

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
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LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2006 Election)		
Charles Clark	Board President	2007
Randy Schlutz	Board Member	2006
Riley Padgett	Board Member	2006
David Bieri	Board Member	2007
Angie Kemp	Board Member	2008
(After September 2006 Election)		
Angie Kemp	Board President	2008
David Bieri	Board Member	2007
Charles Clark	Board Member	2007
Eric Schlutz	Board Member	2009
Riley Padgett	Board Member	2009
School Officials		
Scott Grimes	Lead Administrator	2007
Karron Stineman	District Secretary/Treasurer	2007
Duane Goedken	Attorney	2007

KAY L. CHAPMAN, CPA PC

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

Independent Auditor's Report

To the Board of Education
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine Community School District, Letts, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Louisa-Muscatine Community School District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated March 18, 2008 on my consideration of Louisa-Muscatine Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

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

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisa-Muscatine Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the four years in the period ended June 30, 2007, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 18, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Louisa-Muscatine Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 Financial Highlights

- General Fund revenues increased from \$7,247,839 in fiscal 2006 to \$7,601,536 in fiscal 2007 and General Fund expenditures increased from \$6,937,452 in fiscal 2006 to \$7,409,815 in fiscal 2007. The District's General Fund balance increased from \$1,505,407 in fiscal 2006 to \$1,697,628 in fiscal 2007, a 12% increase.
- The increase in General Fund revenues was partially attributable to increased state aid in fiscal 2007 due to 4% allowable growth and a slight increase in student enrollment.
- Certified enrollment was stable from FY05 to FY06 but the district gained 23.5 students in FY07. However, the gain was offset by 27.5 additional students who open enrolled out to other districts.
- The State once again boosted teacher salaries through increased Teacher Quality funds, adding over \$62,000 to the previous year's allocation.
- The District earned over \$33,000 more in General Fund interest over the previous year due a change in the investment of excess funds.
- The increase in expenditures was due, in part, to the usual raises in negotiated salaries and benefits, increased tuition payments and a 67% jump in textbook costs that was necessary due to moving from a 4 block to an 8 period day at the junior-senior high.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Louisa-Muscatine Community School

District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Louisa-Muscatine Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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

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

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

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

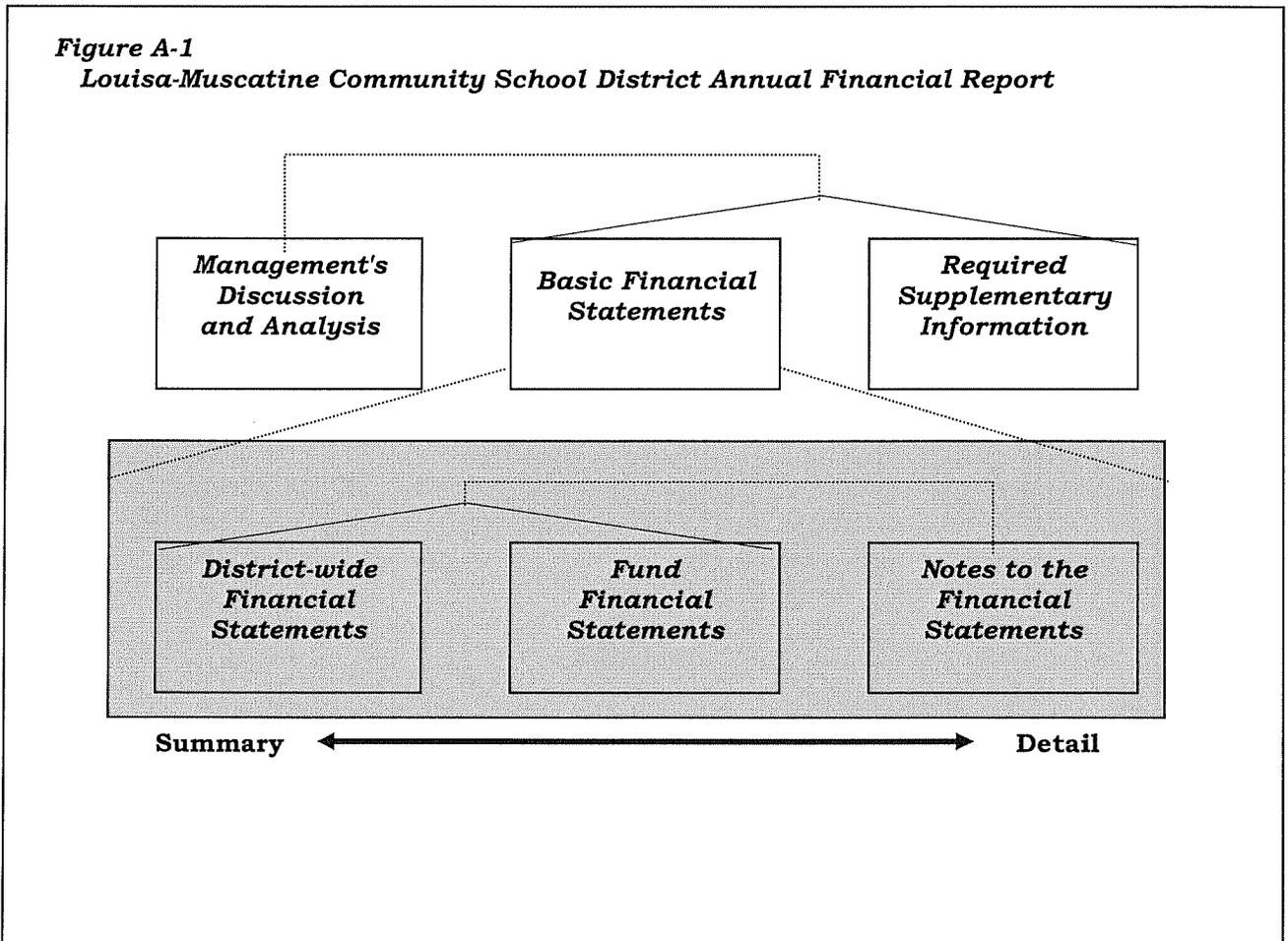


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services preschool/daycare program	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<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, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District’s net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2006-</u> <u>2007</u>
Current and other assets	\$ 7,166,824	\$ 6,642,610	\$ 152,264	\$ 148,403	\$ 7,319,088	\$ 6,791,013	7.78%
Capital assets	<u>7,559,249</u>	<u>7,718,121</u>	<u>25,786</u>	<u>23,844</u>	<u>7,585,035</u>	<u>7,741,965</u>	-2.03%
Total assets	<u>14,726,073</u>	<u>14,360,731</u>	<u>178,050</u>	<u>172,247</u>	<u>14,904,123</u>	<u>14,532,978</u>	2.55%
Long-term obligations	2,135,000	2,664,005	27,170	-	2,162,170	2,664,005	-18.84%
Other liabilities	<u>4,017,756</u>	<u>3,892,428</u>	-	<u>27,641</u>	<u>4,017,756</u>	<u>3,920,069</u>	2.49%
Total liabilities	<u>6,152,756</u>	<u>6,556,433</u>	<u>27,170</u>	<u>27,641</u>	<u>6,179,926</u>	<u>6,584,074</u>	-6.14%
Net assets							
Invested in capital assets, net of related debt	5,424,249	5,113,121	25,786	23,844	5,450,035	5,136,965	6.09%
Restricted	1,261,240	1,185,770	-	-	1,261,240	1,185,770	6.36%
Unrestricted	<u>1,887,828</u>	<u>1,505,407</u>	<u>125,094</u>	<u>120,762</u>	<u>2,012,922</u>	<u>1,626,169</u>	23.78%
Total net assets	<u>\$ 8,573,317</u>	<u>\$ 7,804,298</u>	<u>\$ 150,880</u>	<u>\$ 144,606</u>	<u>\$ 8,724,197</u>	<u>\$ 7,948,904</u>	9.75%

The District’s combined net assets increased by approximately 10%, or \$775,293, over the prior year. The largest portion of the District’s net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$75,470, or approximately 6% over the prior year. The increase was due to the one-cent sales tax revenue and PPEL funds that have been accumulated for large infrastructure projects.

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 \$386,753, or approximately 24%. This increase in unrestricted net assets was a result of the district's efforts to prudently fund the district's unspent balance, enabling the district to maintain a strong financial position.

Figure A-4 shows the change in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-2007
Revenues							
Program revenues							
Charges for service and sales	\$ 773,228	\$ 784,232	\$ 311,977	\$ 326,707	\$ 1,085,205	\$ 1,110,939	-2.32%
Operating grants and contributions	884,935	800,161	168,043	155,609	1,052,978	955,770	10.17%
General revenues							
Property tax	3,650,249	3,449,038	-	-	3,650,249	3,449,038	5.83%
Sales and services tax	521,477	462,621	-	-	521,477	462,621	12.72%
Unrestricted state grants	3,271,752	3,039,991	-	-	3,271,752	3,039,991	7.62%
Contributions and donations	23,436	11,723	-	-	23,436	11,723	99.91%
Unrestricted investment earnings	82,163	34,609	3,406	1,211	85,569	35,820	138.89%
Other	11,824	6,097	-	-	11,824	6,097	93.93%
Total revenues	<u>9,219,064</u>	<u>8,588,472</u>	<u>483,426</u>	<u>483,527</u>	<u>9,702,490</u>	<u>9,071,999</u>	6.95%
Program expenses							
Governmental activities							
Instruction	5,061,616	4,631,627	-	-	5,061,616	4,631,627	9.28%
Support services	2,398,960	2,369,928	-	-	2,398,960	2,369,928	1.23%
Non-instructional programs	-	162	477,152	449,854	477,152	450,016	6.03%
Other expenses	989,469	1,023,484	-	-	989,469	1,023,484	-3.32%
Total expenses	<u>8,450,045</u>	<u>8,025,201</u>	<u>477,152</u>	<u>449,854</u>	<u>8,927,197</u>	<u>8,475,055</u>	5.33%
Change in net assets	<u>\$ 769,019</u>	<u>\$ 563,271</u>	<u>\$ 6,274</u>	<u>\$ 33,673</u>	<u>\$ 775,293</u>	<u>\$ 596,944</u>	29.88%

In fiscal 2007, property tax and unrestricted state grants account for 75% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99% of the revenue from business type activities.

The District's total revenues were \$9,702,490 of which \$9,219,064 was for governmental activities and \$483,426 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 7% increase in revenues and a 5% increase in expenses. Property tax increased \$201,211 to fund increases in expenditures. The change in revenue occurred in the Governmental Activities and can be attributed to increased grants and local option sales tax receipts. The largest expense increase was in the instructional area which included increases in salaries and benefits and the addition of an elementary music teacher and a high school special ed teacher.

Governmental Activities

Revenues for governmental activities were \$9,219,064 and expenses were \$8,450,045. Careful attention was given to the line-item budget to ensure that expenditures did not exceed expected revenues.

The following table presents the total and net cost of the District's major governmental activities for fiscal 2007: instruction, support services, non-instructional programs and other expenses.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	<u>2007</u>	<u>2006</u>	<u>Change</u> <u>2006-2007</u>	<u>2007</u>	<u>2006</u>	<u>Change</u> <u>2006-2007</u>
Instruction	\$ 5,061,616	\$ 4,631,627	9.3%	\$ 3,708,368	\$ 3,324,450	11.5%
Support services	2,398,960	2,369,928	1.2%	2,372,441	2,359,964	0.5%
Non-instructional programs	-	162	-100.0%	-	162	-100.0%
Other expenses	<u>989,469</u>	<u>1,023,484</u>	<u>-3.3%</u>	<u>711,073</u>	<u>756,232</u>	<u>-6.0%</u>
Total expenses	<u>\$ 8,450,045</u>	<u>\$ 8,025,201</u>	<u>5.3%</u>	<u>\$ 6,791,882</u>	<u>\$ 6,440,808</u>	<u>5.5%</u>

- The cost financed by users of the District's programs was \$773,228.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$884,935.
- The net cost of governmental activities was financed with \$4,171,726 in property and other taxes and \$3,271,752 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$483,426, representing a less than 1% decrease from the prior year while expenses totaled \$477,152 a 6% increase over the prior year. The District's business type activities include the School Nutrition Fund and Preschool/Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The Preschool enrolled five 5-year old students, down from 9 in the previous year, which resulted in less income for the program. Expenses rose 15% for food and supplies in the Nutrition Program.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,930,983, above last year's ending fund balances of \$2,777,715.

Governmental Fund Highlights

- The General Fund balance increased from \$1,505,407 in 2006 to \$1,697,628 in fiscal 2007. The District has been vigilant to levy cash reserve, when appropriate, to fund its unspent balance.
- The Capital Project Fund balance increased from \$596,332 in fiscal 2006 to \$630,698 in fiscal 2007. Sales tax revenues continue to increase annually. The District has been reserving the funds in anticipation of a large remodeling project.
- The Debt Service Fund balance increased from \$276,888 in 2006 to \$287,531 in 2007 due to a change in the investing of excess cash that earned nearly \$8,000 more in interest over the previous year.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$144,606 at June 30, 2006 to \$150,880 at June 30, 2007, representing an increase of approximately 4%. Due to the five-year olds in the preschool, the program was able to increase their carry-over balance. The Nutrition Fund did not raise meal prices in FY07.

BUDGETARY HIGHLIGHTS

During the fiscal year, Louisa-Muscatine Community School District amended its annual budget one time to reflect additional tuition owed because of the large increase in open enrolled-out students, increased wages and textbook costs and to purchase buses to avoid the cost increase of the 2008 models.

The District's revenues were \$568,395 more than budgeted revenues, a variance of approximately 6%. Revenues are estimated conservatively. The budget is certified in the spring prior to the beginning of the fiscal year. At that time many things are not known, including the amount of grants, tuition and Local Option Sales Tax receipts.

Overall total expenditures were \$1,105,256 less than budgeted. The District budgets expenditures at the maximum authorized spending authority for the General Fund then controls spending through the line-item budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$7,585,035, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 2% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$439,021.

The original cost of the District's capital assets was \$15,246,191. Governmental funds account for \$15,042,926, with the remainder of \$203,265 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity occurred in the Furniture and Equipment category, from \$227,316 in 2006 to \$361,950 in 2007. The purchase of three new school buses was the main cause of the increase.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2006-2007</u>
Land	\$ 90,976	\$ 90,976	\$ -	\$ -	\$ 90,976	\$ 90,976	0.00
Buildings and improvements	6,952,649	7,217,034	-	-	6,952,649	7,217,034	-3.66
Improvements, other than buildings	153,674	182,795	-	-	153,674	182,795	-15.93
Furniture and equipment	<u>361,950</u>	<u>227,316</u>	<u>25,786</u>	<u>23,844</u>	<u>387,736</u>	<u>251,160</u>	54.38
Totals	<u>\$7,559,249</u>	<u>\$7,718,121</u>	<u>\$25,786</u>	<u>\$23,844</u>	<u>\$7,585,035</u>	<u>\$7,741,965</u>	-2.03

Long-Term Debt

At June 30, 2007, the District had \$2,135,000 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 20% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

As the district pays down its debt, no new debt has been added, resulting in a decrease.

Figure A-7

Outstanding Long-term Obligations

	Total		Total
	School District		Change
	<u>2007</u>	<u>2006</u>	<u>2006-</u> <u>2007</u>
General obligation bonds	\$ 1,540,000	\$ 1,880,000	-18.09%
Revenue bonds	595,000	725,000	-17.93%
Early retirement	-	59,005	-100.00%
Total	<u>\$ 2,135,000</u>	<u>\$ 2,664,005</u>	-19.86%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The Iowa Legislature has set 4% allowable growth for 2008-09. However, the District's certified enrollment dropped by 50 students in 2007-2008, resulting in only 1% allowable growth (Budget Guarantee) for 2008-2009.
- Negotiated salary increases are anticipated to be settled beyond the 1% new money and will therefore have an adverse effect on the General Fund balance.
- The School Infrastructure Local Option Sales and Service Tax (SILO) was passed on March 4, 2008, affording the district the ability to bond for a much needed major remodeling project at the junior-senior high building.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karron Stineman, Board Secretary/Treasurer and Business Manager, Louisa-Muscatine Community School District, 14478 170th Street, Letts, Iowa 52754.

Basic Financial Statements

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

Exhibit A

Assets	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Cash and cash equivalents			
Cash with fiscal agent	\$ 273,541	\$ -	\$ 273,541
Other	3,149,819	146,032	3,295,851
Receivables			
Property tax			
Delinquent	40,415	-	40,415
Succeeding year	3,195,545	-	3,195,545
Accounts receivable	17,649	-	17,649
Income surtax	238,543	-	238,543
Due from other governments	251,312	-	251,312
Inventories	-	6,232	6,232
Non-depreciable capital assets	90,976	-	90,976
Capital assets, net of accumulated depreciation	<u>7,468,273</u>	<u>25,786</u>	<u>7,494,059</u>
Total assets	<u>14,726,073</u>	<u>178,050</u>	<u>14,904,123</u>
 Liabilities			
Accounts payable	42,831	1,156	43,987
Salaries and benefits payable	757,005	26,014	783,019
Accrued interest payable	20,458	-	20,458
Deferred revenue			
Succeeding year property tax	3,195,545	-	3,195,545
Other	1,917	-	1,917
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	360,000	-	360,000
Revenue bonds payable	140,000	-	140,000
Portion due after one year			
General obligation bonds payable	1,180,000	-	1,180,000
Revenue bonds payable	<u>455,000</u>	<u>-</u>	<u>455,000</u>
Total liabilities	<u>6,152,756</u>	<u>27,170</u>	<u>6,179,926</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

Exhibit A

	Governmental Activities	Business Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$5,424,249	\$ 25,786	\$5,450,035
Restricted for			
Class size reduction program	19,614	-	19,614
Market factor pay program	324	-	324
Teacher quality professional development	1,915	-	1,915
Teacher quality mentoring program	93	-	93
At-risk program	2,543	-	2,543
Management levy	85,334	-	85,334
Physical plant and equipment levy	211,492	-	211,492
Debt service	267,073	-	267,073
Other special revenue purposes	42,154	-	42,154
Capital projects	630,698	-	630,698
Unrestricted	1,887,828	125,094	2,012,922
Total net assets	\$8,573,317	\$150,880	\$8,724,197

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2007

Exhibit B

<u>Functions/Programs</u> <u>Primary Government</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Primary Government</u>	<u>Total</u>
Governmental activities						
Instruction						
Regular instruction	\$ 3,440,700	\$ 671,367	\$ 406,065	\$ -	\$ (2,363,268)	\$ (2,363,268)
Special instruction	868,993	91,198	176,621	-	(601,174)	(601,174)
Other instruction	751,923	-	7,997	-	(743,926)	(743,926)
	<u>5,061,616</u>	<u>762,565</u>	<u>590,683</u>	<u>-</u>	<u>(3,708,368)</u>	<u>(3,708,368)</u>
Support services						
Student	202,923	-	-	-	(202,923)	(202,923)
Instructional staff	409,712	-	-	-	(409,712)	(409,712)
Administration	654,487	-	-	-	(654,487)	(654,487)
Operation and maintenance of plant	645,573	2,160	15,856	-	(627,557)	(627,557)
Transportation	486,265	8,503	-	-	(477,762)	(477,762)
	<u>2,398,960</u>	<u>10,663</u>	<u>15,856</u>	<u>-</u>	<u>(2,372,441)</u>	<u>(2,372,441)</u>
Other expenditures						
Facilities acquisition	243,018	-	-	-	(243,018)	(243,018)
Long-term debt interest	120,157	-	-	-	(120,157)	(120,157)
AEA flowthrough	278,396	-	278,396	-	-	-
Depreciation (unallocated) *	347,898	-	-	-	(347,898)	(347,898)
	<u>989,469</u>	<u>-</u>	<u>278,396</u>	<u>-</u>	<u>(711,073)</u>	<u>(711,073)</u>
Total governmental activities	<u>8,450,045</u>	<u>773,228</u>	<u>884,935</u>	<u>-</u>	<u>(6,791,882)</u>	<u>(6,791,882)</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2007

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government	Total
<u>Functions/Programs (continued)</u>					
Primary Government (continued)					
Business type activities					
Non-instructional programs					
Food service operations	\$ 409,267	\$ 168,043	\$ -	\$ (6,730)	\$ (6,730)
Daycare/preschool program	67,885	-	-	9,598	9,598
Total business type activities	477,152	168,043	-	2,868	2,868
Total primary government	\$ 8,927,197	\$ 1,052,978	\$ -	2,868	(6,789,014)
<u>General Revenues</u>					
Property tax levied for					
General purposes				2,999,206	2,999,206
Debt service				433,321	433,321
Capital outlay				217,722	217,722
Local option sales and services tax				521,477	521,477
Unrestricted state grants				3,271,752	3,271,752
Contributions and donations				23,436	23,436
Unrestricted investment earnings				82,163	85,569
Other				11,824	11,824
Total general revenues				7,560,901	7,564,307
Change in net assets				769,019	775,293
Net assets, beginning of year				7,804,298	7,948,904
Net assets, end of year				\$ 8,573,317	\$ 8,724,197

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

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Assets					
Cash and pooled investments					
Cash with fiscal agent	\$ -	\$273,541	\$ -	\$ -	\$ 273,541
Other	2,390,244	164,775	282,117	312,683	3,149,819
Receivables					
Property tax					
Delinquent	32,358	-	5,614	2,443	40,415
Succeeding year	2,496,154	-	437,401	261,990	3,195,545
Accounts receivable	17,649	-	-	-	17,649
Income surtax	214,689	-	-	23,854	238,543
Due from other governments	58,930	192,382	-	-	251,312
Total assets and other debits	<u>\$5,210,024</u>	<u>\$630,698</u>	<u>\$725,132</u>	<u>\$600,970</u>	<u>\$7,166,824</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 42,631	\$ -	\$ 200	\$ -	\$ 42,831
Salaries and benefits payable	757,005	-	-	-	757,005
Deferred revenue					
Succeeding year property tax	2,496,154	-	437,401	261,990	3,195,545
Income surtax	214,689	-	-	23,854	238,543
Other	1,917	-	-	-	1,917
Total liabilities	<u>3,512,396</u>	<u>-</u>	<u>437,601</u>	<u>285,844</u>	<u>4,235,841</u>
Fund balances					
Reserved for					
At-risk program	2,543	-	-	-	2,543
Teacher Quality Mentoring	93	-	-	-	93
Teacher Quality					
Professional Development	1,915	-	-	-	1,915
Teacher Quality Market Factor	324	-	-	-	324
Class Size Reduction	19,614	-	-	-	19,614
Debt service	-	-	287,531	-	287,531
Unreserved					
Designated for debt service	-	312,305	-	-	312,305
Undesignated governmental funds	1,673,139	318,393	-	-	1,991,532
Undesignated special revenue funds	-	-	-	315,126	315,126
Total liabilities and fund balances	<u>1,697,628</u>	<u>630,698</u>	<u>287,531</u>	<u>315,126</u>	<u>2,930,983</u>
See notes to financial statements.	<u>\$5,210,024</u>	<u>\$630,698</u>	<u>\$725,132</u>	<u>\$600,970</u>	<u>\$7,166,824</u>

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2007

Exhibit D

Total fund balances of governmental funds	\$2,930,983
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	7,559,249
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	238,543
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(20,458)
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.	<u>(2,135,000)</u>
Net assets of governmental activities	<u>\$8,573,317</u>

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$2,759,280	\$521,477	\$ 433,082	\$217,618	\$3,931,457
Tuition	553,573	-	-	-	553,573
Other	146,468	14,044	11,722	164,043	336,277
State sources	3,964,583	-	239	104	3,964,926
Federal sources	177,632	-	-	15,856	193,488
Total revenues	<u>7,601,536</u>	<u>535,521</u>	<u>445,043</u>	<u>397,621</u>	<u>8,979,721</u>
Expenditures					
Current					
Instruction					
Regular	3,430,017	-	-	68,053	3,498,070
Special	868,993	-	-	-	868,993
Other	599,126	-	-	151,228	750,354
	<u>4,898,136</u>	<u>-</u>	<u>-</u>	<u>219,281</u>	<u>5,117,417</u>
Support services					
Student	202,352	-	-	571	202,923
Instructional staff	409,006	-	-	706	409,712
Administration	642,236	-	-	9,745	651,981
Operation and maintenance of plant	589,738	-	-	64,134	653,872
Transportation	389,951	142,523	-	92,403	624,877
	<u>2,233,283</u>	<u>142,523</u>	<u>-</u>	<u>167,559</u>	<u>2,543,365</u>
Other expenditures					
Facilities acquisition	-	195,800	-	95,043	290,843
Long-term debt					
Principal	-	-	470,000	-	470,000
Interest and fiscal charges	-	-	127,232	-	127,232
AEA flowthrough	278,396	-	-	-	278,396
	<u>278,396</u>	<u>195,800</u>	<u>597,232</u>	<u>95,043</u>	<u>1,166,471</u>
Total expenditures	<u>7,409,815</u>	<u>338,323</u>	<u>597,232</u>	<u>481,883</u>	<u>8,827,253</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 191,721	\$197,198	\$(152,189)	\$ (84,262)	\$ 152,468
Other financing sources (uses)					
Sale of materials	500	-	-	300	800
Interfund operating transfers in	-	611,863	162,832	-	774,695
Interfund operating transfers (out)	-	(774,695)	-	-	(774,695)
Total other financing sources (uses)	<u>500</u>	<u>(162,832)</u>	<u>162,832</u>	<u>300</u>	<u>800</u>
Net change in fund balances	192,221	34,366	10,643	(83,962)	153,268
Fund balance, beginning of year	<u>1,505,407</u>	<u>596,332</u>	<u>276,888</u>	<u>399,088</u>	<u>2,777,715</u>
Fund balance, end of year	<u>\$1,697,628</u>	<u>\$630,698</u>	<u>\$ 287,531</u>	<u>\$315,126</u>	<u>\$2,930,983</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2007

Exhibit F

Net change in fund balances - total governmental funds \$153,268

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$272,209	
Depreciation expense	<u>(431,081)</u>	(158,872)

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds. 238,543

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 470,000

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 governmental funds, as follows:

Early retirement	59,005
------------------	--------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 7,075

Change in net assets of governmental activities \$769,019

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2007

Exhibit G

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>
Assets	
Cash and pooled investments	\$146,032
Inventories	6,232
Capital assets, net of accumulated depreciation	<u>25,786</u>
Total assets	<u>178,050</u>
 Liabilities	
Accounts payable	1,156
Salaries and benefits payable	<u>26,014</u>
Total liabilities	<u>27,170</u>
 Net Assets	
Invested in capital assets, net of related debt	25,786
Unrestricted	<u>125,094</u>
Total net assets	<u>\$150,880</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2007

Exhibit H

	Business Type <u>Activities</u>
	<u>Nonmajor</u>
	<u>Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$311,977</u>
Operating expenses	
Instruction	
Regular	
Salaries	52,568
Benefits	12,462
Purchased services	125
Supplies	<u>2,730</u>
	<u>67,885</u>
Support services	
Administration	
Salaries	24,547
Benefits	3,313
Purchased services	<u>1,210</u>
	<u>29,070</u>
Non-instructional programs	
Food service operations	
Salaries	142,326
Benefits	30,828
Purchased services	6,978
Supplies	192,125
Depreciation	<u>7,940</u>
	<u>380,197</u>
Total operating expenses	<u>477,152</u>
Operating loss	<u>(165,175)</u>
Non-operating revenue	
Interest income	3,406
State sources	4,722
Federal sources	<u>163,321</u>
Total non-operating revenue	<u>171,449</u>
Net income	6,274
Net assets, beginning of year	<u>144,606</u>
Net assets, end of year	<u>\$150,880</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

Exhibit I

	Business Type <u>Activities</u>
	<u>Nonmajor Enterprise</u>
Cash flows from operating activities	
Cash received from sale of services	\$ 311,977
Cash payments to employees for services	(266,044)
Cash payments to suppliers for goods and services	<u>(184,302)</u>
Net cash used in operating activities	<u>(138,369)</u>
Cash flows from non-capital financing activities	
State grants received	4,722
Federal grants received	<u>145,084</u>
Net cash provided by non-capital financing activities	<u>149,806</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(9,882)</u>
Cash flows from investing activities	
Interest on investments	<u>3,406</u>
Net increase in cash and cash equivalents	4,961
Cash and cash equivalents, beginning of year	<u>141,071</u>
Cash and cash equivalents, end of year	<u><u>\$ 146,032</u></u>
Reconciliation of operating (loss) to net cash used in operating activities	
Operating (loss)	\$(165,175)
Adjustments to reconcile operating (loss) to net cash used in operating activities	
Depreciation	7,940
Commodities used	18,237
Decrease in inventory	1,100
Increase (decrease) in accounts payable	<u>(471)</u>
Net cash used in operating activities	<u><u>\$(138,369)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2007, the District received \$18,237 of federal commodities.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

Exhibit J

	<u>Private Purpose Trust Scholarships</u>
Assets	
Cash and pooled investments	\$ 1,500
Liabilities	
	<u> -</u>
Net assets	
Reserved for scholarships	<u><u>\$ 1,500</u></u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2007

Exhibit K

	<u>Private Purpose Trust Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$1,500
Deductions	
Instruction, other	
Scholarships	<u>750</u>
Change in net assets	750
Net assets, beginning of year	<u>750</u>
Net assets, end of year	<u><u>\$1,500</u></u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Louisa-Muscatine Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Louisa-Muscatine Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$3,500
Buildings	\$3,500
Improvements other than buildings	\$3,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$3,500

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

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

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

Early Retirement Termination Benefit - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2007. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental

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

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

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

Fund Balance - 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.

Net Assets - Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$85,334 of restricted net assets which is restricted by enabling legislation.

E. Budgeting and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime

eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the IPASeducation Program, which invests in liquid investments that are placed in an SEC-registered money market fund in accordance with 17 C.F.R Section 270. 2a-7. The investments are valued at fair market value, which approximates amortized cost. At June 30, 2007, the District had invested \$2,942,133 in the IPASeducation Institutional Money Market Fund.

Interest rate risk. Because the Fund invests in short-term securities, a decline in interest rates will affect the Fund's yields as these securities mature or are sold and the Fund purchases new short-term securities with lower yields. Generally, an increase in interest rates causes the value of a debt instrument to decrease. The change in value for shorter-term securities is usually smaller than for securities with longer maturities.

Credit risk. This is the risk that a security's credit rating will be downgraded or that the issuer of a security or a guarantor will default (fail to make scheduled interest and principal payments or fail to fulfill its promise to repurchase securities). The Fund invests in securities issued by the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The entities while chartered or sponsored by the U.S. Congress, are not funded by appropriations from the U.S. Congress and the debt or mortgage related securities issued by them are neither guaranteed nor insured by the United States Government. Nevertheless, the Fund will invest in only highly rated securities to minimize credit risk. The investments were not rated by Moody's Investor's service.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Fund	Transfers In	Transfers Out
Debt Service Fund	\$ 162,832	\$ -
Capital Projects Fund	<u>611,863</u>	<u>774,695</u>
Total	<u>\$ 774,695</u>	<u>\$ 774,695</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expand the resources. The transfers from the Capital Projects Fund to the Debt Service Fund were for principal and interest payments on debt. The transfers between Capital Projects Funds were to move funds from one of the capital projects funds to another.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 90,976	\$ -	\$ -	\$ 90,976
Capital assets being depreciated:				
Buildings and improvements	12,813,511	51,350	(26,061)	12,838,800
Improvements other than buildings	828,503	3,042	-	831,545
Furniture and equipment	<u>1,068,788</u>	<u>217,817</u>	<u>(5,000)</u>	<u>1,281,605</u>
Total capital assets being depreciated	<u>14,710,802</u>	<u>272,209</u>	<u>(31,061)</u>	<u>14,951,950</u>
Less accumulated depreciation for:				
Buildings and improvements	5,596,477	315,735	(26,061)	5,886,151
Improvements other than buildings	645,708	32,163	-	677,871
Furniture and equipment	<u>841,472</u>	<u>83,183</u>	<u>(5,000)</u>	<u>919,655</u>
Total accumulated depreciation	<u>7,083,657</u>	<u>431,081</u>	<u>(31,061)</u>	<u>7,483,677</u>
Total capital assets being depreciated, net	<u>7,627,145</u>	<u>(158,872)</u>	<u>-</u>	<u>7,468,273</u>
Governmental activities capital assets, net	<u>\$ 7,718,121</u>	<u>\$(158,872)</u>	<u>\$ -</u>	<u>\$ 7,559,249</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 193,383	\$ 9,882	\$ -	203,265
Less accumulated depreciation	<u>169,539</u>	<u>7,940</u>	<u>-</u>	<u>177,479</u>
Business type activities capital assets, net	<u>\$ 23,844</u>	<u>\$ 1,942</u>	<u>\$ -</u>	<u>\$ 25,786</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 1,635
Other	1,569
Support services	
Administration	2,506
Operation and maintenance of plant	1,268
Transportation	76,205
Unallocated depreciation	<u>347,898</u>
Total governmental activities depreciation expense	<u>\$ 431,081</u>

Business type activities

Food services

\$ 7,940

Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 1,880,000	\$ -	\$ (340,000)	\$ 1,540,000	\$ 360,000
Revenue bonds	725,000	-	(130,000)	595,000	140,000
Early retirement	<u>59,005</u>	<u>-</u>	<u>(59,005)</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 2,664,005</u>	<u>\$ -</u>	<u>\$ (529,005)</u>	<u>\$ 2,135,000</u>	<u>\$ 500,000</u>

Interest costs incurred and charged to expense on all long-term debt was \$120,157 for the year ended June 30, 2007.

Early Retirement Termination Benefit

The District offers a voluntary early retirement plan to its certified employees, who meet certain eligibility guidelines. This voluntary early retirement plan is offered annually at the board's discretion. Eligible employees must have been at least age fifty-five and have completed fifteen years of consecutive service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. Benefits can be received in a lump sum payment in the year following retirement, in two annual payments beginning in the year following retirement or by participation in the District's 125 cafeteria plan until the employee reaches age 65. Early retirement benefits paid during the year ended June 30, 2007 totaled \$59,005. The early retirement plan was not offered during the year ended June 30, 2007 and all benefits that had been earned in previous years, have been paid.

General Obligation Bonds

Details of the district's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of March 3, 2004			
	Interest Rates	Interest	Principal	Total
2008	5.00	\$ 77,000	\$ 360,000	\$ 437,000
2009	5.00	59,000	375,000	434,000
2010	5.00	40,250	395,000	435,250
2011	5.00	<u>20,500</u>	<u>410,000</u>	<u>430,500</u>
Totals		<u>\$ 196,750</u>	<u>\$ 1,540,000</u>	<u>\$ 1,736,750</u>

Revenue Bonds

On July 23, 2001, the District issued School Infrastructure Sales and Services Tax Revenue Bonds. The proceeds of the bonds were used to construct an addition to the high school building. The bonds are repaid by the collection of the local option sales and services tax for school infrastructure. The bonds were for \$1,195,000 and are secured by a Reserve Fund, which was established under the Bond Resolution. A Sinking Fund has been established into which collections of the local option sales and services tax revenues are deposited. Interest and principal on the bonds are paid from the Sinking Fund. Details of the District's June 30, 2007 revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of Sept 1, 1993			
	Interest Rates	Interest	Principal	Total
2008	4.50	\$ 24,933	\$ 140,000	\$ 164,933
2009	4.65	18,411	145,000	163,411
2010	4.80	11,440	150,000	161,440
2011	4.90	<u>3,920</u>	<u>160,000</u>	<u>163,920</u>
Totals		<u>\$ 58,704</u>	<u>\$ 595,000</u>	<u>\$ 653,704</u>

Note 6. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$274,805, \$265,027 and \$257,508 respectively, equal to the required contributions for each year.

Note 7. Risk Management

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

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$278,396 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 9. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2007, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 10. Potential Litigation

At June 30, 2007 there was a case of potential litigation involving the District. This case is expected to be resolved without material expense to the District. However, it is difficult to estimate the outcome of the litigation and the potential damages involved. Therefore, no liability for potential payments has been calculated.

Required Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2007

	Governmental Funds		Proprietary Funds		Total Actual	Budgeted Amounts		Final to Actual Variance
	Actual		Actual			Original	Final	
Revenues								
Local sources	\$4,821,307		\$315,383		\$5,136,690	\$4,873,982	\$4,873,982	\$ 262,708
State sources	3,964,926		4,722		3,969,648	3,755,770	3,755,770	213,878
Federal sources	193,488		163,321		356,809	265,000	265,000	91,809
Total revenues	<u>8,979,721</u>		<u>483,426</u>		<u>9,463,147</u>	<u>8,894,752</u>	<u>8,894,752</u>	<u>568,395</u>
Expenditures								
Instruction	5,117,417		67,885		5,185,302	5,055,500	5,400,000	214,698
Support services	2,543,365		29,070		2,572,435	2,452,158	2,778,545	206,110
Non-instructional programs	-		380,197		380,197	463,225	461,135	80,938
Other expenditures	1,166,471		-		1,166,471	953,877	1,769,981	603,510
Total expenditures	<u>8,827,253</u>		<u>477,152</u>		<u>9,304,405</u>	<u>8,924,760</u>	<u>10,409,661</u>	<u>1,105,256</u>
Excess (deficiency) of revenues								
over (under) expenditures	152,468		6,274		158,742	(30,008)	(1,514,909)	1,673,651
Net other financing sources	<u>800</u>		<u>-</u>		<u>800</u>	<u>-</u>	<u>-</u>	<u>800</u>
Net change in fund balance	153,268		6,274		159,542	(30,008)	(1,514,909)	1,674,451
Balance, beginning of year	<u>2,777,715</u>		<u>144,606</u>		<u>2,922,321</u>	<u>1,940,729</u>	<u>1,940,729</u>	<u>981,592</u>
Balance, end of year	<u>\$2,930,983</u>		<u>\$150,880</u>		<u>\$3,081,863</u>	<u>\$1,910,721</u>	<u>\$ 425,820</u>	<u>\$2,656,043</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and 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 Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$1,484,901.

Other Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Schedule 1

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2007

	Management <u>Levy</u>	Student <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 85,334	\$42,154	\$185,195	\$312,683
Receivables				
Property tax				
Delinquent	-	-	2,443	2,443
Succeeding year	75,001	-	186,989	261,990
Income surtax	-	-	23,854	23,854
Total assets	<u>\$160,335</u>	<u>\$42,154</u>	<u>\$398,481</u>	<u>\$600,970</u>
 Liabilities and Fund Balances				
Liabilities				
Deferred revenue				
Succeeding year property tax	\$ 75,001	\$ -	\$186,989	\$261,990
Income surtax	-	-	23,854	23,854
Total liabilities	<u>75,001</u>	<u>-</u>	<u>210,843</u>	<u>285,844</u>
 Fund balances				
Unreserved fund balances	<u>85,334</u>	<u>42,154</u>	<u>187,638</u>	<u>315,126</u>
Total liabilities and fund balances	<u>\$160,335</u>	<u>\$42,154</u>	<u>\$398,481</u>	<u>\$600,970</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

Schedule 2

	Management	Student	Physical Plant and Equipment	Total
Revenues	<u>Levy</u>	<u>Activity</u>	<u>Levy</u>	<u>Total</u>
Local sources				
Local taxes	\$ -	\$ -	\$217,618	\$ 217,618
Other	12,925	148,214	2,904	164,043
State sources	-	-	104	104
Federal sources	-	-	15,856	15,856
Total revenues	<u>12,925</u>	<u>148,214</u>	<u>236,482</u>	<u>397,621</u>
Expenditures				
Current				
Instruction				
Regular	68,053	-	-	68,053
Other	1,089	150,139	-	151,228
Total instruction	<u>69,142</u>	<u>150,139</u>	<u>-</u>	<u>219,281</u>
Support services				
Student	571	-	-	571
Instructional staff	706	-	-	706
Administration	9,745	-	-	9,745
Operation and maintenance of plant	54,791	-	9,343	64,134
Transportation	20,109	-	72,294	92,403
Total support services	<u>85,922</u>	<u>-</u>	<u>81,637</u>	<u>167,559</u>
Other expenditures				
Facilities acquisition	-	-	95,043	95,043
Total expenditures	<u>155,064</u>	<u>150,139</u>	<u>176,680</u>	<u>481,883</u>
Excess (deficiency) of revenues over (under) expenditures	(142,139)	(1,925)	59,802	(84,262)
Other financing sources				
Sale of materials	-	-	300	300
Net change in fund balances	(142,139)	(1,925)	60,102	(83,962)
Fund balances, beginning of year	227,473	44,079	127,536	399,088
Fund balances, end of year	<u>\$ 85,334</u>	<u>\$42,154</u>	<u>\$187,638</u>	<u>\$ 315,126</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2007

Schedule 3

	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$105,824	\$40,208	\$146,032
Inventories	6,232	-	6,232
Capital assets, net of accumulated depreciation	<u>25,786</u>	<u>-</u>	<u>25,786</u>
Total assets	<u>137,842</u>	<u>40,208</u>	<u>178,050</u>
Liabilities			
Accounts payable	1,156	-	1,156
Salaries and benefits payable	<u>26,014</u>	<u>-</u>	<u>26,014</u>
Total liabilities	<u>27,170</u>	<u>-</u>	<u>27,170</u>
Net Assets			
Invested in capital assets	25,786	-	25,786
Unrestricted	<u>84,886</u>	<u>40,208</u>	<u>125,094</u>
Total net assets	<u>\$110,672</u>	<u>\$40,208</u>	<u>\$150,880</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2007

Schedule 4

	<u>School</u> <u>Nutrition</u>	<u>Daycare &</u> <u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	<u>\$234,494</u>	<u>\$77,483</u>	<u>\$311,977</u>
 Operating expenses			
Instruction			
Regular			
Salaries	-	52,568	52,568
Benefits	-	12,462	12,462
Purchased services	-	125	125
Supplies	-	<u>2,730</u>	<u>2,730</u>
	<u>-</u>	<u>67,885</u>	<u>67,885</u>
Support services			
Administration			
Salaries	24,547	-	24,547
Benefits	3,313	-	3,313
Purchased services	<u>1,210</u>	-	<u>1,210</u>
	<u>29,070</u>	<u>-</u>	<u>29,070</u>
Non-instructional programs			
Food service operations			
Salaries	142,326	-	142,326
Benefits	30,828	-	30,828
Purchased services	6,978	-	6,978
Supplies	192,125	-	192,125
Depreciation	<u>7,940</u>	-	<u>7,940</u>
	<u>380,197</u>	<u>-</u>	<u>380,197</u>
Total operating expenses	<u>409,267</u>	<u>67,885</u>	<u>477,152</u>
Operating income (loss)	<u>(174,773)</u>	<u>9,598</u>	<u>(165,175)</u>
 Non-operating revenue			
Interest income	2,711	695	3,406
State sources	4,722	-	4,722
Federal sources	<u>163,321</u>	-	<u>163,321</u>
Total non-operating revenue	<u>170,754</u>	<u>695</u>	<u>171,449</u>
Net income (loss)	(4,019)	10,293	6,274
Net assets, beginning of year	<u>114,691</u>	<u>29,915</u>	<u>144,606</u>
Net assets, end of year	<u>\$110,672</u>	<u>\$40,208</u>	<u>\$150,880</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2007

Schedule 5

	<u>School</u>	<u>Daycare &</u>	<u>Total</u>
	<u>Nutrition</u>	<u>Preschool</u>	
Cash flows from operating activities			
Cash received from sale of services	\$ 234,494	\$77,483	\$ 311,977
Cash payments to employees for services	(201,014)	(65,030)	(266,044)
Cash payments to suppliers for goods and services	<u>(181,447)</u>	<u>(2,855)</u>	<u>(184,302)</u>
Net cash provided by (used in) operating activities	<u>(147,967)</u>	<u>9,598</u>	<u>(138,369)</u>
 Cash flows from non-capital financing activities			
State grants received	4,722	-	4,722
Federal grants received	<u>145,084</u>	<u>-</u>	<u>145,084</u>
Net cash provided by non-capital financing activities	<u>149,806</u>	<u>-</u>	<u>149,806</u>
 Cash flows from capital and related financing activities			
Acquisition of capital assets	<u>(9,882)</u>	<u>-</u>	<u>(9,882)</u>
 Cash flows from investing activities			
Interest on investments	<u>2,711</u>	<u>695</u>	<u>3,406</u>
Net increase (decrease) in cash and cash equivalents	(5,332)	10,293	4,961
Cash and cash equivalents, beginning of year	<u>111,156</u>	<u>29,915</u>	<u>141,071</u>
Cash and cash equivalents, end of year	<u>\$ 105,824</u>	<u>\$40,208</u>	<u>\$ 146,032</u>
 Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$(174,773)	\$ 9,598	\$(165,175)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	7,940	-	7,940
Commodities used	18,237	-	18,237
Decrease in inventory	1,100	-	1,100
(Decrease) in accounts payable	<u>(471)</u>	<u>-</u>	<u>(471)</u>
Net cash provided by (used in) operating activities	<u>\$(147,967)</u>	<u>\$ 9,598</u>	<u>\$(138,369)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$18,237 of federal commodities.

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2007

Schedule 6

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Intrafund <u>Transfers</u>	Balance, End of <u>Year</u>
Athletics	\$ 1	\$ 52,864	\$ 52,655	\$ (210)	\$ -
Cheerleading	1,844	2,255	6,274	4,097	1,922
Athletic fundraising	-	3,623	2,220	-	1,403
Athletic resale	2,177	13,203	16,315	935	-
Ads and posters	-	-	-	-	-
Jr high	3,323	733	3,263	-	793
Elementary activity	3,889	1,504	4,168	-	1,225
Concessions	8,307	7,654	6,774	(2,315)	6,872
FFA	6,295	30,855	27,991	1,821	10,980
FFA vending	1,580	241	-	(1,821)	-
Band	8,128	21,850	18,878	-	11,100
Speech	-	-	400	400	-
Drama	773	799	610	-	962
Student council	492	1,237	1,063	-	666
Yearbook	1,640	3,106	2,548	-	2,198
Vocal music	2,044	690	214	-	2,520
TAG	53	-	-	-	53
Senior class	236	3,137	3,395	1,075	1,053
Junior class	-	1,724	1,037	(687)	-
NHS	415	2,326	2,334	-	407
Interest	2,882	413	-	(3,295)	-
Totals	<u>\$ 44,079</u>	<u>\$ 148,214</u>	<u>\$ 150,139</u>	<u>\$ -</u>	<u>\$ 42,154</u>

See accompanying Independent Auditor's Report.

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

Schedule 7

	Modified Accrual Basis			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues				
Local sources				
Local tax	\$3,931,457	\$3,909,874	\$3,766,108	\$ 3,099,130
Tuition	553,573	553,280	508,531	621,015
Other	336,277	283,281	314,894	271,674
State sources	3,964,926	3,659,560	3,661,562	3,247,182
Federal sources	193,488	182,377	165,659	204,663
Total revenues	<u>\$8,979,721</u>	<u>\$8,588,372</u>	<u>\$8,416,754</u>	<u>\$ 7,443,664</u>
Expenditures				
Current				
Instruction				
Regular	\$3,498,070	\$3,231,244	\$3,082,267	\$ 3,129,887
Special	868,993	722,969	804,476	843,113
Other	750,354	771,639	645,212	496,931
Support services				
Student	202,923	196,937	232,680	220,136
Instructional staff	409,712	423,431	373,511	236,691
Administration	651,981	705,263	601,085	606,526
Operation and maintenance of plant	653,872	598,758	533,134	549,730
Transportation	624,877	447,702	428,106	415,983
Non-instructional programs	-	162	4,049	2,545
Other expenditures				
Facilities acquisition	290,843	300,390	62,814	122,785
Long-term debt				
Principal	470,000	445,000	433,338	3,033,740
Interest and other charges	127,232	148,857	201,910	271,131
AEA flowthrough	278,396	259,272	248,857	241,253
Total expenditures	<u>\$8,827,253</u>	<u>\$8,251,624</u>	<u>\$7,651,439</u>	<u>\$10,170,451</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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

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

To the Board of Education
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated March 18, 2008. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Louisa-Muscatine Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Louisa-Muscatine Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Louisa-Muscatine Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Louisa-Muscatine Community School District's ability to initiate, authorize, record process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Louisa-Muscatine Community School

District's financial statements that is more than inconsequential will not be prevented or detected by Louisa-Muscatine Community School District's internal control. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Louisa-Muscatine Community School District's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe items A and B are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Louisa-Muscatine Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions in the District's responses, I did not audit Louisa-Muscatine Community School District's responses and, accordingly, I express no opinion on them.

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

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

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 18, 2008

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2007

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were reported.

SIGNIFICANT DEFICIENCIES

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

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

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

Conclusion - Response accepted.

- B. Financial Reporting - Reporting financial data reliably in accordance with generally accepted accounting principles (GAAP) requires the business manager or district management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. The business manager is able to perform the duties required in the normal course of business and to prepare the CAR in accordance with the Department of Education requirements. However, the business manager presently lacks the qualifications and training to appropriately prepare the annual financial statements and footnote disclosures in compliance with GAAP. This is a common situation in small entities where accounting personnel typically do not have four-year accounting degrees and do not receive annual training in order to stay current on new accounting and reporting standards and requirements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2007

Recommendation - The business manager should consider obtaining GAAP knowledge through reading relevant accounting literature and/or attending professional education courses to help her significantly improve in her ability to prepare reliable GAAP financial statements, including footnote disclosures.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We will investigate alternatives to our controls, but believe that it would not be an efficient use of District funds to get the necessary training for the business manager to comply with this recommendation.

Conclusion - Response accepted.

Part II. Other Findings Related to Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2007 did not exceed the amounts budgeted.
2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - The number of tuitioned in nonresident public students reported to the Iowa Department of Education on line 9 of the Certified Enrollment Certification Form for October 2006 was overstated. The District's certified enrollment count included 5 students on line 9; however, the correct amount should be zero.

Recommendation - The District should contact the Iowa Department of Education and the Iowa Department of Management to resolve this matter.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2007

Response - We will contact the Iowa Department of Education and the Iowa Department of Management, as recommended.

Conclusion - Response accepted.

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2007

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant