1,297,222	-	-	15,741	1,312,963
Instructional staff services	1,589,375	173,142	-	9,484	1,772,001
Administrative services	2,247,405	-	-	155,919	2,403,324
Operation and maintenance of plant services	3,538,907	-	-	129,534	3,668,441
Transportation services	1,260,482	-	-	72,303	1,332,785
Central support services	195,331	-	-	2,450	197,781
Non-instructional programs	32,604	-	-	25,354	57,958
Other Expenditures:					
Facilities acquisition and construction services	-	2,254,086	460,317	-	2,714,403
Long-term debt:					
Principal	-	-	-	760,000	760,000
Interest and fiscal charges	-	-	-	21,773	21,773
AEA Flowthrough	1,651,446	-	-	-	1,651,446
Total Expenditures	41,223,850	2,427,228	460,317	2,647,468	46,758,863
Excess (deficiency) of revenues over (under) expenditures	(595,510)	1,175,417	2,786,040	(699,297)	2,666,650
OTHER FINANCING SOURCES(USES):					
Transfers In	-	-	-	655,611	655,611
Transfers (Out)	-	-	(655,611)	-	(655,611)
Sale of Materials/bonds	-	-	-	-	-
Total Other Financing Sources(Uses)	-	-	(655,611)	655,611	-
Net change in fund balances	(595,510)	1,175,417	2,130,429	(43,686)	2,666,650
Fund balances beginning of year	8,255,123	1,995,013	1,318,155	1,067,495	12,635,786
Fund balances end of year	7,659,613	3,170,430	3,448,584	1,023,809	15,302,436

See notes to financial statements

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

Net change in fund balances - total governmental funds 2,666,650
(Exhibit E)

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

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

Construction in progress	315,194	
Loss on disposition of capital outlays	(54,705)	
Capital outlays	2,309,455	
Depreciation Expense	<u>(1,538,369)</u>	1,031,575

Deposit Held on Sale of Real Property 201,000

Repayment of Long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 760,000

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

Early retirement	<u>(407,050)</u>
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Changes in net assets of governmental activities (Exhibit B) 4,252,175

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Fund
Year Ended June 30, 2006

	School Nutrition Fund
Assets	
Cash and cash equivalents	890,740
Accounts receivable	111
Inventories	48,943
Capital assets, net of accumulated depreciation	90,451
Total assets	1,030,245
 Liabilities	
Accounts payable	76,547
Deferred Revenues	-
Accrued Payroll and Other Expenses	46,964
Other payables	24,837
Total liabilities	148,348
 Net Assets	
Invested in capital assets, net of related debt	90,451
Unrestricted	791,446
Total net assets	881,897

MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
Year Ended June 30, 2006

	School Nutrition Fund
Operating Revenue:	
Local sources:	
Sale of lunches and breakfasts	1,153,631
Other local revenue	19,077
Total operating revenues	1,172,708
 Operating Expenses:	
Student services programs:	
Salaries & benefits	1,000,281
Food	865,006
Commodities consumed	97,995
Supplies	67,100
Purchased services	104,849
Depreciation	32,575
Miscellaneous	1,843
Total operating expenses	2,169,649
 Operating Loss	(996,941)
 Non-operating Revenues:	
Other:	
Interest on investments	4,129
State appropriations	
Net commodities received	93,478
State programs	22,413
Federal appropriations:	
Lunch program claims	1,036,069
Total non-operating revenues	1,156,089
 Changes in net assets	159,148
 Net assets beginning of year	722,749
 Net assets end of year	881,897
 See notes to financial statements	

MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2006

	Proprietary Fund Types
	School Nutrition Fund
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	1,153,631
Cash received from miscellaneous operating activities	19,077
Cash payments to employees for services	(1,011,592)
Cash payments to suppliers for goods or services	(959,987)
Net cash used in operating activities	(798,871)
Cash flows from non-capital financing activities:	
State grants received	22,413
Federal grants received	1,036,069
Net cash provided by non-capital financing activities	1,058,482
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(85,362)
Cash flows from investing activities:	
Interest on investments	4,129
Transfers out	-
Net increase in cash and cash equivalents	178,378
Cash and cash equivalents at beginning of year	712,362
Cash and cash equivalents at end of year	890,740

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 Statement of Cash Flows
 Proprietary Fund
 Year Ended June 30, 2006

	<u>Proprietary</u> <u>Fund Types</u> <u>School Nutrition</u> <u>Fund</u>
Reconciliation of operating income(loss) to net cash provided by operating activities:	
Operating Income(Loss)	(996,941)
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:	
Commodities Used	97,995
(Increase) in receivables	(34)
Decrease in inventory	1,051
Depreciation	32,575
(Decrease) in accrued payroll payable	(11,311)
Increase in accounts payable	76,547
Increase in meal prepayments	1,247
Transfer Out	-
Net cash used by operating activities	<u><u>(798,871)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the district received \$93,478 of federal commodities.

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose		Total
	Trust Funds	Agency Fund	
Assets			
Cash and cash equivalents:			
Cash on hand	50,594	455,488	506,082
Certificate of deposit (short term)	38,875	-	38,875
Receivables:			
Accrued interest:			
Certificates of Deposit		-	-
Restricted assets			
Treasury notes (long term)	74,990	-	74,990
Total Assets	164,459	455,488	619,947
Liabilities			
Liabilities:			
Accounts payable	-	-	-
Other payables	-	455,488	455,488
Total Liabilities	-	455,488	455,488
Net Assets:			
Reserved for scholarships	164,459	-	164,459

See notes to financial statements.

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

	Private Purpose Trusts		Total
	Bernadette and Paul Rohling Scholarship	Iileen Rohling Scholarship	
Additions			
Local sources:			
Interest on investments	7,050	4,044	11,094
Miscellaneous revenue	-	-	-
Total	7,050	4,044	11,094
Deductions			
Support services:			
Scholarships awarded	7,000	2,370	9,370
Total	7,000	2,370	9,370
Change in net assets	50	1,674	1,724
Net Assets beginning of year	102,018	60,717	162,735
Net Assets end of year	102,068	62,391	164,459

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Assets, Liabilities and Net Assets - Cash Basis
Component Unit
December 31, 2005

Assets	
Cash and Cash Equivalents	193,784
Certificates of Deposit	453,810
Investments	<u>725,026</u>
Total Assets	<u><u>1,372,620</u></u>
Liabilities	
Net Assets	
Restricted Net Assets	1,337,647
Unrestricted Net Assets	<u>34,973</u>
Total Liabilities and Net Assets	<u><u>1,372,620</u></u>

See notes to financial statements.

MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Support and Revenue, Expenses and
Changes in Net Assets - Cash Basis
Component Unit
Year Ended December 31, 2005

	Restricted Funds	Unrestricted Funds	Total All Funds
Support and Revenue			
Interest	13,663	(1,557)	12,106
Donations	467,708	2,862	470,570
Dividends	14,694	-	14,694
Gain or (Loss) on Sale of Investments	11,258	-	11,258
Unrealized Gain (Loss) on Investments	58,646	-	58,646
Realized Gain (Loss) on Investments	1,902	-	1,902
Other	500	-	500
Total Support and Revenue	<u>568,371</u>	<u>1,305</u>	<u>569,676</u>
Expenses			
Supplies	-	521	521
Scholarships	73,372	3,150	76,522
Grants	14,481	-	14,481
Franklin 5th Closeout	4,910	-	4,910
Contracted Services	-	-	-
Audits	-	1,575	1,575
Total Expenses	<u>92,763</u>	<u>5,246</u>	<u>98,009</u>
Other Financing Sources & (Uses)	(8,514)	8,514	-
Excess of Support and Revenue (Deficiency) Over Expenses	467,094	4,573	471,667
Net Assets, Beginning of Year	<u>870,553</u>	<u>30,400</u>	<u>900,953</u>
Net Assets, End of Year	<u>1,337,647</u>	<u>34,973</u>	<u>1,372,620</u>

Muscatine Community School District

Notes to Financial Statements

June 30, 2006

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

Muscatine Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Muscatine, Iowa, and the predominate agricultural territory in Muscatine County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Muscatine Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

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

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

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

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type

activities, which rely to a significant extent on fees and charges for service. The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the 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 non-major governmental funds.

The District reports the following major governmental funds:

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

The PPEL Fund is used to account for the purchase, construction, repairing, remodeling, improving or expanding the schoolhouses or buildings of the district.

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

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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.

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

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

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

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

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be

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

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

Long-term obligations – In the 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.

In the governmental fund financial statements designated fund balances are reported for amounts that reflect tentative planned actions of the Board. Designated fund balances are unrestricted and are therefore available for appropriations.

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 Control

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

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 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.

(3) **Interfund Receivables and Payables**

There were no interfund receivable or payable balances as of June 30, 2006.

(4) **Interfund Transfers**

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

Transfer to	Transfer from	Amount
Special Revenue: Debt	Capital Projects	<u>655,611</u>
Total		<u>655,611</u>

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

(5) Iowa School Cash Anticipation Program (ISCAP)

The District does not participate in the Iowa Schools Cash Anticipation Program (ISCAP).

(6) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	694,271	-	1	694,270
Construction in progress	130,440	2,380,382	2,065,188	445,634
Total capital assets not being depreciated	824,711	2,380,382	2,065,189	1,139,904
Capital assets being depreciated:				
Buildings and improvements	33,274,871	1,252,441	122,907	34,404,405
Improvements other than buildings	1,131,345	779,330	60,937	1,849,738
Furniture and equipment	4,688,037	277,685	285,797	4,679,925
Total capital assets being depreciated	39,094,253	2,309,456	469,641	40,934,068
Less accumulated depreciation for:				
Buildings and improvements	15,126,676	1,106,309	100,285	16,132,700
Improvements other than buildings	233,064	70,527	33,515	270,076
Furniture and equipment	3,268,804	361,533	281,137	3,349,200
Total accumulated depreciation	18,628,544	1,538,369	414,937	19,751,976
Total capital assets being depreciated, net	20,465,709	771,087	54,704	21,182,092
Governmental activities capital assets, net	21,290,420	3,151,469	2,119,893	22,321,996

	Balance Beginning of Year	Increases	Decreases	Balance End
Business-type activities:				
Furniture and equipment	125,468	85,362	-	210,830
Less accumulated depreciation	87,804	32,575	-	120,379
Business-type activities capital assets, net	37,664	52,787	-	90,451

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	1,245,822
Special	-
Other	-

Support services:

Student Services	720
Instructional staff	7,469
Administration	20,565
Operation and maintenance of plant	35,886
Transportation	214,249

Non-Instructional services:

13,658

1,538,369

Unallocated depreciation

-

Total governmental activities depreciation expense

1,538,369

Business-type activities:

Food services

32,575

(7) Long-Term Liabilities

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

	Balance Beginning of Year	Net Additions	Reductions	Balance End Of Year	Due Within One Year
General obligation bonds	760,000	-	760,000	-	-
Leases payable	-	-	-	-	-
Early retirement	2,089,556	542,846	438,821	2,193,581	565,000
Total	2,849,556	542,846	1,198,821	2,193,581	565,000

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences and be eligible for health insurance by virtue of being full-time as defined by their employee group. The application for early retirement is subject to approval by the Board of Education.

The plan is reviewed and updated as required since its inception to meet the current IRS rules and court decisions. The monies are provided so that the retirees have monies to assist them purchasing health care. Under the present plan an employee currently enrolled in the district's insurance plan must deposit the proceeds pre-tax into a health reimbursement account and from this account they may pay health insurance premiums, co-pays, deductibles and out of pocket health costs. The employees who are not enrolled in the district health insurance program receive the proceeds after the normal deductions for FICA, Medicare, state and federal taxes.

Currently early retirement benefits are equal to 3% of the employee's regular contractual salary in effect during the employee's last of employment times the number of year's of service not to exceed 33 years or two times the BA-1 (\$52,574 in FY-07). The benefit is paid out quarterly over five years commencing in July of the year of retirement.

At June 30, 2006, the District has obligations to 101 participants with a liability of \$2,193,581. Early retirement expenditures for the year ended June 30, 2006, totaled \$438,821. Management has chosen to disclose the long-term liability of early retirement benefits at the present value of expected future benefit payments. The liability is shown at present value based upon a discount calculated at 5% compounded annually.

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

	<u>General</u>	<u>Management</u>	<u>Total</u>
2007	19,414	545,586	565,000
2008	13,396	357,801	371,197
2009	16,889	412,574	429,483
2010	17,666	385,468	403,134
2011-2014	3,394	421,373	424,767
Total	<u>70,759</u>	<u>2,122,822</u>	<u>2,193,581</u>

Bonds Payable

The District had no general obligation bonded indebtedness as of June 30, 2006.

Capital Leases

The District has no capital leases as of June 30, 2006.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% for the years ended June 30, 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 \$1,544,565, \$1,483,309 and \$1,428,618, respectively, equal to the required contributions for each year.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,651,446 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.

(11) Construction Commitment

The District has entered into contracts totaling \$4,405,449 for various remodeling and construction projects. As of June 30, 2006, costs of \$445,634 had been incurred against the contracts. Balances of \$3,959,815 remaining at June 30, 2006, will be paid as work on projects concludes.

(12) Accounting Change

Governmental Accounting Standards Board (GASB) Statement 47 – Accounting for Termination Benefits was implemented during the year ended June 30, 2006. The interpretation establishes guidance on involuntary termination benefits and provides clarification on measurement issues concerning all termination benefits.

The Government-wide financial statements split the Districts programs between business-type and governmental activities. The beginning net assets amount for governmental activities has been restated for Early Retirement Benefit Liability at July 1, 2005, caused by the implementation of GASB Statement 47.

Government-wide Funds

	Governmental Activities	Business-Type Activities	Total
Net assets – beginning of year, as previously reported.....	\$30,875,650	\$722,749	\$31,598,399
GASB 47 Adjustments			
Early retirement benefit liability.....	<u>303,025</u>	<u>-0-</u>	<u>303,025</u>
Net Assets – Beginning of Year, as Restated.....	<u>\$31,178,675</u>	<u>\$722,749</u>	<u>\$31,901,424</u>

Required Supplementary Information



Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
21,345,964	20,822,498	20,822,498	523,466
-	-	-	-
26,493,264	26,390,311	26,390,311	102,953
3,915,082	2,869,271	2,869,271	1,045,811
51,754,310	50,082,080	50,082,080	1,672,230
30,865,988	32,102,948	32,102,948	(1,236,960)
10,687,295	10,367,520	10,627,885	59,410
2,227,607	2,462,077	2,462,077	(234,470)
5,147,622	5,964,693	6,791,187	(1,643,565)
48,928,512	50,897,238	51,984,097	(3,055,585)
2,825,798	(815,158)	(1,902,017)	4,727,815
2,825,798	(815,158)	(1,902,017)	4,727,815
13,358,535	10,250,413	10,250,413	3,108,122
16,184,333	9,435,255	8,348,396	7,835,937

Muscatine Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$1,086,859.

Muscatine Community School District

Other Supplementary Information

Muscatine Community School District

MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006

	Student Activity Fund	Debt Fund	Management Fund	Total
ASSETS				
Cash and cash equivalents:				
Cash on hand	2,500	-	-	2,500
Cash	388,304	1,325	620,455	1,010,084
Certificate of deposit (short term)	7,500	-	-	7,500
Receivables:				
Property tax	-	916	14,161	15,077
Sales & Use Taxes	-	-	-	-
Accrued interest:				
Bank Accounts	-	-	-	-
Certificates of Deposit	161	-	-	161
Other	3,495	-	-	3,495
TOTAL ASSETS	401,960	2,241	634,616	1,038,817
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	12,885	-	1,252	14,137
Accrued Payroll and Other Expenses	871	-	-	871
Deferred Revenue	-	-	-	-
Due to General Fund	-	-	-	-
TOTAL LIABILITIES	13,756	-	1,252	15,008
Fund Equity:				
Fund balances:				
Designated	388,204	2,241	-	390,445
Undesignated	-	-	633,364	633,364
Total Fund Equity	388,204	2,241	633,364	1,023,809
TOTAL LIABILITIES AND FUND EQUITY	401,960	2,241	634,616	1,038,817

See accompanying independent auditors' report.

MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2006

	Activity Fund	Debt Service Fund	Management Fund	Total
REVENUES:				
Local sources:				
Local Taxes	-	76,651	1,037,794	1,114,445
Tuition	-	-	-	-
Other	822,919	-	10,807	833,726
Intermediate sources				
State Sources	-	-	-	-
Federal sources	-	-	-	-
Other Sources	-	-	-	-
Total Revenues	822,919	76,651	1,048,601	1,948,171
EXPENDITURES:				
Instruction:				
Regular	-	-	689,117	689,117
Special	765,793	-	-	765,793
Other	-	-	-	-
Support Services:				
Student services	-	-	15,741	15,741
Instructional staff services	-	-	9,484	9,484
Administrative services	-	-	155,919	155,919
Operation and maintenance of plant services	-	-	129,534	129,534
Transportation services	17,742	-	54,561	72,303
Central support services	-	-	2,450	2,450
Non-instructional programs	-	-	25,354	25,354
Other Expenditures:				
Facilities acquisition and construction services	-	-	-	-
Long-term debt:				
Principal	-	760,000	-	760,000
Interest and fiscal charges	-	21,773	-	21,773
AEA Flowthrough	-	-	-	-
Total Expenditures	783,535	781,773	1,082,160	2,647,468
Excess (deficiency) of revenues over (under) expenditures	39,384	(705,122)	(33,559)	(699,297)
OTHER FINANCING SOURCES(USES):				
Transfers In	-	655,611	-	655,611
Transfers (Out)	-	-	-	-
Total Other Financing Sources (uses)	-	655,611	-	655,611
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	39,384	(49,511)	(33,559)	(43,686)
Fund balances beginning of year	348,820	51,752	666,923	1,067,495
Fund balances end of year	388,204	2,241	633,364	1,023,809

See accompanying independent auditors' report.

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

<u>Account</u>	<u>Balance June 30, 2005</u>	<u>Revenues and Interfund Transfers</u>	<u>Expenditures</u>	<u>Balance June 30, 2006</u>
<u>High School:</u>				
Academic decathlon	-			-
Activity ticket	1,967	(1,967)	-	-
Special Ed Wk Experience	17,031	35,734	41,575	11,190
Russian Exchange	-	-	-	-
Prof. staff scholarship	17	-	-	17
Student commons	14,226	12,037	8,838	17,425
Athletics	(11,197)	197,287	192,477	(6,387)
Cheerleaders	2,377	16,581	17,202	1,756
Donation fund	12,299	17,099	12,248	17,150
Pom-pom girls	(578)	18,654	15,047	3,029
Sport calendar	795	29,927	26,276	4,446
AP fund	2,466	21,371	21,335	2,502
Band	3,569	9,197	9,184	3,582
Chorus	5,290	14,582	13,954	5,918
Clubs	27,505	65,601	58,275	34,831
Dramatics	8,031	23,112	24,504	6,639
Forensics	8,429	8,040	4,886	11,583
Young ambassadors	-	-	-	-
Annual auroran	5,380	48,216	34,734	18,862
Weekly auroran	384	3,626	1,867	2,143
Tournament	780	6,378	719	6,439
Total MHS	98,771	525,475	483,121	141,125

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

<u>Account</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Revenues</u> <u>and Interfund</u> <u>Transfers</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2006</u>
<u>Central Middle School:</u>				
Athletics	1,614	5,354	6,666	302
Fund raisers	10,617	30,702	28,911	12,408
Transportation	-			-
Student council	2,069	3,309	3,147	2,231
General activity	11,457	5,061	4,215	12,303
Little store	1,282	334	417	1,199
Music/drama	4,950	4,566	5,750	3,766
Yearbook	2,294	4,433	4,221	2,506
Juice	2,413	4,668	3,347	3,734
Officials	1,082	4,847	4,352	1,577
Book fairs	941	4,496	3,882	1,555
Total CMS	38,719	67,770	64,908	41,581
<u>West Middle School:</u>				
Athletics	874	3,590	56	4,408
Fund raisers	18,459	2,688	15,000	6,147
General activity	20,714	21,262	23,301	18,675
Band	2,411	1,345	365	3,391
Little store	319	274	205	388
Music/drama	4,718	12,683	10,763	6,638
Library Bookfairs	2,708	483	1,713	1,478
Yearbook	358	3,796	3,987	167
Math-A-Thon	5,871	-	878	4,993
Officials	(95)	3,631	3,536	-
6th Grade Book fairs	1,470	3,410	1,503	3,377
Student council	-	7,208	5,162	2,046
Total WMS	57,807	60,370	66,469	51,708

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

<u>Account</u>	<u>Balance June 30, 2005</u>	<u>Revenues and Interfund Transfers</u>	<u>Expenditures</u>	<u>Balance June 30, 2006</u>
<u>Elementary:</u>				
Colorado general acct.	6,232	10,620	14,862	1,990
Franklin general acct.	5,073	6,688	6,783	4,978
Garfield general acct.	10,004	3,045	3,539	9,510
Grant general acct.	5,876	22,342	12,034	16,184
Jefferson general acct.	6,771	8,709	9,766	5,714
Madison general acct.	5,377	8,868	10,357	3,888
McKinley general acct.	18,913	22,243	34,758	6,398
Mulberry general acct.	7,436	10,211	11,147	6,500
Washington general acct.	5,941	10,076	10,690	5,327
Madison friends of playground	7,681	(181)		7,500
Total Elementary	79,304	102,621	113,936	67,989
<u>Other:</u>				
Interest from investments	33,807	4,032	667	37,172
Miscellaneous	66	-	-	66
Adult education	109	35	-	144
Activity van	28,615	18,105	13,731	32,989
MHS College for kids	9,122	44,561	40,703	12,980
Total other	71,719	66,733	55,101	83,351
Total before petty cash	346,320	822,969	783,535	385,754
Petty cash	2,500	(50)	-	2,450
Total Activity Fund	348,820	822,919	783,535	388,204

See accompanying independent auditors' report.

MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Assets and Liabilities
Agency Fund
Year Ended June 30, 2006

	Agency Fund
Balance beginning of year	308,871
<u>ADDITIONS:</u>	
Collections	(1,898)
Interest	609
Miscellaneous revenue	606,099
State Sources: Early Childhood Admin Mentoring	545,594 -
Total additions	1,150,404
<u>DEDUCTIONS:</u>	
Miscellaneous	
Total deductions	1,003,787
Balance end of year	455,488

See accompanying independent auditors' report.

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

	Modified Accrual Basis			
	2006	2005	2004	2003
REVENUES:				
Local sources:				
Local Taxes	16,861,241	16,469,084	16,371,805	15,230,547
Tuition	627,827	1,095,561	1,182,937	1,181,545
Other	2,523,208	1,987,159	1,640,959	1,785,997
Intermediate sources	-	-	-	-
State Sources	26,377,373	24,926,493	23,761,286	23,971,741
Federal sources	2,879,013	2,057,495	1,938,482	1,742,263
Other Sources	156,851	203,136	13	10,015
Total Revenues	49,425,513	46,738,928	44,895,482	43,922,108
EXPENDITURES:				
Instruction:				
Regular	18,801,847	18,951,377	17,678,401	17,285,335
Special	10,525,190	10,372,197	9,765,835	9,553,538
Other	1,538,951	1,156,007	1,117,281	1,114,601
Support Services:				
Student services	1,312,963	1,263,997	1,183,036	1,237,413
Instructional staff services	1,772,001	1,362,482	1,380,395	1,187,895
Administrative services	2,403,324	2,478,432	2,166,956	2,134,009
Operation and maintenance of plant services	3,668,441	3,388,560	3,376,632	3,259,034
Transportation services	1,332,785	1,311,873	937,431	1,029,789
Central support services	197,781	3,024	176,779	163,494
Non-instructional programs	57,958	68,506	81,022	42,689
Other Expenditures:				
Facilities acquisition and construction services	2,714,403	4,127,947	4,765,109	4,288,396
Long-term debt:				
Principal	760,000	735,000	869,478	761,525
Interest and fiscal charges	21,773	47,869	69,953	119,877
AEA Flowthrough	1,651,446	1,581,225	1,561,603	1,659,652
Total	46,758,863	46,848,496	45,129,911	43,837,247

See accompanying independent auditors' report.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
Restricted Grants through State-Child Nutrition Act:			
School Breakfast Program	10.553	FY06	216,093
National School Lunch Program	10.555	FY06	682,051
Special Milk Program	10.556	FY06	1,033
Summer Food Service Program for Children	10.559	FY06	36,946
Fresh Fruit and Vegetables	10.582	FY06	99,945
Revenue on behalf of LEA:			
Food Distribution*	10.550	FY06	93,478
Direct:			
Unrestricted Grants through State:			
Title V State Grants for Innovative Programs	84.298	FY06	19,120
Flood Control Projects	12.106	FY06	33,648
Restricted Grants directly to LEA:			
Early Reading First	84.359	FY06	9,292
Restricted Grants through State:			
Title I LEA	84.010	FY06	606,645
Title I LEA Carryover	84.010	FY06	108,589
Special Ed-Federal Part B	84.027	FY06	299,031
Success 4	84.027	FY06	2,820
Carl Perkins Vocational Education Program	84.048	FY06	74,720
Comprehensive School Reform	84.332	FY06	49,033
Technology Literacy	84.318	FY06	552
Drug-Free Schools and Communities	84.186	FY06	31,831
Medical Assistance Program-Medicaid Admin	93.778	FY06	20,471
Title IIA	84.367	FY06	247,197
Title III-ELL	84.365	FY06	31,444
Title VI	84.369	FY06	37,239
Iowa Demonstration Construction Grants	84.215	FY06	231,950
IPTV STAR Connectivity Grant	84.215	FY06	24,480
Total			<u>\$ 2,957,608</u>

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

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

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

To the Board of Education of
Muscatine Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Muscatine Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muscatine Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our 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 II of the accompanying Schedule of Findings and Questioned Costs.

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. Our 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, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

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

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

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

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

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

December 15, 2006

**Independent Auditors' Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
In Accordance with OMB Circular A-133**

Muscatine Community School District

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
In Accordance with OMB Circular A-133

To the Board of Education of
Muscatine Community School District:

Compliance

We have audited the compliance of Muscatine Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Muscatine Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Muscatine Community School District's management. Our responsibility is to express an opinion on Muscatine Community School District's compliance based on our audit.

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

In our opinion, Muscatine Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Muscatine Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-06 is a material weakness.

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

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

Muscatine, Iowa
December 15, 2006

Muscatine Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, which was considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) Major programs were as follows:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 10.556 – Special Milk Program for Children
 - Clustered programs:
 - CFDA Number 84.027- Special Ed- Federal Part B
 - CFDA Number 84.027- Success 4
- (g) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (h) Muscatine Community School District qualified as a low-risk auditee.

Muscatine Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Bank reconciliations are prepared by an authorized signer and the same person who prepares the checks.

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

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Muscatine Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITION:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program and
CFDA Number 10.556: Special Milk Program for Children

CFDA Number 84.010: Title I Grants to Local Educational Agencies
CFDA Number 84.027: Special Ed- Federal Part B
CFDA Number 84.027: Success 4

III-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Bank reconciliations are prepared by an authorized signer and the same person who prepares the checks.

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

Response and Corrective Action Planned – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

Muscatine Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Other Findings Related To Statutory Reporting:

IV-A-06 Certified Budget – Expenditures for the year ended June 30, 2006, exceeded the amended certified budget amounts for the support services functions.

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

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

Conclusion – Response accepted.

IV-B-06 Questionable Expenditures – Expenditures by the District for cell phone usage may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979. We noted no other questionable expenditures.

Recommendation - The District should consider establishing policy on cell phone usage and determine the extent to which the expenditure meets the requirements of public purpose.

Response – The District will examine expenditures for cell phone usage and establish policy.

Conclusion – Response accepted.

IV-C-06 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions – No business transactions between the District and District officials or employees were noted.

IV-E-06 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 the coverage is adequate for current operations.

IV-F-06 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

IV-G-06 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

IV-H-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

IV-I-06 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely.

IV-J-06 Deficit Balances – A student activity account had a deficit balance at June 30, 2006.

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

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

Conclusion – Response accepted.