

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

JUNE 30, 2008

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	15
Statement of Activities	B	16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Net Assets	H	22
Statement of Cash Flows	I	23
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	24
Statement of Changes in Fiduciary Net Assets	K	25
Component Unit Financial Statements:		
Statement of Net Assets - Cash Basis	L	26
Statement of Changes in Net Assets - Cash Basis	M	27
Notes to Financial Statements		28-38
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		39
Notes to Required Supplementary Information - Budgetary Reporting		40
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	43-45
Fiduciary Fund - Private Purpose Trust Funds:		
Combining Balance Sheet	4	46
Combining Statement of Changes in Fiduciary Net Assets	5	47
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	6	48
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	7	49
Schedule of Expenditures of Federal Awards	8	50-51
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 <u>Government Auditing Standards</u>		52-53
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		54-55
Schedule of Findings and Questioned Costs		56-62

Muscatine Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 election)		
Tom Welk	President	2008
Paul Brooks	Vice President	2009
Clyde Evans	Board Member	2007
Ann Hart	Board Member	2007
Bob Leech	Board Member	2008
Tammi Drawbaugh	Board Member	2009
Joyce Haller	Board Member	2009
Board of Education (After September 2007 election)		
Tom Welk	President	2008
Tammi Drawbaugh	Vice President	2009
Bob Leech	Board Member	2008
Paul Brooks	Board Member	2009
Joyce Haller	Board Member	2009
Clyde Evans	Board Member	2010
Robin Krueger	Board Member	2010
School Officials		
Dr. Tom Williams	Superintendent	2008
Jean K. Gardner	District Treasurer	2008
Lisa Mosier	District Secretary	2008
Duane J. Goedken	Attorney	2008
Stanley, Lande & Hunter	Attorney	2008

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Muscatine Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Muscatine Community School District, Muscatine, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Muscatine Community School District at June 30, 2008, and its discretely presented Component Unit as of and for the year ended December 31, 2008 and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2009 on our consideration of the Muscatine Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Muscatine Community School District's basic financial statements. Another auditor 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 an unqualified opinion on those financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 6, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Muscatine Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$42,727,968 in fiscal 2007 to \$44,486,924 in fiscal 2008, while General Fund expenditures increased from \$42,675,455 in fiscal 2007 to \$45,750,174 in fiscal 2008. This resulted in a decrease in the District's General Fund balance from \$7,712,126 in fiscal 2007 to a balance of \$6,448,876 in fiscal 2008, a 16.38% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources. The increase in expenditures was primarily due to an increase in negotiated salaries and benefits.
- A major construction and renovation project at McKinley Elementary School was started in fiscal year 2008. The \$1.8 million project consists of 6 additional classrooms, renovation of existing classrooms, lighting and the exterior of the building. As of June 30, 2008, approximately \$.6 million of this project was completed.
- A major construction and renovation project at Madison Elementary School was started in fiscal year 2008. The \$3.1 million project consists of 4 new classrooms, a new gymnasium, a new kitchen, converting to a geothermal system, purchase of property along with renovations to existing rooms. As of June 30, 2008, approximately \$.8 million of this project was completed.
- At June 30, 2008, the District had \$2.5 million in other long-term debt outstanding. This represents a decrease of 24.56% from last year. The contributing factor was the discontinuance of our early retirement program, which resulted in a significant decrease in liability owed to retirees.

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 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 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 Muscatine Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the 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 funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

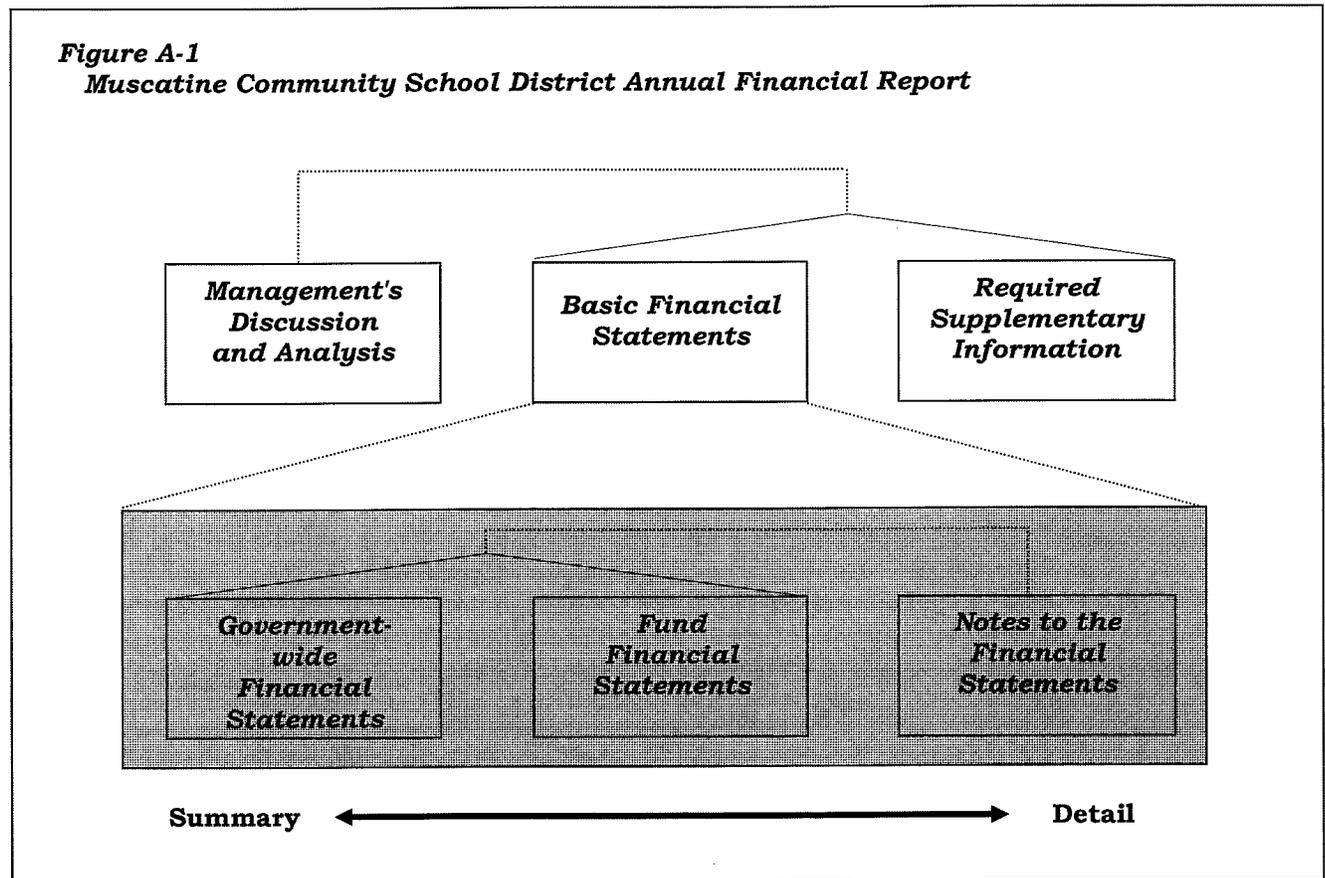


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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 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 is included here.

Fund Financial Statements

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

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

The District has three kinds of funds:

- 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 the 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 the Day Care Fund and one Internal Service Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in 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 the Private-Purpose Trust Fund and Agency Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District fees, Retiree Health Insurance, Band Rentals, Flex Spending Accounts, Child Medical Assistance, MHS Arts, Drivers Ed Equipment, Industrial Technology, Elementary Projects, Hall of Honor and Camps accounts and related expenditures.

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

The required financial statements for fiduciary funds include 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 total net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 36,803,856	35,591,956	671,190	666,184	37,475,046	36,258,140	3.36%
Capital assets	26,892,098	24,223,993	180,092	199,620	27,072,190	24,423,613	10.84%
Total assets	63,695,954	59,815,949	851,282	865,804	64,547,236	60,681,753	6.37%
Long-term obligations	2,490,080	3,300,864	0	0	2,490,080	3,300,864	-24.56%
Other liabilities	20,670,641	19,279,128	141,880	86,421	20,812,521	19,365,549	7.47%
Total liabilities	23,160,721	22,579,992	141,880	86,421	23,302,601	22,666,413	2.81%
Net assets:							
Invested in capital assets, net of related debt	26,892,098	24,223,993	180,092	199,620	27,072,190	24,423,613	10.84%
Restricted	9,031,046	8,079,507	0	0	9,031,046	8,079,507	11.78%
Unrestricted	4,612,089	4,932,457	529,310	579,763	5,141,399	5,512,220	-6.73%
Total net assets	\$ 40,535,233	37,235,957	709,402	779,383	41,244,635	38,015,340	8.49%

The District's combined net assets increased by 8.49%, or \$3,229,295, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents 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 \$951,539 or 11.78% over the prior year. The increase was primarily a result of increase in fund balances in the Capital Projects Fund and increased carryovers in restricted state grant balances.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$370,821 or 6.73%. This decrease in unrestricted net assets was a result of the District’s decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 and June 30, 2007.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 1,714,218	1,700,257	1,162,546	1,160,967	2,876,764	2,861,224	0.54%
Operating grants and contributions and restricted interest	6,858,353	5,894,560	1,301,594	1,157,741	8,159,947	7,052,301	15.71%
Operating grants and contributions and restricted interest	249,360	72,130	0	0	249,360	72,130	245.71%
General revenues:							
Property tax	14,325,652	13,637,835	0	0	14,325,652	13,637,835	5.04%
Local option sales and services tax	3,516,622	3,318,683	0	0	3,516,622	3,318,683	5.96%
Unrestricted state grants	24,201,219	23,680,846	0	0	24,201,219	23,680,846	2.20%
Unrestricted investment earnings	641,829	868,357	2,748	2,488	644,577	870,845	-25.98%
Other general revenue	396,631	393,294	0	0	396,631	393,294	0.85%
Total revenues	51,903,884	49,565,962	2,466,888	2,321,196	54,370,772	51,887,158	4.79%
Program expenses:							
Governmental activities:							
Instructional	33,373,395	33,091,335	0	0	33,373,395	33,091,335	0.85%
Support services	13,320,294	12,810,504	48,763	41,512	13,369,057	12,852,016	4.02%
Non-instructional programs	58,950	93,809	2,488,106	2,382,198	2,547,056	2,476,007	2.87%
Other expenses	1,851,969	1,765,207	0	0	1,851,969	1,765,207	4.92%
Total expenses	48,604,608	47,760,855	2,536,869	2,423,710	51,141,477	50,184,565	1.91%
Changes in net assets	3,299,276	1,805,107	(69,981)	(102,514)	3,229,295	1,702,593	-89.67%
Beginning net assets	37,235,957	35,430,850	779,383	881,897	38,015,340	36,312,747	4.69%
Ending net assets	\$ 40,535,233	37,235,957	709,402	779,383	41,244,635	38,015,340	8.49%

In fiscal 2008, property tax, local option sales and services tax and unrestricted state grants account for 81.01% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.89% of the revenue from business type activities.

The District’s total revenues were approximately \$54.4 million of which \$51.9 million was for governmental activities and less than \$2.5 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.79% increase in revenues and a 1.91% increase in expenses. The increase in expenses related to increase in the negotiated salary and benefits, as well as increases in utilities and transportation costs.

Governmental Activities

Revenues for governmental activities were \$51,903,884 and expenses were \$48,604,608.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 33,373,395	33,091,335	0.85%	26,778,735	27,377,528	-2.19%
Support services	13,320,294	12,810,504	3.98%	12,944,992	12,622,571	2.55%
Non-instructional programs	58,950	93,809	-37.16%	58,950	93,809	-37.16%
Other expenses	1,851,969	1,765,207	4.92%	0	0	0.00%
Totals	<u>\$ 48,604,608</u>	<u>47,760,855</u>	<u>1.77%</u>	<u>39,782,677</u>	<u>40,093,908</u>	<u>-0.78%</u>

- The cost financed by users of the District’s programs was \$1,714,218.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$7,107,713.
- The net cost of governmental activities was financed with \$14,325,652 in property tax, \$3,516,622 in local option sales and services tax, \$24,201,219 in unrestricted state grants, \$641,829 in interest income and \$396,631 in other general revenue.

Business-Type Activities

Revenues of the District’s business-type activities were \$2,466,888 and expenses were \$2,536,869. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$16,133,215, below last year’s ending fund balances of a \$16,312,828. This primarily resulted from a decrease in the General Fund balance.

Governmental Fund Highlights

- The District’s decrease in General Fund financial position from \$7,712,126 to \$6,448,876 is the product of many factors. Increases in local tax and state sources were less than the increase in operating costs during the year caused the General Fund balance to decrease by \$1,263,250. In addition, the negotiated salaries and benefits accounted for 82.10% of the General Fund expenditures.
- The Physical Plant and Equipment Levy Fund balance decreased from \$3,208,243 in fiscal 2007 to \$3,030,841 in fiscal 2008. The District had more revenues and expenditures during the year compared to the prior year. The net change in this fund was a decrease of \$177,402.

-
- The Capital Projects Fund balance increased from \$4,166,901 in fiscal 2007 to \$5,136,221 in fiscal 2008. The District had received more in local option sales and services tax than the increase in capital construction expenditures resulting in a \$969,320 increase.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$779,383 at June 30, 2007 to \$709,402 at June 30, 2008, representing a decrease of 8.98%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,456,058 more than budgeted revenues, a variance of 2.76%. The most significant variance resulted from the District receiving more in state sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction, support services and non-instructional programs functions due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$27.1 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,832,983.

The original cost of the District's capital assets was \$50.1 million. Governmental funds account for \$49.7 million with the remainder of \$0.4 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$21,285,306 at June 30, 2008, compared to \$17,547,482 reported at June 30, 2007. This increase resulted from the building improvements on Central Middle School and Jefferson Elementary that were completed during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total Change 2007-08
	Activities		Activities		School District		
	2008	2007	2008	2007	2008	2007	
Land	\$ 741,270	694,270	0	0	741,270	694,270	6.34%
Construction in progress	1,392,299	2,993,127	0	0	1,392,299	2,993,127	-114.98%
Buildings	21,285,306	17,547,482	0	0	21,285,306	17,547,482	17.56%
Land improvements	1,820,980	1,550,147	0	0	1,820,980	1,550,147	14.87%
Machinery and equipment	1,652,243	1,438,967	180,092	199,620	1,832,335	1,638,587	10.57%
Total	\$ 26,892,098	24,223,993	180,092	199,620	27,072,190	24,423,613	9.78%

Long-Term Debt

At June 30, 2008, the District had \$2,490,080 in other long-term debt outstanding. This represents a decrease of 24.56% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding Early Retirement payable from the General and Management Levy Funds of \$2,490,080 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2008	2007	
Early Retirement	\$ 2,490,080	3,300,864	-24.56%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The district has no General obligation bonded indebtedness.
- The district negotiated two-year collective bargaining agreements for all employee groups for fiscal years 2008 and 2009. The two-year agreements provide total package increases of 3.8% and 3.5%. The district will need to negotiate collective bargaining agreements for all employee groups in 2009. We will not attempt to have two-year agreements.
- The State School Budget Review Committee granted requests from school districts state wide for modified allowable growth as a result of the requirement to convert to budgeting under Generally Accepted Accounting Principles from Cash basis budgeting in fiscal year 2007. Each school district had to apply for the allowable growth but the authority was granted by class action for all the districts that applied. This amounted to \$3,750,622 worth of additional budget authority for the district. This greatly affected our unspent balance, which could influence or collective bargaining settlements in the future.
- The district's regular program cost per pupil increased 4% from \$5,333 in fiscal year 2008 to \$5,546 in fiscal year 2009. The legislators also approved a 4% increase for fiscal year 2010, which would result in the district's regular program cost per pupil of \$5,768. This is an important figure as the district's budget is mostly determined by multiplying this figure times the certified enrollment. This positively affects our budget.

-
- The school district's certified enrollment decreased 12.6 FTE from 5,569.4 students in September 2004 to 5,556.8 students in September 2005, another 52.7 FTE students in October 2007 resulting in a certified enrollment of 5,504.1, and yet another decrease of 34.2 FTE students in October 2007. The October 2007 certified enrollment was 5,469.9. The October 2008 certified enrollment was 5,477.9. Even with a slight increase in enrollment this year, student enrollment trends are negative and stagnate at best. These are important figures as the district's budget is determined by multiplying this figure times the regular program district cost. With declining enrollment, this negatively affects our budget and capacity to spend. This is something we are going to have to deal with in setting the budget and during negotiations.
 - The district terminated an early retirement incentive program offered to eligible district employees in fiscal year 2007. This influenced the number of retirees in fiscal year 2007 because of the uncertainty of having the option to retire with an incentive later. This resulted in 36 employees electing early retirement. This will affect our management levy rate and the general fund expenditures for salaries over the next several years.
 - The Local Option Sales and Service Tax and the Physical Plant and Equipment Levies will expire in 2010. The district put the Local Option Sales Tax issue before the voters of Muscatine County in March of 2008, the issue passed at an 84.81% approval rate. The Iowa State legislators also passed a state-wide one cent school infrastructure tax. The Physical Plant and Equipment Levy issue was not put on the September 2008 school board election. The ability to levy will expire June 30, 2010 unless the board wishes to put the issue before the voters.
 - Although we do not know the full impact this will have on the school district, the depressed local economy will have a bearing on the school district. The lock-out of 360 employees from one of our major employers, layoffs and impending layoffs of more than 500 employees of another major employer, loss of 47 jobs when a factory closed has bearing on the future demographics of the district.
 - The condition of the state economy directly affects the future economics of the school. Actions taken by the governor and legislators to balance the state budgets affect the district. During this economic downturn the across the board cut of 1.5%, that was imposed will impact the cash flow of the district and possible future levy rates to recoup the loss of revenue.
 - With the federal No Child Left Behind legislation, all schools must annually meet numerous accountability standards or be placed on a leveled sanction list. To meet the sanctions, districts must provide increased professional development for the certified staff. Professional development requires increased financial resources that include additional teacher compensation, purchasing curriculum materials, staff attendance at out-of-district workshops, and the hiring of outside consultants.
 - Muscatine High School and West Middle School were cited as Schools in Need of Assistance (SINA) due to achievement in mathematics and reading. To address the student academic needs, additional funds will need to be allocated for the Every Student Counts and Second Chance Reading professional development. Expenses include training materials and paying teachers for training during off-contract hours.
 - The Iowa Department of Education has implemented additional initiatives that will require resource allocation. The Iowa Model core Curriculum will require the alignment of the district's curriculum to the state's model. Teachers will need to work additional off-contract hours to complete this mandate.

-
- Currently NCLB requires that testing scores be disaggregated and reported for grades 3 – 8 and 11. This is a time consuming process. This mandate will require additional staff hours to disaggregate, analyze, and report the data to students, parents, staff, board of education, and community.
 - Another part of NCLB requires paraprofessionals who work in a Title One building be highly qualified. To meet this standard, paraprofessionals must have additional training which is provided on an ongoing basis by district personnel.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 20,686,747	571,650	21,258,397
Receivables:			
Property tax:			
Delinquent	218,692	0	218,692
Succeeding year	14,666,434	0	14,666,434
Accounts	39,351	4,935	44,286
Due from other governments	1,130,742	18,498	1,149,240
Inventories	61,890	76,107	137,997
Capital assets, net of accumulated depreciation (Note 4)	26,892,098	180,092	27,072,190
TOTAL ASSETS	63,695,954	851,282	64,547,236
LIABILITIES			
Accounts payable	1,092,557	22,499	1,115,056
Salaries and benefits payable	4,888,509	93,836	4,982,345
Deferred revenue:			
Succeeding year property tax	14,666,434	0	14,666,434
Other	23,141	0	23,141
Unearned revenue	0	25,545	25,545
Long-term liabilities (Note 5):			
Portion due within one year:			
Early retirement payable	766,719	0	766,719
Portion due after one year:			
Early retirement payable	1,723,361	0	1,723,361
TOTAL LIABILITIES	23,160,721	141,880	23,302,601
NET ASSETS			
Invested in capital assets	26,892,098	180,092	27,072,190
Restricted for:			
Weighted limited english proficient	10,140	0	10,140
At risk supplemental	3,956	0	3,956
Talented and gifted	65,615	0	65,615
At risk	71,800	0	71,800
Beginning teacher mentoring program	1,366	0	1,366
Salary improvement program	25,443	0	25,443
Additional teacher contract day	19,014	0	19,014
Market factor	26,736	0	26,736
Beginning administrator mentoring program	4,500	0	4,500
Phase II	16,001	0	16,001
Phase III	13,508	0	13,508
Early intervention	411	0	411
Voluntary statewide preschool	17,428	0	17,428
Professional development	39,291	0	39,291
Market factor incentives	36,169	0	36,169
Physical plant and equipment levy	3,030,841	0	3,030,841
Capital projects	5,136,221	0	5,136,221
Other special revenue purposes	512,606	0	512,606
Unrestricted	4,612,089	529,310	5,141,399
TOTAL NET ASSETS	\$ 40,535,233	709,402	41,244,635

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total	
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular instruction	\$ 21,118,093	834,027	4,564,893	0	(15,719,173)	0	(15,719,173)
Special instruction	6,956,542	235,766	335,320	0	(6,385,456)	0	(6,385,456)
Other instruction	5,298,760	553,126	71,528	0	(4,674,106)	0	(4,674,106)
	<u>33,373,395</u>	<u>1,622,919</u>	<u>4,971,741</u>	<u>0</u>	<u>(26,778,735)</u>	<u>0</u>	<u>(26,778,735)</u>
Support services:							
Student services	1,405,781	0	0	0	(1,405,781)	0	(1,405,781)
Instructional staff services	1,122,905	0	0	0	(1,122,905)	0	(1,122,905)
Administration services	4,978,335	0	0	0	(4,978,335)	0	(4,978,335)
Operation and maintenance of plant services	4,006,205	0	0	249,360	(3,756,845)	0	(3,756,845)
Transportation services	1,807,068	91,299	34,643	0	(1,681,126)	0	(1,681,126)
	<u>13,320,294</u>	<u>91,299</u>	<u>34,643</u>	<u>249,360</u>	<u>(12,944,992)</u>	<u>0</u>	<u>(12,944,992)</u>
Non-instructional programs							
Food service operations	41,849	0	0	0	(41,849)	0	(41,849)
Community service operations	17,101	0	0	0	(17,101)	0	(17,101)
	<u>58,950</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(58,950)</u>	<u>0</u>	<u>(58,950)</u>
Other expenditures:							
AEA flowthrough	1,851,969	0	1,851,969	0	0	0	0
	<u>1,851,969</u>	<u>0</u>	<u>1,851,969</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total governmental activities	48,604,608	1,714,218	6,858,353	249,360	(39,782,677)	0	(39,782,677)
Business-type activities:							
Support services:							
Administration services	48,763	0	0	0	0	(48,763)	(48,763)
Non-instructional programs:							
Nutrition services	2,408,106	1,162,546	1,301,594	0	0	(23,966)	(23,966)
Total business-type activities	<u>2,536,869</u>	<u>1,162,546</u>	<u>1,301,594</u>	<u>0</u>	<u>0</u>	<u>(72,729)</u>	<u>(72,729)</u>
Total	\$ 51,141,477	2,876,764	8,159,947	249,360	(39,782,677)	(72,729)	(39,855,406)
General Revenues:							
Local tax for:							
General purposes				\$ 13,412,676	0	13,412,676	
Capital projects				912,976	0	912,976	
Local option sales and services tax				3,516,622	0	3,516,622	
Unrestricted state grants				24,201,219	0	24,201,219	
Unrestricted investment earnings				641,829	2,748	644,577	
Other general revenue				396,631	0	396,631	
Total general revenues				<u>43,081,953</u>	<u>2,748</u>	<u>43,084,701</u>	
Changes in net assets				3,299,276	(69,981)	3,229,295	
Net assets beginning of year				37,235,957	779,383	38,015,340	
Net assets end of year				<u>\$ 40,535,233</u>	<u>709,402</u>	<u>41,244,635</u>	

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 10,885,729	3,054,173	5,201,909	1,544,936	20,686,747
Receivables:					
Property tax:					
Delinquent	182,052	12,663	0	23,977	218,692
Succeeding year	11,920,190	979,603	0	1,766,641	14,666,434
Accounts	35,853	0	0	3,498	39,351
Due from other governments	512,340	238	617,698	466	1,130,742
Inventories	61,890	0	0	0	61,890
TOTAL ASSETS	\$ 23,598,054	4,046,677	5,819,607	3,339,518	36,803,856
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 351,220	36,233	683,386	21,718	1,092,557
Salaries and benefits payable	4,854,627	0	0	33,882	4,888,509
Deferred revenue:					
Succeeding year property tax	11,920,190	979,603	0	1,766,641	14,666,434
Other	23,141	0	0	0	23,141
Total liabilities	17,149,178	1,015,836	683,386	1,822,241	20,670,641
Fund balances:					
Reserved for:					
Inventories	61,890	0	0	0	61,890
Weighted limited english proficient	10,140	0	0	0	10,140
At risk supplemental	3,956	0	0	0	3,956
Talented and gifted	65,615	0	0	0	65,615
At risk	71,800	0	0	0	71,800
Beginning teacher mentoring program	1,366	0	0	0	1,366
Salary improvement program	25,443	0	0	0	25,443
Additional teacher contract day	19,014	0	0	0	19,014
Market factor	26,736	0	0	0	26,736
Beginning administrator mentoring program	4,500	0	0	0	4,500
Phase II	16,001	0	0	0	16,001
Phase III	13,508	0	0	0	13,508
Early intervention	411	0	0	0	411
Voluntary statewide preschool	17,428	0	0	0	17,428
Professional development	39,291	0	0	0	39,291
Market factor incentives	36,169	0	0	0	36,169
Designated for:					
Medicaid reserve	6,503	0	0	0	6,503
Unreserved:					
Undesignated:					
General	6,029,105	0	0	0	6,029,105
Physical plant and equipment levy	0	3,030,841	0	0	3,030,841
Capital projects	0	0	5,136,221	0	5,136,221
Management levy	0	0	0	1,004,671	1,004,671
Other special revenue purposes	0	0	0	512,606	512,606
Total fund balances	6,448,876	3,030,841	5,136,221	1,517,277	16,133,215
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,598,054	4,046,677	5,819,607	3,339,518	36,803,856

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balances of governmental funds (page 17) \$ 16,133,215

*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 report as
assets in the governmental funds. 26,892,098

Long-term liabilities, including early retirement, are not
due and payable in the current period and, therefore, are not
reported as liabilities in the governmental funds. (2,490,080)

Net assets of governmental activities (page 15) \$ 40,535,233

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 11,850,894	912,976	3,516,622	1,561,782	17,842,274
Tuition	656,615	0	0	0	656,615
Other	1,141,463	175,545	140,466	929,460	2,386,934
State sources	29,279,936	479	0	0	29,280,415
Federal sources	1,555,286	32,360	150,000	0	1,737,646
Total revenues	<u>44,484,194</u>	<u>1,121,360</u>	<u>3,807,088</u>	<u>2,491,242</u>	<u>51,903,884</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	19,504,598	0	0	961,304	20,465,902
Special instruction	6,956,542	0	0	0	6,956,542
Other instruction	4,557,140	0	0	741,620	5,298,760
	<u>31,018,280</u>	<u>0</u>	<u>0</u>	<u>1,702,924</u>	<u>32,721,204</u>
Support services:					
Student services	1,393,172	0	0	14,030	1,407,202
Instructional staff services	1,132,877	0	0	6,096	1,138,973
Administration services	4,664,110	221,878	0	146,587	5,032,575
Operation and maintenance of plant services	4,186,940	17,418	0	220,498	4,424,856
Transportation services	1,457,061	124,458	0	113,658	1,695,177
	<u>12,834,160</u>	<u>363,754</u>	<u>0</u>	<u>500,869</u>	<u>13,698,783</u>
Non-instructional programs:					
Food service operations	0	0	0	24,394	24,394
Community service operations	17,101	0	0	0	17,101
	<u>17,101</u>	<u>0</u>	<u>0</u>	<u>24,394</u>	<u>41,495</u>
Other expenditures:					
Facilities acquisitions	0	935,008	2,837,768	0	3,772,776
Long-term debt:					
AEA flowthrough	1,851,969	0	0	0	1,851,969
	<u>1,851,969</u>	<u>935,008</u>	<u>2,837,768</u>	<u>0</u>	<u>5,624,745</u>
Total expenditures	<u>45,721,510</u>	<u>1,298,762</u>	<u>2,837,768</u>	<u>2,228,187</u>	<u>52,086,227</u>
Excess(deficiency) of revenues over(under) expenditures	(1,237,316)	(177,402)	969,320	263,055	(182,343)
Other financing sources(uses):					
Proceeds from the disposal of property	2,730	0	0	0	2,730
Transfer in	0	0	0	28,664	28,664
Transfer out	(28,664)	0	0	0	(28,664)
Total other financing sources(uses)	<u>(25,934)</u>	<u>0</u>	<u>0</u>	<u>28,664</u>	<u>2,730</u>
Net change in fund balances	(1,263,250)	(177,402)	969,320	291,719	(179,613)
Fund balance beginning of year	7,712,126	3,208,243	4,166,901	1,225,558	16,312,828
Fund balance end of year	<u>\$ 6,448,876</u>	<u>3,030,841</u>	<u>5,136,221</u>	<u>1,517,277</u>	<u>16,133,215</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2008

Net change in fund balances - total governmental funds (page 19) \$ (179,613)

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

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

Expenditures for capital assets	\$ 4,402,566	
Depreciation expense	(1,710,582)	
Loss on disposal of capital assets	<u>(23,879)</u>	2,668,105

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

Early retirement	<u>810,784</u>
------------------	----------------

Changes in net assets of governmental activities (page 16) \$ 3,299,276

MUSCATINE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2008

	<u>School</u> <u>Nutrition</u>
ASSETS	
Current assets:	
Cash and pooled investments	\$ 571,650
Accounts receivable	4,935
Due from other governments	18,498
Inventories	76,107
Non-current assets:	
Capital assets, net of accumulated depreciation (Note 4)	180,092
TOTAL ASSETS	<u>851,282</u>
LIABILITIES	
Accounts payable	22,499
Salaries and benefits payable	93,836
Unearned revenue	25,545
TOTAL LIABILITIES	<u>141,880</u>
NET ASSETS	
Invested in capital assets	180,092
Unrestricted	529,310
Total net assets	<u>\$ 709,402</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 1,162,546
OPERATING EXPENSES:	
Support services:	
Administration services:	
Salaries	31,696
Benefits	10,416
Services	3,813
Supplies	2,838
Total support services	48,763
Non-instructional programs:	
Food service operations:	
Salaries	853,568
Benefits	296,367
Services	111,997
Supplies	1,197,577
Depreciation	24,704
Other	3,893
Total non-instructional programs	2,488,106
TOTAL OPERATING EXPENSES	2,536,869
OPERATING LOSS	(1,374,323)
NON-OPERATING REVENUES:	
State sources	27,258
Federal sources	1,274,336
Interest income	2,748
TOTAL NON-OPERATING REVENUES	1,304,342
Change in net assets	(69,981)
Net assets beginning of year	779,383
Net assets end of year	\$ 709,402

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 1,159,381
Cash received from miscellaneous operating activities	559
Cash payments to employees for services	(1,160,259)
Cash payments to suppliers for goods or services	(1,184,005)
Net cash used in operating activities	(1,184,324)
Cash flows from non-capital financing activities:	
State grants received	27,258
Federal grants received	1,242,761
Net cash provided by non-capital financing activities	1,270,019
Cash flows from capital financing activities:	
Acquisitions of assets	(5,176)
Net cash used in capital financing activities	(5,176)
Cash flows from investing activities:	
Interest on investment	2,748
Net cash provided by investing activities	2,748
Net increase in cash and cash equivalents	83,267
Cash and cash equivalents at beginning of year	488,383
Cash and cash equivalents at end of year	\$ 571,650
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,374,323)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	137,134
Depreciation	24,704
Increase in inventories	(22,881)
Increase in accounts receivable	(4,417)
Increase in accounts payable	21,860
Increase in salaries and benefits payable	31,788
Increase in unearned revenue	1,811
Net cash used in operating activities	\$ (1,184,324)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and investments	\$ 571,650

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$137,134.

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2008

	Private Purpose Trust	
	Scholarship Fund	Agency Fund
ASSETS		
Cash and pooled investments:		
U.S. Treasury Bonds	\$ 74,000	0
Other	80,554	567,298
Accrued interest receivable	1,142	0
Total assets	<u>155,696</u>	<u>567,298</u>
LIABILITIES		
Due to other groups	0	567,298
Total liabilities	<u>0</u>	<u>567,298</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 155,696</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2008

	<u>Private Purpose Trust</u>	<u>Scholarship Fund</u>
Additions:		
Local sources:		
Interest income	\$ 15,309	
Total additions	<u>15,309</u>	
Deletions:		
Regular instruction:		
Scholarships awarded		15,500
Total deletions		<u>15,500</u>
Change in net assets		(191)
Net assets beginning of year		<u>155,887</u>
Net assets end of year		<u>\$ 155,696</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - CASH BASIS
COMPONENT UNIT
DECEMBER 31, 2007

ASSETS	
Cash and cash equivalents	\$ 325,456
Certificates of Deposit	462,371
Investments	1,039,641
TOTAL ASSETS	<u>1,827,468</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Restricted net assets	1,747,658
Unrestricted net assets	79,810
TOTAL NET ASSETS	<u>\$ 1,827,468</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS - CASH BASIS
COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2007

	Restricted Funds	Unrestricted Funds	Total All Funds
REVENUES:			
Interest	32,973	2,806	35,779
Dividends	67,527	4,661	72,188
Donations	82,672	41	82,713
Capital gains on investments	0	175	175
Realized gain	33	0	33
Other	477	0	477
TOTAL REVENUES	183,682	7,683	191,365
EXPENSES:			
Scholarships	90,471	5,215	95,686
Grants	11,981	0	11,981
Management fees	7,181	0	7,181
Contracted services	0	12,128	12,128
Supplies	1,102	88	1,190
Postage	0	151	151
Mildred Barry Trust	0	1,141	1,141
Audit	0	0	0
TOTAL EXPENSES	110,735	18,723	129,458
Excess(deficiency) of revenues over(under) expenses	72,947	(11,040)	61,907
OTHER FINANCING SOURCES:			
Unrealized gain on investments	(17,365)	(222)	(17,587)
Transfers	(29,461)	29,461	0
TOTAL OTHER FINANCING SOURCES	(46,826)	29,239	(17,587)
Change in net assets	26,121	18,199	44,320
Net assets beginning of year	1,721,537	61,611	1,783,148
Net assets end of year	\$ 1,747,658	79,810	1,827,468

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

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

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

A. Reporting Entity

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

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

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

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

B. Basis of Presentation

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

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 consists of capital assets, net of accumulated depreciation.

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

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

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

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

are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for building improvements and equipment purchases.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 are 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 nonoperating 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 Balances

The following accounting policies are followed in preparing the financial statements.

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year 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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Land improvements	10,000
Machinery and equipment:	
School Nutrition Fund equipment	250
Other machinery and equipment	2,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-15 years

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

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

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

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

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 Balances - 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.

Designated Fund Balances - In the governmental fund financial statements, designated funds are not available for appropriation but are set aside for a specific purpose. The designated fund balances are reported for a specific purpose for an amount that reflects a reserve for Medicaid.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the instruction, support services and non-instructional programs functions exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2008 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 drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Bonds are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Bonds are stated at fair value. Bonds traded on a national or international exchange are valued the last reported sales price at current exchange rates.

At June 30, 2008, the District had investments in U.S. Treasury Bonds as follows:

	<u>Fair Value</u>
U.S. Treasury Bonds	<u>\$ 74,000</u>

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 781</u>

At June 30, 2008, the District had investments in Tamarack Investment Funds as follows:

	<u>Amortized Cost</u>
Tamarack Investment Funds	<u>\$ 13,763</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service. The investments in the Tamarack Investment Funds are registered and not subject to rating.

(3) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue, Management Levy	General	\$ 28,664

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

(4) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Machinery and equipment	\$ 442,400	5,176	57,233	390,343
Less accumulated depreciation	242,780	24,704	57,233	210,251
Business-type activities capital assets, net	\$ 199,620	(19,528)	0	180,092

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 694,270	47,000	0	741,270
Construction in progress	2,993,127	1,392,299	2,993,127	1,392,299
Total capital assets not being depreciated	<u>3,687,397</u>	<u>1,439,299</u>	<u>2,993,127</u>	<u>2,133,569</u>
Capital assets being depreciated:				
Buildings	34,815,931	4,962,935	0	39,778,866
Land improvements	1,910,222	371,635	0	2,281,857
Machinery and equipment	5,126,052	621,824	232,404	5,515,472
Total capital assets being depreciated	<u>41,852,205</u>	<u>5,956,394</u>	<u>232,404</u>	<u>47,576,195</u>
Less accumulated depreciation for:				
Buildings	17,268,449	1,225,111	0	18,493,560
Land improvements	360,075	100,802	0	460,877
Machinery and equipment	3,687,085	384,669	208,525	3,863,229
Total accumulated depreciation	<u>21,315,609</u>	<u>1,710,582</u>	<u>208,525</u>	<u>22,817,666</u>
Total capital assets being depreciated, net	<u>20,536,596</u>	<u>4,245,812</u>	<u>23,879</u>	<u>24,758,529</u>
Governmental activities capital assets, net	<u>\$ 24,223,993</u>	<u>5,685,111</u>	<u>3,017,006</u>	<u>26,892,098</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 1,355,121
Support services:		
Support services		720
Instructional staff		13,505
Administration		36,546
Operation and maintenance of plant		78,561
Transportation		194,497
Non-instructional programs:		
Food service operations		<u>31,632</u>
Total governmental activities depreciation expense		<u>\$ 1,710,582</u>
Business-type activities:		
Food services		<u>\$ 122,401</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early Retirement	\$ 3,300,864	0	810,784	2,490,080	766,719

Early Retirement

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

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

At June 30, 2008, the District has obligations to 123 participants with a liability of \$2,490,080. Early retirement expenditures for the year ended June 30, 2008, totaled \$810,784. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(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, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008. Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$1,730,729, \$1,599,007 and \$1,544,565 respectively, equal to the required contributions for each year.

(7) Risk Management

The Muscatine Community School District is a member in the Iowa School Employees Benefits Association, fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: health, dental and long-term disability.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2008 were \$5,001,154.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

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

(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 \$1,851,969 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Construction Commitments

The District entered into various contracts totaling \$4,890,972 for capital facility construction projects at McKinley Elementary, Madison Elementary and High School Stadium. At June 30, 2008, \$1,392,299 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2008, expenditures in the instruction, support services and non-instructional programs functions exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

MUSCATINE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 20,885,823	1,165,294	22,051,117	21,593,520	21,593,520	457,597
State sources	29,280,415	27,258	29,307,673	28,771,372	28,771,372	536,301
Federal sources	1,737,646	1,274,336	3,011,982	2,549,822	2,549,822	462,160
Total revenues	51,903,884	2,466,888	54,370,772	52,914,714	52,914,714	1,456,058
Expenditures:						
Instruction	32,721,204	0	32,721,204	31,815,417	31,815,417	(905,787)
Support services	13,698,783	48,763	13,747,546	12,452,183	12,452,183	(1,295,363)
Non-instructional programs	41,495	2,488,106	2,529,601	2,267,731	2,267,731	(261,870)
Other expenditures	5,624,745	0	5,624,745	5,791,037	5,791,037	166,292
Total expenditures	52,086,227	2,536,869	54,623,096	52,326,368	52,326,368	(2,296,728)
Excess(deficiency) of revenues over(under) expenditures	(182,343)	(69,981)	(252,324)	588,346	588,346	(840,670)
Other financing sources, net	2,730	0	2,730	0	0	2,730
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(179,613)	(69,981)	(249,594)	588,346	588,346	(837,940)
Balance beginning of year	16,312,828	779,383	17,092,211	15,505,761	15,505,761	1,586,450
Balance end of year	\$ 16,133,215	709,402	16,842,617	16,094,107	16,094,107	748,510

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

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 comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, expenditures in the instruction, support services and non-instructional programs functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2008

	Manage- ment Levy	Student Activity	Total Other Nonmajor Governmental Funds
ASSETS			
Cash and pooled investments	\$ 988,266	556,670	1,544,936
Receivables:			
Property tax:			
Delinquent	23,977	0	23,977
Succeeding year	1,766,641	0	1,766,641
Accounts	0	3,498	3,498
Due from other governments	466	0	466
TOTAL ASSETS	\$ 2,779,350	560,168	3,339,518
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 8,038	13,680	21,718
Salaries and benefits payable	0	33,882	33,882
Deferred revenue:			
Succeeding year property tax	1,766,641	0	1,766,641
	<u>1,774,679</u>	<u>47,562</u>	<u>1,822,241</u>
Fund balances:			
Unreserved:			
Undesignated	1,004,671	512,606	1,517,277
Total fund balances	<u>1,004,671</u>	<u>512,606</u>	<u>1,517,277</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,779,350	560,168	3,339,518

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Manage- ment Levy	Student Activity	Total Other Nonmajor Governmental Funds
REVENUES:			
Local sources:			
Local tax	\$ 1,561,782	0	1,561,782
Other	68,803	860,657	929,460
TOTAL REVENUES	1,630,585	860,657	2,491,242
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	961,304	0	961,304
Other instruction	0	741,620	741,620
Support services:			
Student services	14,030	0	14,030
Instructional staff services	6,096	0	6,096
Administration services	146,587	0	146,587
Operation and maintenance of plant services	220,498	0	220,498
Student transportation	65,758	47,900	113,658
Non-instructional programs:			
Food service operations	24,394	0	24,394
TOTAL EXPENDITURES	1,438,667	789,520	2,228,187
EXCESS OF REVENUES OVER EXPENDITURES	191,918	71,137	263,055
OTHER FINANCING SOURCES:			
Transfer in	28,664	0	28,664
NET CHANGE IN FUND BALANCES	220,582	71,137	291,719
FUND BALANCE BEGINNING OF YEAR	784,089	441,469	1,225,558
FUND BALANCE END OF YEAR	\$ 1,004,671	512,606	1,517,277

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>High School:</u>				
Petty Cash	\$ 1,600	0	0	1,600
Professional Staff Scholarship	17	0	17	0
Student Services	19,589	7,880	6,417	21,052
AP Fund	3,609	14,837	16,729	1,717
Band	4,573	14,056	7,680	10,949
Chorus	5,741	23,093	32,064	(3,230)
All Colors Count	1,863	0	35	1,828
Interact Club	499	483	443	539
Drama	9,924	26,683	27,454	9,153
Forensics	12,225	0	2,576	9,649
Annual Auroran	15,219	46,845	10,080	51,984
Weekly Auroran	1,922	2,346	2,106	2,162
Auxiliary Scholarship	3,130	0	707	2,423
Class of 2005	195	0	195	0
Class of 2006	5,497	0	5,497	0
Class of 2007	4,488	0	4,488	0
Class of 2008	2,221	5,713	746	7,188
Class of 2009	0	8,501	3,415	5,086
Future Business Leaders	631	2,225	2,308	548
FFA Milk Machine	203	0	0	203
Fine Arts	2,072	0	0	2,072
French Club	1,512	1,985	2,251	1,246
German Club	(1,900)	3,543	612	1,031
Spanish Club	198	343	0	541
Library Club	836	382	1,197	21
MHS Science Club	618	2,656	2,372	902
Model UN	4,314	9,000	11,512	1,802
Student Council	9,074	26,771	29,930	5,915
Athletics	2,534	194,696	161,944	35,286
Cheerleaders	2,553	14,838	12,087	5,304
Donation Fund	25,197	12,754	3,135	34,816
Pom Pom	2,370	15,851	18,221	0
Sports Calendar	12,651	31,767	20,301	24,117
Tournaments	8,301	4,545	1,972	10,874
Special Ed Work Experience	9,684	42,732	42,444	9,972
	<u>173,160</u>	<u>514,525</u>	<u>430,935</u>	<u>256,750</u>

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Elementary Schools:</u>				
Colorado	4,855	11,627	10,846	5,636
Franklin	4,519	7,986	5,596	6,909
Garfield	9,174	1,824	669	10,329
Grant	7,972	10,280	9,986	8,266
Jefferson	5,144	4,027	4,383	4,788
Madison	9,522	20,790	18,651	11,661
Madison Friends of Playgroud C.D.	7,500	0	0	7,500
Mckinley	6,318	14,636	14,144	6,810
Mulberry	10,656	5,430	4,522	11,564
Washington	10,069	7,297	13,895	3,471
Elementary Petty Cash	450	0	0	450
	<u>76,179</u>	<u>83,897</u>	<u>82,692</u>	<u>77,384</u>
<u>Central Middle School:</u>				
Athletics	1,995	5,415	2,425	4,985
Fund Raisers	12,462	38,658	37,748	13,372
Student Council	2,131	2,330	1,789	2,672
General Activity	19,868	1,993	6,718	15,143
Little Store	1,288	419	518	1,189
Music/Drama	2,445	2,072	1,563	2,954
Yearbook	2,492	7,920	6,504	3,908
Juice	2,027	4,809	5,727	1,109
Officials	1,801	5,516	6,111	1,206
Bookfairs	1,887	3,988	3,663	2,212
CMS Petty Cash	200	0	0	200
	<u>48,596</u>	<u>73,120</u>	<u>72,766</u>	<u>48,950</u>
<u>West Middle School:</u>				
Athletics	2,333	33,530	25,973	9,890
Fund Raisers	4,021	41,434	36,663	8,792
General Activity	8,185	5,695	10,682	3,198
Little Store	301	211	0	512
Music/Drama	8,479	9,178	8,417	9,240
WMS Bookfairs	1,474	0	1,337	137
Math-a-thon	4,195	0	281	3,914
Officials	0	6,429	6,080	349
Student Council	2,687	505	1,807	1,385
Yearbook	212	8,185	8,345	52
Band	4,911	1,991	924	5,978
6th Grade Bookfairs	4,224	4,146	1,960	6,410
WMS Petty Cash	200	0	0	200
	<u>41,222</u>	<u>111,304</u>	<u>102,469</u>	<u>50,057</u>

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Central Office:</u>				
College for Kids	10,300	49,933	60,243	(10)
Interest Investments	42,995	6,636	2,958	46,673
Miscellaneous	66	587	0	653
Community Education	144	97	0	241
Activity Van	48,807	20,558	37,457	31,908
	<u>102,312</u>	<u>77,811</u>	<u>100,658</u>	<u>79,465</u>
 Total	 \$ 441,469	 860,657	 789,520	 512,606

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS
 JUNE 30, 2008

	Bernadette and Paul Rohling Scholarship	Iileen Rohling Scholarship	Total
ASSETS			
Cash and pooled investments:			
U.S. Treasury Bonds	\$ 74,000	0	74,000
Other	24,528	56,026	80,554
Accrued interest receivable	430	712	1,142
TOTAL ASSETS	98,958	56,738	155,696
TOTAL LIABILITIES			
	0	0	0
NET ASSETS			
Reserved for scholarships	\$ 98,958	56,738	155,696

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN NET ASSETS
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS
 YEAR ENDED JUNE 30, 2008

	Bernadette and Paul Rohling Scholarship	Iileen Rohling Scholarship	Total
Additions:			
Local sources:			
Interest on investments	\$ 14,344	965	15,309
Deductions:			
Instruction:			
Regular instruction:			
Scholarships awarded	10,000	5,500	15,500
Change in net assets	4,344	(4,535)	(191)
Net assets beginning of year	94,614	61,273	155,887
Net assets end of year	\$ 98,958	56,738	155,696

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND
YEAR ENDED JUNE 30, 2008

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 601,447	1,394,324	1,428,473	567,298
LIABILITIES				
Due to other groups	\$ 601,447	1,394,324	1,428,473	567,298

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 17,842,274	16,956,518	16,861,241	16,469,084	16,371,805
Tuition	656,615	685,601	627,827	1,095,561	1,182,937
Other	2,386,934	2,573,161	2,523,208	1,987,159	1,640,959
State sources	29,280,415	27,849,315	26,377,373	24,926,493	23,761,286
Federal sources	1,737,646	1,498,477	2,879,013	2,057,495	1,938,482
Other sources	0	0	156,851	203,136	13
Total	\$ 51,903,884	49,563,072	49,425,513	46,738,928	44,895,482
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 20,465,902	19,111,412	18,801,847	18,951,377	17,678,401
Special instruction	6,956,542	6,760,353	10,525,190	10,372,197	9,765,835
Other instruction	5,298,760	5,143,073	1,538,951	1,156,007	1,117,281
Support services:					
Student services	1,407,202	1,330,859	1,312,963	1,263,997	1,183,036
Instructional staff services	1,138,973	975,467	1,772,001	1,362,482	1,380,395
Administration services	5,032,575	4,647,569	2,403,324	2,478,432	2,166,956
Operation and maintenance of plant services	4,424,856	3,781,663	3,668,441	3,388,560	3,376,632
Transportation services	1,695,177	1,420,991	1,332,785	1,311,873	937,431
Other support services	0	0	197,781	3,024	176,779
Non-instructional programs	41,495	64,175	57,958	68,506	81,022
Other expenditures:					
Facilities acquisitions	3,772,776	3,554,801	2,714,403	4,127,947	4,765,109
Long-term debt:					
Principal	0	0	760,000	735,000	869,478
Interest and fiscal charges	0	0	21,773	47,869	69,953
AEA flow-through	1,851,969	1,765,207	1,651,446	1,581,225	1,561,603
Total	\$ 52,086,227	48,555,570	46,758,863	46,848,496	45,129,911

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 08	\$ 258,413
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 08	983,308 *
SPECIAL MILK PROGRAM FOR CHILDREN	10.556	FY 08	1,092
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 08	31,523
			<u>1,274,336</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES			
	84.010	1782-G	634,082
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES			
	84.010	1782-G	150,080
			<u>784,162</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 08	<u>18,748</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION GRANT)			
	84.215	FY 08	<u>150,000</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.298	FY 08	<u>9,277</u>
SPECIAL EDUCATION - STATE PROGRAM IMPROVEMENT GRANTS FOR CHILDREN WITH DISABILITIES (2ND CHANCE READING)			
	84.323	FY 08	<u>376</u>
EARLY READING FIRST			
	84.359	FY 07	<u>7,731</u>
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS			
	84.365	FY 08	<u>29,871</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 08	<u>263,256</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)			
	84.369	FY 08	<u>37,135</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 08	<u>69,786</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)			
	84.027	FY 08	<u>294,034</u>

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED) :			
DEPARTMENT OF DEFENSE:			
MUSCATINE COUNTY:			
FLOOD CONTROL PROJECTS	12.107	FY 08	<u>32,360</u>
TOTAL			<u>\$ 2,971,072</u>

* Includes non-cash awards of \$137,134.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

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

To the Board of Education of the
Muscatine Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Muscatine Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 6, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects 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 Muscatine Community School District's financial statements that is more than inconsequential will not be prevented or detected by Muscatine Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs 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 Muscatine Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 6, 2009

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

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

To the Board of Education of
Muscatine Community School District

Compliance

We have audited the compliance of Muscatine Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Muscatine Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Muscatine Community School District's management. Our responsibility is to express an opinion on Muscatine Community School District's compliance based on our audit.

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

In our opinion, Muscatine Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

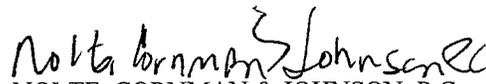
The management of Muscatine Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Muscatine Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Muscatine Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 6, 2009

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered Programs
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.556 - Special Milk Program for Children
 - CFDA Number 10.559 - Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Muscatine Community School District did qualify as a low-risk auditee.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCY:

II-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the bank reconciliations are prepared by an authorized signer and the same person who prepares the checks.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-08 Agency Funds - We noted during our audit that the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, "Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the district serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or parent-teacher organization which has its own Federal Identification Number. The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District place certain assets into custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund."

The District appears to be improperly accounting for agency accounts. We noted credit card fees, cobra retiree insurance, flex spending, rental of band instruments, drivers ed equipment, technology, technology and media grants, industrial tech sales, art sales and elementary projects are reported in the Agency Fund. Agency funds are to account for non-district revenue. Many of these accounts should reported in the General Fund.

Recommendation - The District should review Chapter 9 of the LEA Administrative Manual which identifies funds and allowable revenues and expenses. The District should review specifically the Student Activity and Agency Funds. The District should review each agency account for propriety and make the necessary transfers to the proper fund where monies can be appropriately be receipted and expensed.

Response - We will review Chapter 9 of the LEA Administrative Manual and then review our practices and determine appropriateness making changes whenever possible.

Conclusion - Response accepted.

II-C-08 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from. A more specific example of these instances is as follows:

We noted purchases from the Student Activity Fund for computers, a van, instructional supplies and playground equipment. These expenditures are not allowed in the Student Activity Fund. The monies raised for these items noted need be accounted for in a fund where these expenditures are allowable.

The Student Activity Accounts in the elementary schools do not appear to meet the criteria of student organizations or extracurricular activities. The District should receipt and expend field trips and fundraisers, as well as commissions received from pictures into the General Fund. These would be appropriate to the General Fund.

Included in the Elementary Accounts are playground equipment accounts. These accounts should be transferred to the Physical Plant and Equipment Levy Fund and shown as a reserved fund balance.

The Petty Cash should be deposited at the end of year or included in which organization is using the money.

There are Interest accounts. These accounts should be allocated among the Student Activity Funds that earned the interest. This allocation should be done at least annually. Interest earned should be distributed to individual accounts within the Student Activity Fund.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - We will investigate the use of our Activity Fund and make corrections whenever possible.

Conclusion - Response accepted.

II-D-08 Gate Admissions - It was noted that the District does not utilize pre-numbered tickets for event admissions and a reconciliation is not performed after the event.

Recommendation - The internal control of the District utilizing pre-numbered tickets is deteriorated by tearing off the number needed to reconcile to the cash collected. The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's

business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - The District will review gate admissions procedures.

Conclusion - Response accepted.

II-E-08 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - We will review our procedures with the athletic/activities department. We will investigate ways to comply with the requirements.

Conclusion - Response accepted.

II-F-08 Checks Outstanding - We noted during our audit that the District holds checks written making them outstanding on the bank reconciliation. These checks would have normally cleared if sent to individuals and vendors timely.

Recommendation - The District should not hold checks. Once approved by the Board, the District is obligated to send the payments to individuals and vendors in a timely manner. If there is a reason which the District is withholding payment, they should not write the checks until payment is authorized and approved, rather than holding checks.

Response - The District will not hold checks in the future.

Conclusion - Response accepted.

II-G-08 State Allocation and Categorical Carryover Balances - We noted during our audit that the District has several state allocation and categorical funding carryover balances. The District should review these and should have a plan for expending the carryover balances.

Recommendation - The District should review the state allocation and categorical funding carryover balances. The District should develop a plan for expending the carryover balances.

Response - The District will review plans for state allocations and categorical funding. However, the District judiciously monitors and spends state and categorical funding; only spending the money when appropriate.

Conclusion - Response accepted.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCY:

No material weaknesses in internal control over the major programs were noted.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget - District expenditures for the year ended June 30, 2008 exceeded the amount budgeted in the instruction, support services and non-instructional program functions.

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

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-08 Business Transactions - No business transactions between the District and District officials were noted.

IV-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will publish the minutes as required in the future.

Conclusion - Response accepted.

IV-G-08 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.