

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2009

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
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LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2009

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2008 Election)		
Angie Kemp	Board President	2008
Eric Schlutz	Board Member	2009
Riley Padgett	Board Member	2009
David Bieri	Board Member	2010
Randy Schlutz	Board Member	2010
(After September 2008 Election)		
Angie Kemp	Board President	2011
Eric Schlutz	Board Member	2009
Riley Padgett	Board Member	2009
David Bieri	Board Member	2011 *
Randy Schlutz	Board Member	2011 *
School Officials		
Scott Grimes	Superintendent	2009
Karron Stineman	District Secretary/Treasurer	2009
Duane Goedken	Attorney	2009

* Board term extended per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

KAY L. CHAPMAN, CPA PC

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

Independent Auditor's Report

To the Board of Education
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine Community School District, Letts, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

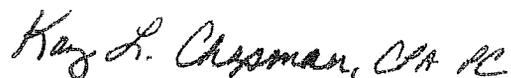
I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Louisa-Muscatine Community School District as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated February 4, 2010 on my consideration of Louisa-Muscatine Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 40 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisa-Muscatine Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the six years in the period ended June 30, 2009, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.



Kay L. Chapman, CPA PC
February 4, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Louisa-Muscatine Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 Financial Highlights

- General Fund revenues decreased from \$8,329,026 in fiscal 2008 to \$8,181,210 in fiscal 2009 and General Fund expenditures increased from \$7,985,060 in fiscal 2008 to \$8,060,781 in fiscal 2009. The District's General Fund balance increased from \$2,041,594 in fiscal 2008 to \$2,162,023 in fiscal 2009, a 6% increase.
- The decrease in General Fund revenues was in part attributable to decreased state aid and interest earnings.
- Many factors make up the increase in expenditures including the usual raises in negotiated salaries and benefits.
- The District once again experienced a huge decline in certified enrollment, 45 students fewer than the previous year.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Louisa-Muscatine Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Louisa-Muscatine Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and enterprise funds.

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

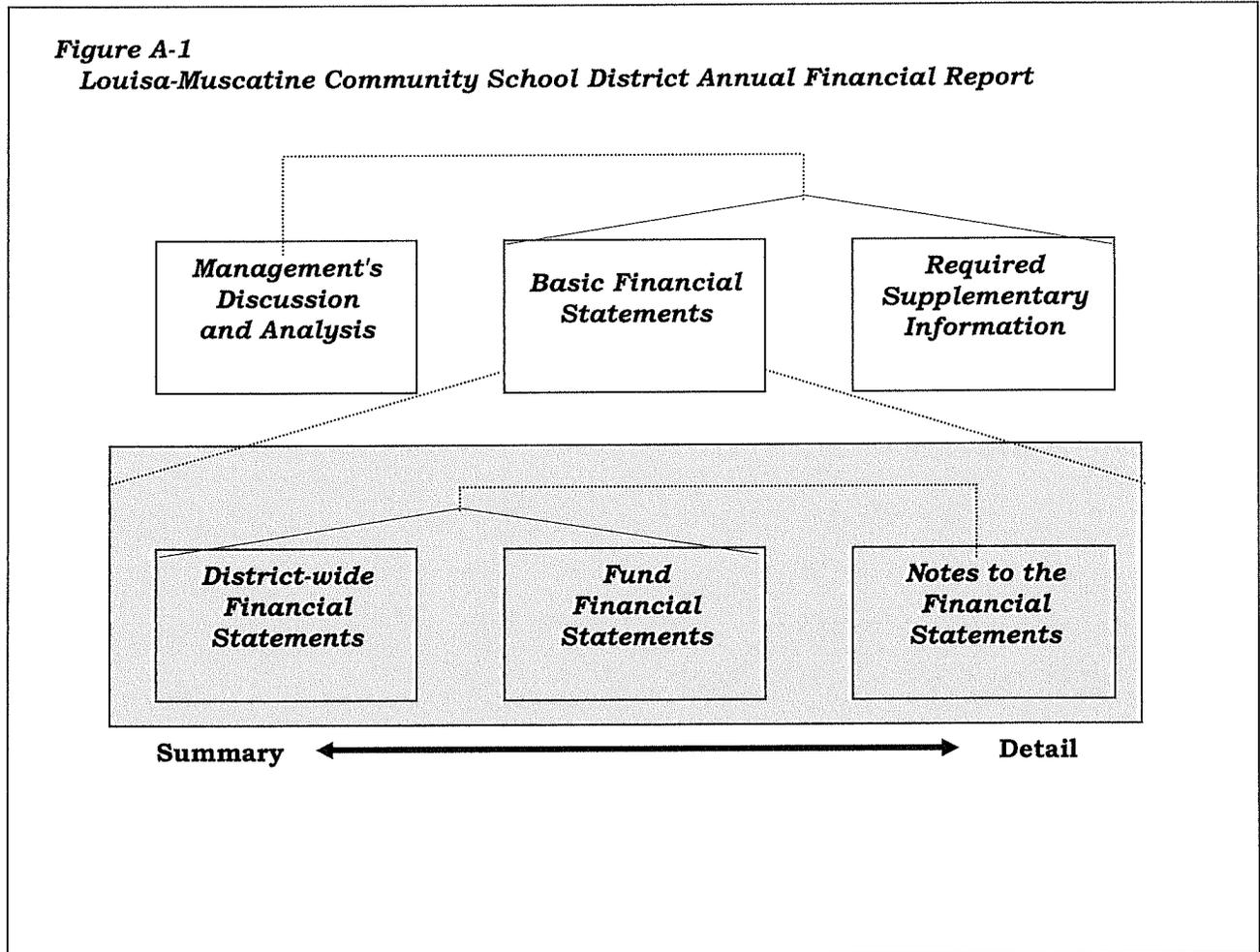


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

- 3) *Fiduciary fund*: The District is the trustee, or fiduciary, for assets that belong to others. This fund consists of a private-purpose trust fund.

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

The District is responsible for ensuring the assets reported in the fiduciary fund 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 the fiduciary fund includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District’s net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total District		Total Change
	2009	2008	2009	2008	2009	2008	2008-2009
Current and other assets	\$ 8,055,932	\$ 8,142,997	\$ 190,373	\$ 164,256	\$ 8,246,305	\$ 8,307,253	-0.73%
Capital assets	<u>7,003,330</u>	<u>7,270,103</u>	<u>14,288</u>	<u>19,523</u>	<u>7,017,618</u>	<u>7,289,626</u>	-3.73%
Total assets	<u>15,059,262</u>	<u>15,413,100</u>	<u>204,661</u>	<u>183,779</u>	<u>15,263,923</u>	<u>15,596,879</u>	-2.13%
Long-term liabilities	845,000	1,660,000	-	-	845,000	1,660,000	-49.10%
Other liabilities	<u>4,020,797</u>	<u>4,159,189</u>	<u>32,640</u>	<u>28,336</u>	<u>4,053,437</u>	<u>4,187,525</u>	-3.20%
Total liabilities	<u>4,865,797</u>	<u>5,819,189</u>	<u>32,640</u>	<u>28,336</u>	<u>4,898,437</u>	<u>5,847,525</u>	-16.23%
Net assets							
Invested in capital assets, net of related debt	6,198,330	5,635,103	14,288	19,523	6,212,618	5,654,626	9.87%
Restricted	1,622,455	1,667,862	-	-	1,622,455	1,667,862	-2.72%
Unrestricted	<u>2,372,680</u>	<u>2,290,946</u>	<u>157,733</u>	<u>135,920</u>	<u>2,530,413</u>	<u>2,426,866</u>	4.27%
Total net assets	<u>\$ 10,193,465</u>	<u>\$ 9,593,911</u>	<u>\$ 172,021</u>	<u>\$ 155,443</u>	<u>\$ 10,365,486</u>	<u>\$ 9,749,354</u>	6.32%

The District's combined net assets increased by approximately 6%, or \$616,132, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$45,407, or approximately 3% from the prior year. Some of the factors for this decrease include paying off the existing revenue bonds early, building a pressbox and pre-construction costs related to the renovation project at the Jr-Sr High School building.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$103,547, or approximately 4%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-4
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	2009	2008	2009	2008	2009	2008	2008-2009
Revenues							
Program revenues							
Charges for service	\$ 1,164,933	\$ 1,008,555	\$ 300,955	\$ 312,184	\$ 1,465,888	\$ 1,320,739	10.99%
Operating grants and contributions	1,285,157	1,001,388	184,997	160,515	1,470,154	1,161,903	26.53%
Capital contributions	-	12,668	-	-	-	12,668	-100.00%
General revenues							
Property tax	3,592,901	3,494,098	-	-	3,592,901	3,494,098	2.83%
Statewide sales and services tax	541,687	547,012	-	-	541,687	547,012	-0.97%
Unrestricted state grants	3,093,561	3,668,423	-	-	3,093,561	3,668,423	-15.67%
Contributions and donations	62,162	22,462	-	-	62,162	22,462	176.74%
Unrestricted investment earnings	42,256	113,639	1,940	4,754	44,196	118,393	-62.67%
Other	<u>17,713</u>	<u>29,706</u>	<u>-</u>	<u>-</u>	<u>17,713</u>	<u>29,706</u>	-40.37%
Total revenues	<u>9,800,370</u>	<u>9,897,951</u>	<u>487,892</u>	<u>477,453</u>	<u>10,288,262</u>	<u>10,375,404</u>	-0.84%
Program expenses							
Governmental activities							
Instruction	5,836,063	5,495,471	-	-	5,836,063	5,495,471	6.20%
Support services	2,432,900	2,493,504	-	-	2,432,900	2,493,504	-2.43%
Non-instructional programs	8,403	-	471,314	472,890	479,717	472,890	1.44%
Other expenses	<u>923,450</u>	<u>888,382</u>	<u>-</u>	<u>-</u>	<u>923,450</u>	<u>888,382</u>	3.95%
Total expenses	<u>9,200,816</u>	<u>8,877,357</u>	<u>471,314</u>	<u>472,890</u>	<u>9,672,130</u>	<u>9,350,247</u>	3.44%
Changes in net assets	<u>\$ 599,554</u>	<u>\$ 1,020,594</u>	<u>\$ 16,578</u>	<u>\$ 4,563</u>	<u>\$ 616,132</u>	<u>\$ 1,025,157</u>	-39.90%

In fiscal 2009, property tax and unrestricted state grants account for 68% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99% of the revenue from business type activities.

The District's total revenues were \$10,288,262 of which \$9,800,370 was for governmental activities and \$487,892 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1% decrease in revenues and a 3% increase in expenses. The decrease in revenues can be attributed, in part, to reduced interest earnings. The 3% increase in expenditures is a result of many factors but is primarily due to the normal increase in salaries and benefits for employees of the district.

Governmental Activities

Revenues for governmental activities were \$9,800,370 and expenses were \$9,200,816 for the year ended June 30, 2009. Because of declining enrollment, the line-item budget was carefully monitored to ensure that expenditures did not exceed expected revenues. The District has carefully reduced staff through attrition whenever possible.

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 for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	<u>2009</u>	<u>2008</u>	<u>Change</u> <u>2008-2009</u>	<u>2009</u>	<u>2008</u>	<u>Change</u> <u>2008-2009</u>
Instruction	\$ 5,836,063	\$ 5,495,471	6.2%	\$ 3,709,943	\$ 3,804,026	-2.5%
Support services	2,432,900	2,493,504	-2.4%	2,420,267	2,470,505	-2.0%
Non-instructional programs	8,403	-	100.0%	8,403	-	100.0%
Other expenses	<u>923,450</u>	<u>888,382</u>	<u>3.9%</u>	<u>612,113</u>	<u>580,215</u>	<u>5.5%</u>
Total expenses	<u>\$ 9,200,816</u>	<u>\$ 8,877,357</u>	<u>3.6%</u>	<u>\$ 6,750,726</u>	<u>\$ 6,854,746</u>	<u>-1.5%</u>

For the year ended June 30, 2009:

- The cost financed by users of the District's programs was \$1,164,933.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,285,157.
- The net cost of governmental activities was financed with \$3,592,901 in property taxes and \$3,093,561 in unrestricted state grants.

Business Type Activities

Revenues for business type activities for the year ended June 30, 2009 were \$487,892, representing a 2% increase from the prior year while expenses totaled \$471,314 a less than 1% decrease from the prior year. The District's business type activities include the School Nutrition Fund and Preschool/Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The 2% increase in revenue can be attributed to increased Federal reimbursement for free and reduced price meals and 5 year olds and special education students that attended Busy Hands Preschool for whom the District paid tuition. Due to the effect of declining enrollment, foodservice costs for food and supplies were less than the previous year, resulting in decreased expenses.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,728,183, slightly above last year's ending fund balances of \$3,722,558.

Governmental Fund Highlights

- The General Fund balance increased from \$2,041,594 in 2008 to \$2,162,023 in fiscal 2009. In reaction to economic predictions, the District began tightening its belt wherever possible throughout the year.
- The Capital Project Fund balance decreased from \$990,249 in fiscal 2008 to \$868,962 in fiscal 2009. The District was able to pay off the existing revenue bonds two years early. The District also used SILO funds to construct a pressbox at the football field and to hire an architect to begin the renovation project at the junior-senior high.
- The Debt Service Fund balance increased slightly from \$298,011 in fiscal 2008 to \$299,346 in fiscal 2009. This increase can be attributed to interest earned.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$155,443 at June 30, 2008 to \$172,021 at June 30, 2009, representing an increase of approximately 11%. Busy Hands again served 5 year old and special education students for which they received tuition from the District.

BUDGETARY HIGHLIGHTS

During the fiscal year, Louisa-Muscatine Community School District did not amend its annual budget.

The District's revenues were \$232,701 more than budgeted revenues, a variance of approximately 2%. Revenues are estimated conservatively. The budget is certified in the spring prior to the beginning of the fiscal year. At that time many things are not known, including the amount of grants, tuition and sales tax revenues.

Overall total expenditures were \$1,521,889 less than budgeted. The District budgets expenditures at the maximum authorized spending authority for the General Fund then controls spending through the line-item budget. Capital Project funds were included in the budget but were not spent.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$7,017,618, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 4% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$430,295.

The original cost of the District's capital assets was \$15,516,839. Governmental funds account for \$15,313,574, with the remainder of \$203,265 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity occurred in the improvements other than buildings category, from \$148,111 in 2008 to \$130,494 in 2009. The decrease was due to annual depreciation expense.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total Change
	Activities		Activities		District		
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2008-2009</u>
Land	\$ 90,976	\$ 90,976	\$ -	\$ -	\$ 90,976	\$ 90,976	0.00%
Buildings and improvements	6,364,571	6,636,914	-	-	6,364,571	6,636,914	-4.10%
Improvements, other than buildings	130,494	148,111	-	-	130,494	148,111	-11.89%
Furniture and equipment	<u>417,289</u>	<u>394,102</u>	<u>14,288</u>	<u>19,524</u>	<u>431,577</u>	<u>413,626</u>	4.34%
Totals	<u>\$7,003,330</u>	<u>\$7,270,103</u>	<u>\$14,288</u>	<u>\$19,524</u>	<u>\$7,017,618</u>	<u>\$7,289,627</u>	-3.73%

Long-Term Debt

At June 30, 2009, the District had \$845,000 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 49% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Two employees were approved for benefits under the District's early retirement program during the year ended June 30, 2009. The total debt for these employees under the early retirement incentive is \$40,000 to be paid over the next two fiscal years.

Figure A-7

	Outstanding Long-term Obligations		
	Total District		Total Change
	<u>2009</u>	<u>2008</u>	<u>2008-2009</u>
General obligation bonds	\$ 805,000	\$ 1,180,000	-31.78%
Revenue bonds	-	455,000	-100.00%
Termination benefits	<u>40,000</u>	<u>25,000</u>	60.00%
Total	<u>\$ 845,000</u>	<u>\$ 1,660,000</u>	-49.10%

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 economy of the State has definitely impacted schools. In October 2010, the Governor approved a 10% across-the-board cut for schools. While this was a reduction in state aid, the District was able to maintain its spending authority for the \$380,196 cut.
- The district continues to experience declining enrollment. The October 2009 certified enrollment count was 11.4 students less than the previous year.
- The renovation project for the junior-senior high began in October. This \$5,300,000 project is comprised largely of installing geo-thermal heat and air conditioning, updating the wiring, adding a new kitchen and remodeling of several classrooms to better fit the needs of the students. Tax credit bonds, Qualified School Construction Bonds, were utilized for the sales tax funded project.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

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

Basic Financial Statements

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2009

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 319,437	\$178,759	\$ 498,196
Investments	3,920,405	-	3,920,405
Receivables			
Property tax			
Delinquent	29,134	-	29,134
Succeeding year	3,146,337	-	3,146,337
Accounts receivable	111,530	-	111,530
Income surtax	277,058	-	277,058
Due from other governments	252,031	-	252,031
Inventories	-	11,614	11,614
Non-depreciable capital assets	90,976	-	90,976
Capital assets, net of accumulated depreciation	6,912,354	14,288	6,926,642
Total assets	15,059,262	204,661	15,263,923
 Liabilities			
Accounts payable	26,091	1,634	27,725
Salaries and benefits payable	845,015	26,014	871,029
Accrued interest payable	3,354	-	3,354
Deferred revenue			
Succeeding year property tax	3,146,337	-	3,146,337
Other	-	4,992	4,992
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	395,000	-	395,000
Termination benefits payable	20,000	-	20,000
Portion due after one year			
General obligation bonds payable	410,000	-	410,000
Termination benefits payable	20,000	-	20,000
Total liabilities	4,865,797	32,640	4,898,437

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2009

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 6,198,330	\$ 14,288	\$ 6,212,618
Restricted for			
Categorical funding	71,943	-	71,943
Management levy	26,644	-	26,644
Physical plant and equipment levy	312,470	-	312,470
Debt service	295,992	-	295,992
Other special revenue purposes	46,444	-	46,444
Capital projects	868,962	-	868,962
Unrestricted	<u>2,372,680</u>	<u>157,733</u>	<u>2,530,413</u>
Total net assets	<u>\$10,193,465</u>	<u>\$172,021</u>	<u>\$10,365,486</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2009

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Business Type Activities	Total
Governmental activities						
Instruction						
Regular instruction	\$ 3,879,589	\$ 958,351	\$ 746,388	\$ -	\$ (2,174,850)	\$ (2,174,850)
Special instruction	939,238	193,949	224,776	-	(520,513)	(520,513)
Other instruction	1,017,236	-	2,656	-	(1,014,580)	(1,014,580)
	<u>5,836,063</u>	<u>1,152,300</u>	<u>973,820</u>	<u>-</u>	<u>(3,709,943)</u>	<u>(3,709,943)</u>
Support services						
Student	208,830	-	-	-	(208,830)	(208,830)
Instructional staff	313,337	-	-	-	(313,337)	(313,337)
Administration	762,077	-	-	-	(762,077)	(762,077)
Operation and maintenance of plant	660,107	2,191	-	-	(657,916)	(657,916)
Transportation	488,082	10,442	-	-	(477,640)	(477,640)
Central support	467	-	-	-	(467)	(467)
	<u>2,432,900</u>	<u>12,633</u>	<u>-</u>	<u>-</u>	<u>(2,420,267)</u>	<u>(2,420,267)</u>
	<u>8,403</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,403)</u>	<u>(8,403)</u>
Non-instructional programs						
Other expenses	211,433	-	-	-	(211,433)	(211,433)
Facilities acquisition	67,516	-	-	-	(67,516)	(67,516)
Long-term debt interest	311,337	-	311,337	-	-	-
AEA flowthrough	-	-	-	-	-	-
Loss on disposal of capital assets	333,164	-	-	-	(333,164)	(333,164)
Depreciation (unallocated) *	923,450	-	311,337	-	(612,113)	(612,113)
	<u>9,200,816</u>	<u>1,164,933</u>	<u>1,285,157</u>	<u>-</u>	<u>(6,750,726)</u>	<u>(6,750,726)</u>
Total governmental activities						

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2009

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs (continued)							
Business type activities							
Non-instructional programs	\$ 395,115	\$ 213,385	\$ 184,997	\$ -	\$ -	\$ 3,267	\$ 3,267
Food service operations	76,199	87,570	-	-	-	11,371	11,371
Daycare/preschool program	471,314	300,955	184,997	-	-	14,638	14,638
Total business type activities	\$ 9,672,130	\$ 1,465,888	\$ 1,470,154	\$ -	\$ (6,750,726)	14,638	(6,736,088)
General Revenues							
Property tax levied for							
General purposes					2,910,643	-	2,910,643
Debt service					431,187	-	431,187
Capital outlay					251,071	-	251,071
Statewide sales and services tax					541,687	-	541,687
Unrestricted state grants					3,093,561	-	3,093,561
Contributions and donations					62,162	-	62,162
Unrestricted investment earnings					42,256	1,940	44,196
Other					17,713	-	17,713
Total general revenues					7,350,280	1,940	7,352,220
Change in net assets					599,554	16,578	616,132
Net assets, beginning of year					9,593,911	155,443	9,749,354
Net assets, end of year					\$ 10,193,465	\$ 172,021	\$ 10,365,486

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

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Balance Sheet
 Governmental Funds
 June 30, 2009

Exhibit C

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Assets					
Cash and pooled investments	\$2,866,716	\$682,256	\$295,484	\$ 395,386	\$4,239,842
Receivables					
Property tax					
Delinquent	22,806	-	3,862	2,466	29,134
Succeeding year	2,382,347	-	435,650	328,340	3,146,337
Accounts receivable	111,530	-	-	-	111,530
Income surtax	249,352	-	-	27,706	277,058
Due from other governments	65,325	186,706	-	-	252,031
Total assets and other debits	<u>\$5,698,076</u>	<u>\$868,962</u>	<u>\$734,996</u>	<u>\$ 753,898</u>	<u>\$8,055,932</u>
 Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 26,091	\$ -	\$ -	\$ -	\$ 26,091
Salaries and benefits payable	845,015	-	-	-	845,015
Deferred revenue					
Succeeding year property tax	2,382,347	-	435,650	328,340	3,146,337
Income surtax	249,352	-	-	27,706	277,058
Federal programs	33,248	-	-	-	33,248
Total liabilities	<u>3,536,053</u>	<u>-</u>	<u>435,650</u>	<u>356,046</u>	<u>4,327,749</u>
 Fund balances					
Reserved for					
Debt service	-	-	299,346	-	299,346
Categorical funding	71,943	-	-	-	71,943
Unreserved governmental funds	2,090,080	868,962	-	-	2,959,042
Unreserved special revenue funds	-	-	-	397,852	397,852
Total fund balances	<u>2,162,023</u>	<u>868,962</u>	<u>299,346</u>	<u>397,852</u>	<u>3,728,183</u>
Total liabilities and fund balances	<u>\$5,698,076</u>	<u>\$868,962</u>	<u>\$734,996</u>	<u>\$ 753,898</u>	<u>\$8,055,932</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2009

Exhibit D

Total fund balances of governmental funds	\$ 3,728,183
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	7,003,330
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	310,306
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(3,354)
Long-term liabilities, including bonds payable and termination benefits, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(845,000)</u>
Net assets of governmental activities	<u><u>\$10,193,465</u></u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$2,852,461	\$ 541,687	\$ 430,969	\$307,816	\$4,132,933
Tuition	860,156	-	-	-	860,156
Other	121,825	13,890	4,547	286,645	426,907
State sources	4,057,453	-	218	140	4,057,811
Federal sources	289,315	-	-	-	289,315
Total revenues	<u>8,181,210</u>	<u>555,577</u>	<u>435,734</u>	<u>594,601</u>	<u>9,767,122</u>
Expenditures					
Current					
Instruction					
Regular	3,785,749	-	-	82,490	3,868,239
Special	937,059	-	-	2,179	939,238
Other	754,864	-	-	261,403	1,016,267
	<u>5,477,672</u>	<u>-</u>	<u>-</u>	<u>346,072</u>	<u>5,823,744</u>
Support services					
Student	208,222	-	-	608	208,830
Instructional staff	312,502	-	-	835	313,337
Administration	756,081	-	-	4,433	760,514
Operation and maintenance of plant	607,171	-	-	51,155	658,326
Transportation	387,329	-	-	95,763	483,092
Other support	467	-	-	-	467
	<u>2,271,772</u>	<u>-</u>	<u>-</u>	<u>152,794</u>	<u>2,424,566</u>
Non-instructional programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,403</u>	<u>8,403</u>
Other expenditures					
Facilities acquisition	-	201,293	-	82,184	283,477
Long-term debt					
Principal	-	-	830,000	-	830,000
Interest and fiscal charges	-	-	79,970	-	79,970
AEA flowthrough	311,337	-	-	-	311,337
	<u>311,337</u>	<u>201,293</u>	<u>909,970</u>	<u>82,184</u>	<u>1,504,784</u>
Total expenditures	<u>8,060,781</u>	<u>201,293</u>	<u>909,970</u>	<u>589,453</u>	<u>9,761,497</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 120,429	\$ 354,284	\$(474,236)	\$ 5,148	\$ 5,625
Other financing sources (uses)					
Interfund operating transfers in	-	655,666	475,571	-	1,131,237
Interfund operating transfers (out)	-	<u>(1,131,237)</u>	-	-	<u>(1,131,237)</u>
Total other financing sources (uses)	-	<u>(475,571)</u>	<u>475,571</u>	-	-
Net change in fund balances	120,429	(121,287)	1,335	5,148	5,625
Fund balance, beginning of year	<u>2,041,594</u>	<u>990,249</u>	<u>298,011</u>	<u>392,704</u>	<u>3,722,558</u>
Fund balance, end of year	<u>\$2,162,023</u>	<u>\$ 868,962</u>	<u>\$ 299,346</u>	<u>\$397,852</u>	<u>\$3,728,183</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2009

Exhibit F

Net change in fund balances - total governmental funds \$ 5,625

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

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

Expenditures for capital assets	\$ 158,287	
Depreciation expense	<u>(425,060)</u>	(266,773)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 33,248

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 830,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows: (15,000)

Early retirement

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 12,454

Change in net assets of governmental activities \$599,554

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2009

Exhibit G

	<u>Nonmajor Enterprise</u>
Assets	\$178,759
Cash and cash equivalents	11,614
Inventories	14,288
Capital assets, net of accumulated depreciation	<u>204,661</u>
Total assets	
 Liabilities	
Accounts payable	1,634
Salaries and benefits payable	26,014
Deferred revenue	4,992
Total liabilities	<u>32,640</u>
 Net Assets	
Invested in capital assets	14,289
Unrestricted	157,732
Total net assets	<u>\$172,021</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2009

Exhibit H

	<u>Nonmajor Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$300,955</u>
Operating expenses	
Instruction - Preschool/Daycare program	
Regular	58,466
Salaries	11,126
Benefits	335
Purchased services	6,272
Supplies	<u>76,199</u>
Support services - Food service operations	
Administration	19,877
Salaries	2,794
Benefits	2,343
Purchased services	<u>25,014</u>
Non-instructional programs	
Food service operations	152,929
Salaries	27,092
Benefits	6,534
Purchased services	178,311
Supplies	5,235
Depreciation	<u>370,101</u>
	<u>471,314</u>
Total operating expenses	<u>(170,359)</u>
Operating loss	
Non-operating revenue	1,940
Interest income	4,407
State sources	180,590
Federal sources	<u>186,937</u>
Total non-operating revenue	16,578
Net income	<u>155,443</u>
Net assets, beginning of year	<u>\$172,021</u>
Net assets, end of year	<u><u>\$172,021</u></u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009

Exhibit I

	<u>Nonmajor Enterprise</u>
Cash flows from operating activities	\$ 305,947
Cash received from sale of services	(272,284)
Cash payments to employees for services	(172,612)
Cash payments to suppliers for goods and services	<u>(138,949)</u>
Net cash used in operating activities	
Cash flows from non-capital financing activities	4,407
State grants received	160,952
Federal grants received	<u>165,359</u>
Net cash provided by non-capital financing activities	-
Cash flows from capital and related financing activities	-
Cash flows from investing activities	<u>1,940</u>
Interest on investments	28,350
Net increase in cash and cash equivalents	<u>150,409</u>
Cash and cash equivalents, beginning of year	<u>\$ 178,759</u>
Cash and cash equivalents, end of year	<u><u> </u></u>
Reconciliation of operating loss to net cash used in operating activities	\$(170,359)
Operating loss	
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,235
Commodities used	19,638
(Increase) in inventory	2,233
Increase in accounts payable	(688)
Increase in due to other governments	4,992
Net cash used in operating activities	<u><u>\$(138,949)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2009, the District received \$19,638 of federal commodities.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2009

Exhibit J

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

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of the following:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds 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 non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the 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.

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2008.

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

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

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

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

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

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

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

Termination Benefits - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2009. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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

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

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

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

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

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$339,114 of restricted net assets which is restricted by enabling legislation.

E. Budgeting and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2009, the District had investments in the IPASeducation Program, which invests in liquid investments that are placed in an SEC-registered money market fund in accordance with 17 C.F.R Section 270. 2a-7. The investments are valued at fair market value, which approximates amortized cost. At June 30, 2009, the District had invested \$3,920,405 in the IPASeducation Institutional Money Market Fund. The District also had \$6,981 invested in the

Iowa Schools Joint Investment Trust, diversified portfolio at June 30, 2009. The investments in the Iowa Schools Joint Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

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

The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investor Service. The District places no limit on the amount that may be invested in any one issuer. The investments in the Iowa Schools Joint Investment Trust and the IPASeducation Fund accounted for .2% and 99.8%, respectively, of the District's total investments.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Fund	Transfers In	Transfers Out
Capital Projects Fund	\$ 655,666	\$ 1,131,237
Debt Service Fund	<u>475,571</u>	<u>-</u>
Total	<u>\$ 1,131,237</u>	<u>\$ 1,131,237</u>

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

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 90,976	\$ -	\$ -	\$ 90,976
Capital assets being depreciated:				
Buildings and improvements	12,838,800	43,204	-	12,882,004
Improvements other than buildings	832,005	-	-	832,005
Furniture and equipment	<u>1,395,436</u>	<u>115,083</u>	<u>(1,930)</u>	<u>1,508,589</u>
Total capital assets being depreciated	<u>15,066,241</u>	<u>158,287</u>	<u>(1,930)</u>	<u>15,222,598</u>
Less accumulated depreciation for:				
Buildings and improvements	6,201,886	315,547	-	6,517,433
Improvements other than buildings	683,894	17,617	-	701,511
Furniture and equipment	<u>1,001,334</u>	<u>91,896</u>	<u>(1,930)</u>	<u>1,091,300</u>
Total accumulated depreciation	<u>7,887,114</u>	<u>425,060</u>	<u>(1,930)</u>	<u>8,310,244</u>
Total capital assets being depreciated, net	<u>7,179,127</u>	<u>(266,773)</u>	<u>-</u>	<u>6,912,354</u>
Governmental activities capital assets, net	<u>\$ 7,270,103</u>	<u>\$ (266,773)</u>	<u>\$ -</u>	<u>\$ 7,003,330</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 203,265	\$ -	\$ -	\$ 203,265
Less accumulated depreciation	<u>183,742</u>	<u>5,235</u>	<u>-</u>	<u>188,977</u>
Business type activities capital assets, net	<u>\$ 19,523</u>	<u>\$ (5,235)</u>	<u>\$ -</u>	<u>\$ 14,288</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction		
Regular	\$ 1,422	
Other	969	
Support services		
Administration	1,563	
Operation and maintenance of plant	5,530	
Transportation	<u>82,412</u>	
	91,896	
Unallocated depreciation	<u>333,164</u>	
Total governmental activities depreciation expense	<u>\$ 425,060</u>	

Business type activities

Food services \$ 5,235

Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2009 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 1,180,000	\$ -	\$ (375,000)	\$ 805,000	\$ 395,000
Revenue bonds	455,000	-	(455,000)	-	-
Termination benefits	25,000	25,000	(10,000)	40,000	20,000
Totals	<u>\$ 1,660,000</u>	<u>\$ 25,000</u>	<u>\$ (840,000)</u>	<u>\$ 845,000</u>	<u>\$ 415,000</u>

Interest costs incurred and charged to expense on all long-term debt was \$67,516 for the year ended June 30, 2009. During the year ended June 30, 2009, the District made principal payments on long-term debt of \$830,000. Payments on the GO bonds are made directly from the Debt Service Fund. Payments on the Revenue bonds are made from the Capital Projects Fund.

Termination Benefit

The District offers a voluntary early retirement plan to its certified employees, who meet certain eligibility guidelines. This voluntary early retirement plan is offered annually at the board's discretion. Eligible employees must be at least age fifty-five and have completed fifteen years of consecutive service to the District. Employees must complete an application, which is required to be approved by the Board of Education. Benefits can be received in a lump sum payment in the year following retirement, in two annual payments beginning in the year following retirement or by participation in the District's 125 cafeteria plan until the employee reaches age 65. There were no early retirement benefits paid during the year ended June 30, 2009. At June 30, 2009, the District had obligations to two participants with a total liability of \$40,000. This long-term liability is generally liquidated with funds from the Management Levy.

General Obligation Bonds

Details of the district's June 30, 2009 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of March 3, 2004			
	Interest Rates	Principal	Interest	Total
2010	5.00	\$ 395,000	\$ 40,250	\$ 435,250
2011	5.00	<u>410,000</u>	<u>20,500</u>	<u>430,500</u>
Totals		<u>\$ 805,000</u>	<u>\$ 60,750</u>	<u>\$ 865,750</u>

Note 6. Pension and Retirement Benefits

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

Plan members were required to contribute 4.10% of their annual covered salary and the District was required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary and the District was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$340,455, \$310,837 and \$274,805, respectively, equal to the required contributions for each year.

Note 7. Risk Management

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

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$311,337 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 9. Related Party Transactions

During the year ended June 30, 2009, the District entered into business transactions totaling \$700 with Kemp and Son, Inc., a company partly owned by Board President Angie Kemp. The transactions were for snow removal and repairs and were entered into through the competitive bidding process.

Note 10. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2009, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 11. Subsequent Event

The District began a construction project in October 2009 to install a geothermal system and HVAC upgrades at the high school building and remodel the kitchen and various rooms at the high school building. The project is expected to cost approximately \$5,285,000 and to be completed during the fiscal year ending June 30, 2011. Also in October 2009, the District was approved for \$5,285,000 in Qualified School Construction Bonds to fund the project.

Required Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2009

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Funds Actual		Original	Final	
Revenues						
Local sources	\$5,419,996	\$302,895	\$5,722,891	\$5,386,146	\$5,386,146	\$ 336,745
State sources	4,057,811	4,407	4,062,218	4,312,167	4,312,167	(249,949)
Federal sources	289,315	180,590	469,905	324,000	324,000	145,905
Total revenues	<u>9,767,122</u>	<u>487,892</u>	<u>10,255,014</u>	<u>10,022,313</u>	<u>10,022,313</u>	<u>232,701</u>
Expenditures/Expenses						
Instruction	5,823,744	76,199	5,899,943	6,150,000	6,150,000	250,057
Support services	2,424,566	25,014	2,449,580	3,330,500	3,330,500	880,920
Non-instructional programs	8,403	370,101	378,504	440,000	440,000	61,496
Other expenditures	1,504,784	-	1,504,784	1,834,200	1,834,200	329,416
Total expenditures/expenses	<u>9,761,497</u>	<u>471,314</u>	<u>10,232,811</u>	<u>11,754,700</u>	<u>11,754,700</u>	<u>1,521,889</u>
Net change in fund balance	5,625	16,578	22,203	(1,732,387)	(1,732,387)	1,754,590
Balance, beginning of year	3,722,558	155,443	3,878,001	3,410,048	3,410,048	467,953
Balance, end of year	<u>\$3,728,183</u>	<u>\$172,021</u>	<u>\$3,900,204</u>	<u>\$1,677,661</u>	<u>\$1,677,661</u>	<u>\$2,222,543</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2009

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

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

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

Other Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2009

Schedule 1

	Management <u>Levy</u>	Student <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 65,889	\$46,444	\$283,053	\$395,386
Receivables				
Property tax	755	-	1,711	2,466
Delinquent	130,001	-	198,339	328,340
Succeeding year	-	-	27,706	27,706
Income surtax	-	-	-	-
Total assets	<u>\$196,645</u>	<u>\$46,444</u>	<u>\$510,809</u>	<u>\$753,898</u>
 Liabilities and Fund Balances				
Liabilities				
Deferred revenue				
Succeeding year property tax	\$130,001	\$ -	\$198,339	\$328,340
Income surtax	-	-	27,706	27,706
Total liabilities	130,001	-	226,045	356,046
 Fund balances				
Unreserved fund balances	66,644	46,444	284,764	397,852
Total liabilities and fund balances	<u>\$196,645</u>	<u>\$46,444</u>	<u>\$510,809</u>	<u>\$753,898</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2009

Schedule 2

	Management <u>Levy</u>	Student <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	<u>Total</u>
Revenues				
Local sources				
Local taxes	\$ 84,548	\$ -	\$ 223,268	\$ 307,816
Other	14,968	241,538	30,139	286,645
State sources	43	-	97	140
Total revenues	<u>99,559</u>	<u>241,538</u>	<u>253,504</u>	<u>594,601</u>
Expenditures				
Current				
Instruction				
Regular	19,920	-	62,570	82,490
Special	2,179	-	-	2,179
Other	1,222	260,181	-	261,403
Total instruction	<u>23,321</u>	<u>260,181</u>	<u>62,570</u>	<u>346,072</u>
Support services				
Student	608	-	-	608
Instructional staff	835	-	-	835
Administration	4,433	-	-	4,433
Operation and maintenance of plant	45,620	633	4,902	51,155
Transportation	18,341	-	77,422	95,763
Total support services	<u>69,837</u>	<u>633</u>	<u>82,324</u>	<u>152,794</u>
Non-instructional programs	<u>8,403</u>	<u>-</u>	<u>-</u>	<u>8,403</u>
Other expenditures				
Facilities acquisition	-	-	82,184	82,184
Total expenditures	<u>101,561</u>	<u>260,814</u>	<u>227,078</u>	<u>589,453</u>
Excess (deficiency) of revenues over (under) expenditures	(2,002)	(19,276)	26,426	5,148
Fund balances, beginning of year	<u>68,646</u>	<u>65,720</u>	<u>258,338</u>	<u>392,704</u>
Fund balances, end of year	<u>\$ 66,644</u>	<u>\$ 46,444</u>	<u>\$ 284,764</u>	<u>\$ 397,852</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Combining Statement of Net Assets
 Nonmajor Enterprise Funds
 June 30, 2009

Schedule 3

	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$109,822	\$68,937	\$178,759
Inventories	11,613	-	11,613
Capital assets, net of accumulated depreciation	<u>14,289</u>	<u>-</u>	<u>14,289</u>
Total assets	<u>135,724</u>	<u>68,937</u>	<u>204,661</u>
 Liabilities			
Accounts payable	1,609	25	1,634
Salaries and benefits payable	26,014	-	26,014
Deferred revenue	<u>4,992</u>	<u>-</u>	<u>4,992</u>
Total liabilities	<u>32,615</u>	<u>25</u>	<u>32,640</u>
 Net Assets			
Invested in capital assets	14,289	-	14,289
Unrestricted	<u>88,820</u>	<u>68,912</u>	<u>157,732</u>
Total net assets	<u>\$103,109</u>	<u>\$68,912</u>	<u>\$172,021</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2009

Schedule 4

	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$213,385	\$87,570	\$300,955
Operating expenses			
Instruction			
Regular			
Salaries	-	58,466	58,466
Benefits	-	11,126	11,126
Purchased services	-	335	335
Supplies	-	6,272	6,272
	<u>-</u>	<u>76,199</u>	<u>76,199</u>
Support services			
Administration			
Salaries	19,877	-	19,877
Benefits	2,794	-	2,794
Purchased services	2,343	-	2,343
	<u>25,014</u>	<u>-</u>	<u>25,014</u>
Non-instructional programs			
Food service operations			
Salaries	152,929	-	152,929
Benefits	27,092	-	27,092
Purchased services	6,534	-	6,534
Supplies	178,311	-	178,311
Depreciation	5,235	-	5,235
	<u>370,101</u>	<u>-</u>	<u>370,101</u>
	<u>395,115</u>	<u>76,199</u>	<u>471,314</u>
Total operating expenses	<u>(181,730)</u>	<u>11,371</u>	<u>(170,359)</u>
Operating income (loss)			
Non-operating revenue			
Interest income	1,066	874	1,940
State sources	4,407	-	4,407
Federal sources	180,590	-	180,590
	<u>186,063</u>	<u>874</u>	<u>186,937</u>
Total non-operating revenue	4,333	12,245	16,578
Net income	98,776	56,667	155,443
Net assets, beginning of year	<u>\$103,109</u>	<u>\$68,912</u>	<u>\$172,021</u>
Net assets, end of year			

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2009

Schedule 5

	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 218,377	\$87,570	\$ 305,947
Cash payments to employees for services	(202,692)	(69,592)	(272,284)
Cash payments to suppliers for goods and services	<u>(165,926)</u>	<u>(6,686)</u>	<u>(172,612)</u>
Net cash provided by (used in) operating activities	<u>(150,241)</u>	<u>11,292</u>	<u>(138,949)</u>
 Cash flows from non-capital financing activities			
State grants received	4,407	-	4,407
Federal grants received	<u>160,952</u>	<u>-</u>	<u>160,952</u>
Net cash provided by non-capital financing activities	<u>165,359</u>	<u>-</u>	<u>165,359</u>
 Cash flows from investing activities			
Interest on investments	<u>1,066</u>	<u>874</u>	<u>1,940</u>
Net increase in cash and cash equivalents	16,184	12,166	28,350
Cash and cash equivalents, beginning of year	<u>93,638</u>	<u>56,771</u>	<u>150,409</u>
Cash and cash equivalents, end of year	<u>\$ 109,822</u>	<u>\$68,937</u>	<u>\$ 178,759</u>

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities

Operating income (loss)	\$(181,730)	\$11,371	\$(170,359)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	5,235	-	5,235
Commodities used	19,638	-	19,638
Decrease in inventory	2,233	-	2,233
(Decrease) in accounts payable	(609)	(79)	(688)
Increase in deferred revenue	<u>4,992</u>	<u>-</u>	<u>4,992</u>
Net cash provided by (used in) operating activities	<u>\$(150,241)</u>	<u>\$11,292</u>	<u>\$(138,949)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received \$19,638 of federal commodities.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2009

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Athletics	\$ 2,896	\$ 58,615	\$ 60,617	\$ 524	\$ 1,418
Cheerleading	1,853	-	1,853	-	-
Athletic fundraising	5,344	12,529	16,046	(147)	1,680
Athletic resale	-	8,347	7,969	(378)	-
Cheerleading fundraising	1,890	3,813	3,293	973	3,383
Cheerleading resale	-	4,031	3,057	(974)	-
Ads and posters	4,333	2,450	-	-	6,783
Jr high	772	1,521	2,064	-	229
Elementary activity	3,694	3,407	2,859	-	4,242
Concessions	5,701	11,633	10,260	(381)	6,693
FFA	9,207	19,432	18,940	(333)	9,366
Band	16,946	64,851	86,839	9,769	4,727
Speech	-	-	250	250	-
Drama	962	-	-	-	962
Student council	798	2,030	1,857	-	971
Yearbook	3,159	3,438	3,838	-	2,759
Quiz bowl	118	297	415	-	-
Vocal music	7,284	34,393	30,483	(9,769)	1,425
TAG	53	-	-	-	53
Senior class	-	5,133	5,041	324	416
NHS	223	4,822	5,133	88	-
Junior class	-	404	-	-	404
Interest	487	392	-	54	933
Totals	<u>\$ 65,720</u>	<u>\$ 241,538</u>	<u>\$ 260,814</u>	<u>\$ -</u>	<u>\$ 46,444</u>

See accompanying Independent Auditor's Report.

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

Schedule 7

	Modified Accrual Basis					
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues						
Local sources						
Local tax	\$4,132,933	\$4,000,876	\$3,931,457	\$3,909,874	\$3,766,108	\$ 3,099,130
Tuition	860,156	757,169	553,573	553,280	508,531	621,015
Other	426,907	417,193	336,277	283,281	314,894	271,674
State sources	4,057,811	4,510,165	3,964,926	3,659,560	3,661,562	3,247,182
Federal sources	289,315	161,365	193,488	182,377	165,659	204,663
Total revenues	<u>\$9,767,122</u>	<u>\$9,846,768</u>	<u>\$8,979,721</u>	<u>\$8,588,372</u>	<u>\$8,416,754</u>	<u>7,443,664</u>
Expenditures						
Current						
Instruction						
Regular	\$3,868,239	\$3,919,409	\$3,498,070	\$3,231,244	\$3,082,267	\$ 3,129,887
Special	939,238	871,910	868,993	722,969	804,476	843,113
Other	1,016,267	677,268	750,354	771,639	645,212	496,931
Support services						
Student	208,830	212,602	202,923	196,937	232,680	220,136
Instructional staff	313,337	288,542	409,712	423,431	373,511	236,691
Administration	760,514	801,954	651,981	705,263	601,085	606,526
Operation and maintenance of plant	658,326	707,958	653,872	598,758	533,134	549,730
Transportation	483,092	503,815	624,877	447,702	428,106	415,983
Central support	467	-	-	-	-	-
Non-instructional programs	8,403	-	-	162	4,049	2,545
Other expenditures						
Facilities acquisition	283,477	159,735	290,843	300,390	62,814	122,785
Long-term debt						
Principal	830,000	500,000	470,000	445,000	433,338	3,033,740
Interest and other charges	79,970	103,833	127,232	148,857	201,910	271,131
AEA flowthrough	311,337	308,167	278,396	259,272	248,857	241,253
Total expenditures	<u>\$9,761,497</u>	<u>\$9,055,193</u>	<u>\$8,827,253</u>	<u>\$8,251,624</u>	<u>\$7,651,439</u>	<u>\$10,170,451</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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

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

To the Board of Education
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated February 4, 2010. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Louisa-Muscatine Community School District and other parties to whom Louisa-Muscatine Community School District may report, 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.

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

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
February 4, 2010

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2009

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were reported.

SIGNIFICANT DEFICIENCIES

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

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

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

Conclusion - Response accepted.

- B. Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Schedule of Findings
 For the Year Ended June 30, 2009

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

Part II. Other Findings Related to Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2009 did not exceed the amounts budgeted.
2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Angie Kemp, board member part owner of Kemp & Son, Inc.	snow removal and repairs	\$700

The transactions with Board Member Kemp's business does not appear to represent a conflict of interest since it was competitively bid, as allowed by Chapter 279.7A of the Code of Iowa.

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

Response - We will review the situation.

Conclusion - Response accepted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Schedule of Findings
 For the Year Ended June 30, 2009

5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
8. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
10. Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
11. Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance	\$ 990,249
Statewide sales and services tax revenue	541,687
Interest earned	13,890
Expenditures/transfers out	
School infrastructure	
Other improvements	(201,293)
Debt service for school infrastructure	
Revenue debt	<u>(475,571)</u>
Ending balance	<u>\$ 868,962</u>

12. Unallowed Fees - It was noted that the District was charging fees for extracurricular transportation and for materials used as part of the curriculum in various classes.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2009

Recommendation - The Code of Iowa only allows school districts to charge fees for specific items listed in various chapters. Extracurricular transportation and classroom supplies are not one of the items that the Code of Iowa allows districts to charge a fee. The District should review its policies and procedures regarding the charging of fees to students to ensure that it is in compliance with the Code of Iowa.

Response - We have reviewed our policies and procedures regarding the charging of fees and made changes as appropriate to comply with the Code of Iowa. We are no longer charging fees for extracurricular transportation or classroom materials.

Conclusion - Response accepted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2009

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant