

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

JUNE 30, 2011

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Muscatine Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Robin Krueger	President	2011
Timothy Bower	Vice President	2013
Tom Welk	Board Member	2011
Dennis Fox	Board Member	2013
Jerry Lange	Board Member	2011
Clyde Evans	Board Member	2011
Tammi Drawbaugh	Board Member	2013
School Officials		
Bill Decker	Superintendent	2011
Jean K. Garner	Director of Finance and Budget	2011
Lisa Mosier	District Secretary	2011
Duane J. Goedken	Attorney	2011
Stanley, Lande & Hunter	Attorney	2011

Muscatine Community School District

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Muscatine Community School District, Muscatine, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Muscatine Community School District at June 30, 2011, and its discretely presented Component Unit as of and for the year ended December 31, 2010 and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 14, 2012 on our consideration of the Muscatine Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Muscatine Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2010 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 10, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

February 14, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Muscatine Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$46,835,481 in fiscal 2010 to \$49,648,185 in fiscal 2011, while General Fund expenditures increased from \$48,184,664 in fiscal 2010 to \$48,188,902 in fiscal 2011. This resulted in an increase in the District's General Fund balance from \$2,650,989 in fiscal 2010 to a balance of \$4,110,272 in fiscal 2011, a 55.05% increase from the prior year.
- The increase in General Fund revenues was attributable to the state funding greater portion of the state foundation aid, whereas in fiscal year 2010 the district revenues were reduce by the 10% across the board state cuts. The increase in expenditures was minimal as compared to the previous year, because of the budget-cutting actions of \$3.9 million taken by the district.
- The District received several American Recovery Reinvestment Act (ARRA) stimulus awards in 2011 totaling \$1,320,139.
- A major construction and renovation project at Franklin Elementary School was started in fiscal year 2011. The \$3.3 million project consists of 9,840 square feet for eight additional classrooms, instructional areas, and renovation of existing classrooms. As of June 30, 2011, approximately \$.9 million of this project was completed.
- At June 30, 2011, the District had approximately \$2.0 million in other long-term debt outstanding. This represents a 32.98% decrease from last year. The contributing factor was the discontinuance of our early retirement program, resulting in a significant decrease in long-term retirement benefits owed to a decreased number of retirees.

USING THIS ANNUAL REPORT

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

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

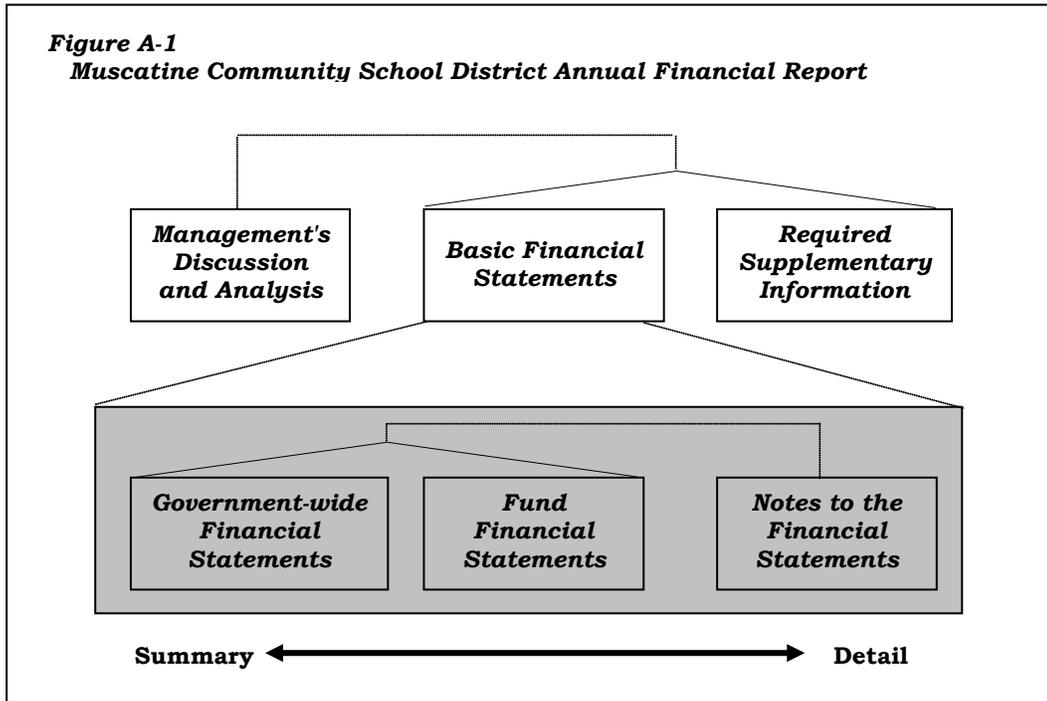


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 39,918,818	33,921,209	650,236	638,386	40,569,054	34,559,595	17.39%
Capital assets	32,108,904	32,113,744	138,895	182,593	32,247,799	32,296,337	-0.15%
Total assets	72,027,722	66,034,953	789,131	820,979	72,816,853	66,855,932	8.92%
Long-term obligations	1,986,618	2,964,579	0	0	1,986,618	2,964,579	-32.99%
Other liabilities	23,731,694	21,176,674	180,345	169,116	23,912,039	21,345,790	12.02%
Total liabilities	25,718,312	24,141,253	180,345	169,116	25,898,657	24,310,369	6.53%
Net assets:							
Invested in capital assets, net of related debt	32,108,904	32,113,744	138,895	182,593	32,247,799	32,296,337	-0.15%
Restricted	13,454,621	9,415,602	0	0	13,454,621	9,415,602	42.90%
Unrestricted	745,885	364,354	469,891	469,270	1,215,776	833,624	45.84%
Total net assets	\$ 46,309,410	41,893,700	608,786	651,863	46,918,196	42,545,563	10.28%

The District's combined net assets increased 10.28%, or \$4,372,633, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$4,039,019 or 42.9% over the prior year. The increase was primarily a result of the increase in fund balance of the Capital Projects Fund and in state categorical carryovers.

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 \$382,152 or 45.84%. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2011	2010	2011	2010	2011	2010	2010-11
Revenues:							
Program revenues:							
Charges for services	\$ 1,511,728	1,356,173	1,016,402	1,062,057	2,528,130	2,418,230	4.54%
Operating grants and contributions and restricted interest	5,886,996	11,460,999	1,723,298	1,769,630	7,610,294	13,230,629	-42.48%
Capital grants and contributions and restricted interest	68,661	57,594	0	54,031	68,661	111,625	-38.49%
General revenues:							
Property tax	15,690,689	15,379,614	0	0	15,690,689	15,379,614	2.02%
Statewide sales, services and use tax	3,642,779	3,333,300	0	0	3,642,779	3,333,300	9.28%
Unrestricted state grants	28,075,572	21,086,799	0	0	28,075,572	21,086,799	0.01%
Nonspecific program federal grants	833,735	0	0	0	833,735	0	100.00%
Unrestricted investment earnings	78,563	80,846	871	1,179	79,434	82,025	-3.16%
Other general revenue	928,107	633,785	8,990	12,082	937,097	645,867	45.09%
Total revenues	56,716,830	53,389,110	2,749,561	2,898,979	59,466,391	56,288,089	5.65%
Program expenses:							
Governmental activities:							
Instructional	33,317,067	35,386,151	0	0	33,317,067	35,386,151	-5.85%
Support services	14,998,796	14,011,888	63,519	53,297	15,062,315	14,065,185	7.09%
Non-instructional programs	12,920	52,705	2,729,119	2,815,620	2,742,039	2,868,325	-4.40%
Other expenses	3,972,337	4,036,404	0	0	3,972,337	4,036,404	-1.59%
Total expenses	52,301,120	53,487,148	2,792,638	2,868,917	55,093,758	56,356,065	-2.24%
Changes in net assets	4,415,710	(98,038)	(43,077)	30,062	4,372,633	(67,976)	6532.61%
Beginning net assets, as restated	41,893,700	41,991,738	651,863	621,801	42,545,563	42,613,539	-0.16%
Ending net assets	\$ 46,309,410	41,893,700	608,786	651,863	46,918,196	42,545,563	10.28%

In fiscal 2011, property tax, statewide sales, service and use tax and unrestricted state grants account for 83.59% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.64% of the revenue from business type activities.

The District's total revenues were approximately \$59.47 million of which approximately \$56.72 million was for governmental activities and approximately \$2.75 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.65% increase in revenues and a 2.24% decrease in expenses.

Governmental Activities

Revenues for governmental activities were \$56,716,830 and expenses were \$52,301,120.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change	2011	2010	Change
			2010-11			2010-11
Instruction	\$ 33,317,067	35,386,151	-5.85%	28,403,754	24,852,652	14.29%
Support services	14,998,796	14,011,888	7.04%	14,650,019	13,906,496	5.35%
Non-instructional programs	12,920	52,705	-75.49%	12,920	52,705	-75.49%
Other expenses	3,972,337	4,036,404	-1.59%	1,767,042	1,800,529	-1.86%
Totals	\$ 52,301,120	53,487,148	-2.22%	44,833,735	40,612,382	10.39%

- The cost financed by users of the District's programs was \$1,511,728.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$5,955,657.
- The net cost of governmental activities was financed with \$15,690,689 in property tax, \$3,642,779 in statewide sales, services and use tax, \$28,075,572 in unrestricted state grants, \$833,735 in nonspecific program federal grants, \$78,563 in interest income and \$928,107 in other general revenue.

Business type Activities

Revenues of the District's business type activities were \$2,749,561 and expenses were \$2,792,638. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$15,790,001, above last year's ending fund balances of a \$12,599,717. This primarily resulted from an increase in the General Fund balance.

Governmental Fund Highlights

- The District's increase in General Fund financial position from \$2,650,989 to \$4,110,272 is the product of many factors. Increases in local tax and state sources were the main reason for the increase in General Fund revenues. And with expenditures increasing by less than 1% the General Fund balance increased by \$1,459,283.

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- The Capital Projects Fund balance increased from a restated balance of \$7,856,522 at the beginning of the fiscal year 2011 to \$9,493,065. The beginning balance was restated as a result of the Physical Plant and Equipment Levy Fund reclassification as a Capital Projects Fund account in accordance with GASB Statement No. 54. The increase was the result an increase in statewide sales, services and tax revenue while reducing expenditures by \$1,851,910, or 64.79%.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$651,863 at June 30, 2010 to \$608,786 at June 30, 2011, representing a decrease of 6.61%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$619,502 less than budgeted revenues, a variance of 1.03%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

In spite of the District's practice, expenditures in the support services functional area exceeded the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested approximately \$32.25 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment, and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$2,358,203.

The original cost of the District's capital assets was \$60.63 million. Governmental funds account for approximately \$60.07 million with the remainder of approximately \$0.56 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$3,809,562 at June 30, 2010, compared to \$1,084,303 reported at June 30, 2011. This decrease resulted from completion of construction projects at Franklin Elementary, Mulberry Elementary, and Garfield Elementary.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 761,448	748,992	0	0	761,448	748,992	1.66%
Construction in progress	1,084,303	3,809,562	0	0	1,084,303	3,809,562	-71.54%
Buildings	26,305,749	23,982,648	0	0	26,305,749	23,982,648	9.69%
Land improvements	1,636,128	1,697,747	0	0	1,636,128	1,697,747	-3.63%
Machinery and equipment	2,321,276	1,874,795	138,895	182,593	2,460,171	2,057,388	19.58%
Total	\$ 32,108,904	32,113,744	138,895	182,593	32,247,799	32,296,337	-0.15%

Long-Term Debt

At June 30, 2011, the District had \$1,986,618 in other long-term debt outstanding. This represents a decrease of 32.99% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had total outstanding Early Retirement payable from the General and Management Levy Funds of \$1,986,618 at June 30, 2011.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2011	2010	Change
	Early Retirement	\$ 1,986,618	2,964,579

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has no General obligation bonded indebtedness.
- The District negotiated one-year collective bargaining agreements for employee groups. The one-year agreement provided total package increases of 3.5% for fiscal year 2012. The District will need to negotiate collective bargaining agreements for the employee groups for 2012.
- The District's fiscal year 2012 regular program cost per pupil will remain the same as fiscal year 2011 at \$5,883. This is the first time in memory regular program cost per pupil did not increase. The legislators set allowable growth for fiscal year 2013 at 2%, increasing the cost per pupil to \$6,001. This has significant implications on the future funding the district will receive. This is an important figure as the District's budget is mostly determined by multiplying this figure times the certified enrollment.
- The October 2010 certified enrollment was 5,292.83, down 101.71 FTE students. This continues the negative student enrollment trend. The October 2011 certified enrollment increased slightly 11.84 students to 5,304.64. This is a critical factor as the District's budget is determined by multiplying this figure times the regular program District cost. With declining enrollment, this negatively affects our budget and capacity to spend. This is something we are going to have to deal with in setting the budget and during negotiations.

-
- In fiscal years 2011 and 2012 the school district for the first time qualifies for the 101% budget guarantee adjustment. This is the result of our declining enrollment and our regular cost per pupil being set at 2% for 2011 and 0% for 2012. The district will need to levy property tax to fund this budget guarantee \$915,660 for fiscal year 2012.
 - The District was notified in August of 2010 that we are to receive \$1.1 million of federal jobs fund money in fiscal year 2011. This is one-time federal funding that is available to the district through fiscal year 2012. The district will need to adjust for the influx and loss of this money in future years.
 - In a \$3.9 million budget correction plan that was implemented at the end of fiscal year 2010, the District closed an elementary attendance center, reduced staff through attrition and various other employment actions and reduced non-personnel expenditures. These actions are still having an effect on future year's expenditures.
 - The District reinstated the early retirement incentive program for fiscal year 2012. The program was not offered in fiscal year 2011. This program is designed to reduce expenditures within the General Fund. This action may affect our management levy rate and the General Fund expenditures for salaries in the future.
 - Although we do not know the full impact the depressed national and local economy will have on the future demographics of the District, the local economy is still feeling the effects of an on-going lock-out and continuing job losses through plant shutdowns and reduction in workforce.
 - The condition of the national, state and local economies directly affects the future economics of the school. Actions taken by the governor and legislators to balance the state budget affect education funding.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government			Component Unit
	Govern- mental Activities	Business type Activities	Total	Muscatine Community School Foundation
ASSETS				
Cash and pooled investments	\$ 20,976,263	506,785	21,483,048	2,121,820
Receivables:				
Property tax:				
Delinquent	192,883	0	192,883	0
Succeeding year	16,564,587	0	16,564,587	0
Accounts	229,814	12,795	242,609	0
Due from other governments	1,491,440	32,399	1,523,839	0
Inventories	66,708	83,380	150,088	0
Net OPEB asset	397,123	14,877	412,000	0
Capital assets, net of accumulated depreciation	32,108,904	138,895	32,247,799	0
TOTAL ASSETS	72,027,722	789,131	72,816,853	2,121,820
LIABILITIES				
Accounts payable	1,144,845	9,611	1,154,456	0
Salaries and benefits payable	4,985,500	135,630	5,121,130	0
Deferred revenue:				
Succeeding year property tax	16,564,587	0	16,564,587	0
Other	1,036,762	0	1,036,762	0
Unearned revenue	0	35,104	35,104	0
Long-term liabilities:				
Portion due within one year:				
Early retirement payable	786,023	0	786,023	0
Portion due after one year:				
Early retirement payable	1,200,595	0	1,200,595	0
TOTAL LIABILITIES	25,718,312	180,345	25,898,657	0
NET ASSETS				
Invested in capital assets	32,108,904	138,895	32,247,799	0
Restricted for:				
Scholarships	0	0	0	2,109,367
Support of instructional programs	0	0	0	12,453
Categorical funding	1,774,892	0	1,774,892	0
School infrastructure	7,228,043	0	7,228,043	0
Physical plant and equipment	2,265,022	0	2,265,022	0
Management levy purposes	1,776,061	0	1,776,061	0
Student activities	410,603	0	410,603	0
Unrestricted	745,885	469,891	1,215,776	0
TOTAL NET ASSETS	\$ 46,309,410	608,786	46,918,196	2,121,820

SEE NOTES TO FINANCIAL STATEMENTS.

**MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

	Net (Expense) Revenue and Changes in Net Assets							Component Unit Muscatine Community School Foundation
	Program Revenues				Primary Government			
	Expenses	Charges for Services	Contributions and Restricted Interest	Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities		
Functions/Programs:								
Governmental activities:								
Instruction:								
Regular	\$ 20,357,573	631,544	1,631,383	0	(18,094,646)	0	(18,094,646)	0
Special	7,570,324	320,909	772,424	0	(6,476,991)	0	(6,476,991)	0
Other	5,389,170	467,159	1,089,894	0	(3,832,117)	0	(3,832,117)	0
	<u>33,317,067</u>	<u>1,419,612</u>	<u>3,493,701</u>	<u>0</u>	<u>(28,403,754)</u>	<u>0</u>	<u>(28,403,754)</u>	<u>0</u>
Support services:								
Student	1,158,269	0	0	0	(1,158,269)	0	(1,158,269)	0
Instructional staff	1,361,447	0	74,858	0	(1,286,589)	0	(1,286,589)	0
Administration	6,114,008	0	87,604	0	(6,026,404)	0	(6,026,404)	0
Operation and maintenance								
of plant	4,878,601	0	0	68,661	(4,809,940)	0	(4,809,940)	0
Transportation	1,486,471	92,116	25,538	0	(1,368,817)	0	(1,368,817)	0
	<u>14,998,796</u>	<u>92,116</u>	<u>188,000</u>	<u>68,661</u>	<u>(14,650,019)</u>	<u>0</u>	<u>(14,650,019)</u>	<u>0</u>
Non-instructional programs:								
Food service operations	12,920	0	0	0	(12,920)	0	(12,920)	0
Other expenditures:								
AEA flowthrough	2,205,295	0	2,205,295	0	0	0	0	0
Depreciation(unallocated)*	1,767,042	0	0	0	(1,767,042)	0	(1,767,042)	0
	<u>3,972,337</u>	<u>0</u>	<u>2,205,295</u>	<u>0</u>	<u>(1,767,042)</u>	<u>0</u>	<u>(1,767,042)</u>	<u>0</u>
Total governmental activities	52,301,120	1,511,728	5,886,996	68,661	(44,833,735)	0	(44,833,735)	0
Business type activities:								
Support services:								
Administration	63,519	0	0	0	0	(63,519)	(63,519)	0
Non-instructional programs:								
Nutrition services	2,729,119	1,016,402	1,723,298	0	0	10,581	10,581	0
Total non-instructional programs:	<u>2,792,638</u>	<u>1,016,402</u>	<u>1,723,298</u>	<u>0</u>	<u>0</u>	<u>(52,938)</u>	<u>(52,938)</u>	<u>0</u>
Total business type activities	2,792,638	1,016,402	1,723,298	0	0	(52,938)	(52,938)	0
Total primary government	\$ 55,093,758	2,528,130	7,610,294	68,661	(44,833,735)	(52,938)	(44,886,673)	0
Total component unit	\$ 217,060	0	232,621	0				15,561
General Revenues:								
Property tax levied for:								
General purposes				\$ 14,620,708	0	14,620,708	0	
Capital outlay				1,069,981	0	1,069,981	0	
Statewide sales, services and use tax				3,642,779	0	3,642,779	0	
Unrestricted state grants				28,075,572	0	28,075,572	0	
Nonspecific program federal grants				833,735	0	833,735	0	
Unrestricted investment earnings				78,563	871	79,434	54,330	
Unrealized gain on investments				0	0	0	180,166	
Other				928,107	8,990	937,097	3,000	
Total general revenues				<u>49,249,445</u>	<u>9,861</u>	<u>49,259,306</u>	<u>237,496</u>	
Changes in net assets				4,415,710	(43,077)	4,372,633	253,057	
Net assets beginning of year				41,893,700	651,863	42,545,563	1,868,763	
Net assets end of year				<u>\$ 46,309,410</u>	<u>608,786</u>	<u>46,918,196</u>	<u>2,121,820</u>	

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 9,411,484	9,399,265	2,165,514	20,976,263
Receivables:				
Property tax:				
Delinquent	161,273	12,110	19,500	192,883
Succeeding year	13,852,086	1,347,840	1,364,661	16,564,587
Accounts	219,146	0	10,668	229,814
Due from other governments	849,842	641,180	418	1,491,440
Inventories	66,708	0	0	66,708
TOTAL ASSETS	\$ 24,560,539	11,400,395	3,560,761	39,521,695
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 578,382	559,490	6,973	1,144,845
Salaries and benefits payable	4,983,037	0	2,463	4,985,500
Deferred revenue:				
Succeeding year property tax	13,852,086	1,347,840	1,364,661	16,564,587
Other	1,036,762	0	0	1,036,762
Total liabilities	20,450,267	1,907,330	1,374,097	23,731,694
Fund balances:				
Nonspendable	66,708	0	0	66,708
Restricted for:				
Categorical funding	1,774,892	0	0	1,774,892
School infrastructure	0	7,228,043	0	7,228,043
Physical plant and equipment	0	2,265,022	0	2,265,022
Management levy purposes	0	0	1,776,061	1,776,061
Student activities	0	0	410,603	410,603
Unassigned	2,268,672	0	0	2,268,672
Total fund balances	4,110,272	9,493,065	2,186,664	15,790,001
TOTAL LIABILITIES AND FUND BALANCES	\$ 24,560,539	11,400,395	3,560,761	39,521,695

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2011

Total fund balances of governmental funds(page 20)	\$	15,790,001
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in the governmental funds.		32,108,904
Other postemployment benefits are not yet available to finance expenditures of the current fiscal period.		397,123
Long-term liabilities, such as early retirement is not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(1,986,618)</u>
Net assets of governmental activities(page 18)	\$	<u><u>46,309,410</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 13,042,855	4,712,760	1,577,853	19,333,468
Tuition	678,551	0	0	678,551
Other	1,331,418	64,430	720,467	2,116,315
State sources	31,614,965	476	0	31,615,441
Federal sources	2,917,559	55,496	0	2,973,055
Total revenues	<u>49,585,348</u>	<u>4,833,162</u>	<u>2,298,320</u>	<u>56,716,830</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	20,224,097	24,057	1,024,676	21,272,830
Special	7,633,949	0	0	7,633,949
Other	4,779,978	0	614,079	5,394,057
	<u>32,638,024</u>	<u>24,057</u>	<u>1,638,755</u>	<u>34,300,836</u>
Support services:				
Student	1,368,311	0	45,460	1,413,771
Instructional staff	1,400,090	0	6,749	1,406,839
Administration	5,200,781	1,168,955	138,041	6,507,777
Operation and maintenance of plant	4,152,750	117,013	223,119	4,492,882
Transportation	1,223,651	161,812	69,265	1,454,728
	<u>13,345,583</u>	<u>1,447,780</u>	<u>482,634</u>	<u>15,275,997</u>
Non-instructional programs:				
Food service operations	0	0	20,834	20,834
Other expenditures:				
Facilities acquisitions	0	1,724,782	0	1,724,782
AEA flowthrough	2,205,295	0	0	2,205,295
	<u>2,205,295</u>	<u>1,724,782</u>	<u>0</u>	<u>3,930,077</u>
Total expenditures	<u>48,188,902</u>	<u>3,196,619</u>	<u>2,142,223</u>	<u>53,527,744</u>
Excess of revenues over expenditures	1,396,446	1,636,543	156,097	3,189,086
Other financing sources(uses):				
Sale of equipment	1,198	0	0	1,198
Transfer in	61,639	0	0	61,639
Transfer out	0	0	(61,639)	(61,639)
Total other financing sources(uses)	<u>62,837</u>	<u>0</u>	<u>(61,639)</u>	<u>1,198</u>
Net change in fund balances	1,459,283	1,636,543	94,458	3,190,284
Fund balance beginning of year, as restated	2,650,989	7,856,522	2,092,206	12,599,717
Fund balance end of year	<u>\$ 4,110,272</u>	<u>9,493,065</u>	<u>2,186,664</u>	<u>15,790,001</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds(page 22) \$ 3,190,284

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

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

Expenditures for capital assets	\$ 2,296,094	
Depreciation expense	(2,290,543)	
Loss on disposal of capital assets	<u>(10,391)</u>	(4,840)

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

Early retirement	\$ 977,961	
Other postemployment benefits	<u>252,305</u>	<u>1,230,266</u>

Changes in net assets of governmental activities(page 19) \$ 4,415,710

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	School Nutrition
ASSETS	
Current assets:	
Cash and pooled investments	\$ 506,785
Accounts receivable	12,795
Due from other governments	32,399
Inventories	83,380
Total current assets	635,359
Non-current assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	138,895
Net OPEB asset	14,877
Total non-current assets	153,772
TOTAL ASSETS	789,131
LIABILITIES	
Current liabilities:	
Accounts payable	9,611
Salaries and benefits payable	135,630
Unearned revenue	35,104
TOTAL LIABILITIES	180,345
NET ASSETS	
Invested in capital assets	138,895
Unrestricted	469,891
TOTAL NET ASSETS	\$ 608,786

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 1,016,402
Miscellaneous	8,990
TOTAL OPERATING REVENUE	1,025,392
OPERATING EXPENSES:	
Support services:	
Administration:	
Salaries	29,996
Benefits	11,577
Services	18,125
Supplies	3,821
Total support services	63,519
Non-instructional programs:	
Food service operations:	
Salaries	909,861
Benefits	306,502
Services	136,648
Supplies	1,307,094
Depreciation	67,660
Other	1,354
Total non-instructional programs	2,729,119
TOTAL OPERATING EXPENSES	2,792,638
OPERATING LOSS	(1,767,246)
NON-OPERATING REVENUES:	
State sources	23,452
Federal sources	1,699,846
Interest income	871
TOTAL NON-OPERATING REVENUES	1,724,169
Change in net assets	(43,077)
Net assets beginning of year	651,863
Net assets end of year	\$ 608,786

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 1,010,558
Cash received from miscellaneous operating activities	8,990
Cash payments to employees for services	(1,271,785)
Cash payments to suppliers for goods or services	(1,286,762)
Net cash used in operating activities	(1,538,999)
Cash flows from non-capital financing activities:	
State grants received	23,452
Federal grants received	1,533,150
Net cash provided by non-capital financing activities	1,556,602
Cash flows from capital financing activities:	
Acquisitions of assets	(23,962)
Cash flows from investing activities:	
Interest on investment	871
Net decrease in cash and cash equivalents	(5,488)
Cash and cash equivalents at beginning of year	512,273
Cash and cash equivalents at end of year	\$ 506,785
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,767,246)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	159,798
Depreciation	67,660
Decrease in inventories	13,798
Increase in accounts receivable	(12,497)
Increase in accounts payable	6,684
Decrease in salaries and benefits payable	(2,108)
Increase in unearned revenue	6,653
Increase in net OPEB asset	(11,741)
Net cash used in operating activities	\$ (1,538,999)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2011, the District received Federal commodities valued at \$159,798.

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2011

	Private Purpose Trust	
	Scholarship Fund	Agency Fund
ASSETS		
Cash and pooled investments:		
U.S. Treasury Bonds	\$ 74,000	0
Certificates of Deposit	44,855	0
Other	35,235	153,747
TOTAL ASSETS	<u>154,090</u>	<u>153,747</u>
LIABILITIES		
Due to other groups	0	153,747
TOTAL LIABILITIES	<u>0</u>	<u>153,747</u>
NET ASSETS		
Reserved for scholarships	101,002	0
Unreserved	53,088	0
TOTAL NET ASSETS	<u>\$ 154,090</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2011

	Private Purpose Trust
	Scholarship Fund
Additions:	
Local sources:	
Interest on investments	\$ 6,949
Deletions:	
Instruction	
Regular:	
Scholarships awarded	8,000
Change in net assets	(1,051)
Net assets beginning of year	155,141
Net assets end of year	\$ 154,090

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

Discrete Component Unit - Muscatine Community School

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

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

B. Basis of Presentation

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

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

Invested in capital assets consists of capital assets, net of accumulated depreciation.

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

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

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

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some

other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

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

The District reports the following major proprietary fund:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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

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

Capital Assets - Capital assets, which include property, machinery and equipment and intangibles, 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.

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Land improvements	10,000
Intangibles	150,000
Machinery and equipment:	
School Nutrition Fund equipment	250
Other machinery and equipment	2,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2 + years
Machinery and equipment	5-15 years

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

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

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

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

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

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are not expected to be converted to cash. These items include prepaid items.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011 expenditures in the support services functional area exceeded amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$792 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

At June 30, 2011, the District had investments in U.S. Treasury Bonds. Bonds traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The bonds are stated at a fair value of \$74,000.

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

(3) **Transfers**

The transfer for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Activity	<u>\$ 61,639</u>

The Activity Fund transferred remaining account balances from individual accounts that appeared to not meet the criteria of a student organization or extracurricular activity per the Iowa Department of Education's administrative rule 298A.8.

(4) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities: Early Retirement	\$ 2,964,579	0	977,961	1,986,618	786,023

Early Retirement

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

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

At June 30, 2011, the District has obligations to 130 participants with a liability of \$1,986,618. Early retirement expenditures for the year ended June 30, 2011, totaled \$977,961. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities: Machinery and equipment	\$ 536,265	23,962	3,505	556,722
Less accumulated depreciation	353,672	67,660	3,505	417,827
Business type activities capital assets, net	\$ 182,593	(43,698)	0	138,895

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 748,992	12,456	0	761,448
Construction in progress	3,809,562	1,311,512	4,036,771	1,084,303
Total capital assets not being depreciated	<u>4,558,554</u>	<u>1,323,968</u>	<u>4,036,771</u>	<u>1,845,751</u>
Capital assets being depreciated:				
Buildings	45,226,618	3,979,542	98,000	49,108,160
Land improvements	2,386,136	57,229	3,671	2,439,694
Machinery and equipment	5,984,092	972,126	277,955	6,678,263
Total capital assets being depreciated	<u>53,596,846</u>	<u>5,008,897</u>	<u>379,626</u>	<u>58,226,117</u>
Less accumulated depreciation for:				
Buildings	21,243,970	1,650,488	92,047	22,802,411
Land improvements	688,389	116,554	1,377	803,566
Machinery and equipment	4,109,297	523,501	275,811	4,356,987
Total accumulated depreciation	<u>26,041,656</u>	<u>2,290,543</u>	<u>369,235</u>	<u>27,962,964</u>
Total capital assets being depreciated, net	<u>27,555,190</u>	<u>2,718,354</u>	<u>10,391</u>	<u>30,263,153</u>
Governmental activities capital assets, net	<u>\$ 32,113,744</u>	<u>4,042,322</u>	<u>4,047,162</u>	<u>32,108,904</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 74,832
Support services:	
Student	22,866
Instructional staff	34,468
Administration	82,643
Operation and maintenance of plant	77,806
Transportation	218,366
Non-instructional programs:	
Food service operations	12,520
	<u>523,501</u>
Unallocated depreciation	<u>1,767,042</u>
Total governmental activities depreciation expense	<u>\$ 2,290,543</u>
Business type activities:	
Food services	<u>\$ 67,660</u>

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered salary for the year ended June 30, 2011. Plan members are required to contribute 4.10% of their annual salary and the District is required to contribute 6.35% of annual covered salary for the year ended June 30, 2010. Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered salary for the year ended June 30, 2009. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$2,081,289, \$2,088,100, and \$1,954,469 respectively, equal to the required contributions for each year.

(7) Risk Management

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

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 707 active and 96 retired members in the plan. Employees must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with United Healthcare of the River Valley. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - the contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 848,000
Interest on net OPEB obligation	(6,658)
Adjustment to annual required contribution	5,612
Annual OPEB cost (expense)	<u>846,954</u>
Contributions made	<u>(1,111,000)</u>
Increase in net OPEB obligation	(264,046)
Net OPEB obligation - beginning of year	<u>(147,954)</u>
Net OPEB obligation - end of year	<u>\$ (412,000)</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2011.

For the fiscal year 2011, the District contributed \$1,111,000 to the medical plan. Plan members receiving benefits contributed \$673,000, or 37.7% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 908,000	99.01 %	\$ 9,000
2010	908,046	117.28	(147,954)
2011	846,954	131.18	(412,000)

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$9.255 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$9.255 million. The covered payroll (annual payroll of active employees covered by the plan) was \$24.900 million, and the ratio of the UAAL to the covered payroll was 37.2%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information in the section following the Notes to the Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each

valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by a percentage each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2009 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2009.

Projected claim costs of the medical plan adjusted to age 60 are \$695 per month. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage on an open basis over 30 years.

(9) Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

Program	Amount
Home school assistance program	\$ 23,910
Weighted at-risk programs	190,141
Talented and gifted	108,919
Returning dropouts and dropout prevention	630,531
Four-year-old preschool	330,766
Beginning teacher mentoring	4,079
Teacher salary supplement	222,038
Market factor	5,857
Teacher quality, professional development	103,462
Special education services - birth to three	1,784
Model core curriculum	125,062
Market factor incentives	26,540
Empowerment professional development	1,803
Total	<u>\$ 1,774,892</u>

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$2,205,295 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Construction Commitments

The District entered into various contracts totaling \$3,845,642 For a building addition project at Franklin Elementary and a boiler replacement at Washington Elementary. At June 30, 2011, \$1,084,303 of the contracts was completed. The remaining amounts of the contracts will be paid as work on the project progresses. Once the projects are completed the costs will be added to the District's capital assets listing.

(12) 28E Agreement

The District participates in a Chapter 28E agreement with the Muscatine Agricultural Learning Center, the Friends of the Muscatine FFA and Eastern Iowa Community College. The agreement is to remain in effect for a minimum period of ten years. In the event the Muscatine Agricultural Learning Center is dissolved, there is a plan to split the remaining balance and assets owned between the three partners in the agreement.

In accordance with the agreement, the Muscatine Agricultural Learning Center is to own and operate the facility to provide educational opportunities for students of Eastern Iowa Community College and the Muscatine Community School District. The Friends of the Muscatine FFA intend to obtain financial support for the construction of the facility and have shared advisory and governance responsibilities with the other members of the agreement. Eastern Iowa Community College and the Muscatine Community School District will provide funds for the construction of the facility as well be a program and tenant partner of the learning center.

13) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassification is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010 as previously reported	\$ 4,576,242	\$ 3,280,280
Change in fund type classification per implementation of GASB Statement No. 54	3,280,280	(3,280,280)
Balance July 1, 2010 as restated	<u>\$ 7,856,522</u>	<u>\$ 0</u>

14) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2011, expenditures in the support services functional area exceeded the certified budget.

Muscatine Community School District

REQUIRED SUPPLEMENTARY INFORMATION

MUSCATINE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 22,128,334	1,026,263	23,154,597	22,211,033	22,211,033	943,564
State sources	31,615,441	23,452	31,638,893	34,259,540	34,259,540	(2,620,647)
Federal sources	2,973,055	1,699,846	4,672,901	3,615,320	3,615,320	1,057,581
Total revenues	56,716,830	2,749,561	59,466,391	60,085,893	60,085,893	(619,502)
Expenditures/Expenses:						
Instruction	34,300,836	0	34,300,836	34,758,841	35,125,000	824,164
Support services	15,275,997	63,519	15,339,516	12,966,654	14,455,000	(884,516)
Non-instructional programs	20,834	2,729,119	2,749,953	2,942,497	2,942,497	192,544
Other expenditures	3,930,077	0	3,930,077	5,333,470	5,333,470	1,403,393
Total expenditures/expenses	53,527,744	2,792,638	56,320,382	56,001,462	57,855,967	1,535,585
Excess(deficiency) of revenues over(under) expenditures/expenses	3,189,086	(43,077)	3,146,009	4,084,431	2,229,926	916,083
Other financing sources, net	1,198	0	1,198	2,700	2,700	(1,502)
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	3,190,284	(43,077)	3,147,207	4,087,131	2,232,626	914,581
Balance beginning of year	12,599,717	651,863	13,251,580	11,187,709	11,187,709	2,063,871
Balance end of year	\$ 15,790,001	608,786	16,398,787	15,274,840	13,420,335	2,978,452

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2011

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$1,854,505.

During the year ended June 30, 2011, the expenditures in the support services functional area exceeded the certified budget.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN

(IN THOUSANDS)

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2009	July 1, 2008	\$ 0	\$ 8,933	\$ 8,933	0.0	23,974	37.3 %
2010	July 1, 2008	0	8,933	8,933	0.0	25,857	34.5
2011	July 1, 2010	0	9.255	9.255	0.0	24.900	37.2

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2011

	Manage- ment Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	\$ 1,759,513	406,001	2,165,514
Receivables:			
Property tax:			
Delinquent	19,500	0	19,500
Succeeding year	1,364,661	0	1,364,661
Accounts	0	10,668	10,668
Due from other governments	418	0	418
TOTAL ASSETS	\$ 3,144,092	416,669	3,560,761
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,370	3,603	6,973
Salaries and benefits payable	0	2,463	2,463
Deferred revenue:			
Succeeding year property tax	1,364,661	0	1,364,661
Total liabilities	1,368,031	6,066	1,374,097
Restricted for:			
Management levy purposes	1,776,061	0	1,776,061
Student Activities	0	410,603	410,603
Total fund balances	1,776,061	410,603	2,186,664
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,144,092	416,669	3,560,761

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2011

	Manage- ment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,577,853	0	1,577,853
Other	24,800	695,667	720,467
TOTAL REVENUES	<u>1,602,653</u>	<u>695,667</u>	<u>2,298,320</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	1,024,676	0	1,024,676
Other	0	614,079	614,079
Support services:			
Student	45,460	0	45,460
Instructional staff	5,363	1,386	6,749
Administration	138,041	0	138,041
Operation and maintenance of plant	223,119	0	223,119
Transportation	52,354	16,911	69,265
Non-instructional programs:			
Food service operations	20,834	0	20,834
TOTAL EXPENDITURES	<u>1,509,847</u>	<u>632,376</u>	<u>2,142,223</u>
Excess of revenues over expenditures	92,806	63,291	156,097
Other financing uses:			
Transfer out	0	(61,639)	(61,639)
Net change in fund balances	92,806	1,652	94,458
Fund balance beginning of year, as restated	<u>1,683,255</u>	<u>408,951</u>	<u>2,092,206</u>
Fund balance end of year	<u>\$ 1,776,061</u>	<u>410,603</u>	<u>2,186,664</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET FOR CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2011

	Capital Projects Fund		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 6,911,293	2,487,972	9,399,265
Receivables:			
Succeeding year	0	1,347,840	1,347,840
Delinquent	0	12,110	12,110
Due from other governments	625,130	16,050	641,180
Total assets	\$ 7,536,423	3,863,972	11,400,395
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 308,380	251,110	559,490
Deferred revenue			
Succeeding year property tax	0	1,347,840	1,347,840
Total liabilities	308,380	1,598,950	1,907,330
Fund balances:			
Restricted for:			
School infrastructure	7,228,043	0	7,228,043
Physical plant and equipment	0	2,265,022	2,265,022
Total fund balances	7,228,043	2,265,022	9,493,065
Total liabilities and fund balances	\$ 7,536,423	3,863,972	11,400,395

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2011

	Capital Project Fund		
	Statewide Sales & Services Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 3,642,779	1,069,981	4,712,760
Other	15,640	48,790	64,430
State sources	0	476	476
Federal sources	0	55,496	55,496
TOTAL REVENUES	<u>3,658,419</u>	<u>1,174,743</u>	<u>4,833,162</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	0	24,057	24,057
Support services:			
Adminstration	0	1,168,955	1,168,955
Operation and maintenance of plant	0	117,013	117,013
Transportation	0	161,812	161,812
Other expenditures:			
Facilities acquisitions	1,006,618	718,164	1,724,782
TOTAL EXPENDITURES	<u>1,006,618</u>	<u>2,190,001</u>	<u>3,196,619</u>
Excess(deficiency) of revenues over(under) expenditures	2,651,801	(1,015,258)	1,636,543
Fund balance beginning of year, as restated	<u>4,576,242</u>	<u>3,280,280</u>	<u>7,856,522</u>
Fund balance end of year	<u>\$ 7,228,043</u>	<u>2,265,022</u>	<u>9,493,065</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Interfund Transfers	Balance End of Year
<u>High School:</u>					
Activity Tickets	\$ 0	8,588	0	0	8,588
Petty Cash	1,600	0	0	0	1,600
Speech	0	8,448	8,448	0	0
Student Services	15,703	6,007	5,553	(572)	15,585
AP Fund	1,695	1,235	1,235	(1,695)	0
Band	10,624	77,749	77,648	(2,000)	8,725
Chorus	10	21,248	21,253	0	5
All Colors Count	469	1,712	1,003	0	1,178
Interact Club	1,702	3,304	201	0	4,805
Drama	19,824	13,637	11,206	0	22,255
Forensics	47	11	0	0	58
Annual Auroran	5	1,500	1,248	0	257
Weekly Auroran	1,063	0	351	0	712
Auxiliary Scholarship	456	1,623	996	0	1,083
Class of 2009	4,296	0	4,296	0	0
Class of 2010	5,822	0	0	(1,962)	3,860
Class of 2011	0	395	0	0	395
Future Business Leaders	180	2,179	2,354	0	5
FFA Milk Machine	203	0	0	(203)	0
Fine Arts	2,072	0	2,072	0	0
French Club	1,042	0	83	0	959
German Club	1,958	2,379	2,714	0	1,623
Spanish Club	1,722	0	1,026	0	696
Library Club	651	878	149	0	1,380
MHS Science Club	1,569	0	0	0	1,569
Model UN	3,665	3,788	2,287	0	5,166
Young Ambassadors	1,129	0	1,129	0	0
Student Council	3,304	48,346	47,418	0	4,232
Yearbook	0	52,994	52,994	0	0
Athletics	57,707	209,992	185,870	(2,936)	78,893
Cheerleaders	2,437	2,721	5,058	0	100
Donation Fund	47,890	9,989	519	(7,911)	49,449
Pom Pom	25	9,903	9,902	0	26
Sports Calendar	54,301	33,798	14,384	0	73,715
Tournaments	15,242	53,202	47,373	0	21,071
Special Ed Work Experience	1,648	26,669	27,709	(600)	8
	<u>260,061</u>	<u>602,295</u>	<u>536,479</u>	<u>(17,879)</u>	<u>307,998</u>
<u>Elementary Schools:</u>					
Madison Friends of Playgroud C.D.	7,967	160	0	0	8,127

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expenditures	Interfund Transfers	Balance End of Year
<u>Central Middle School:</u>					
Athletics	1,926	9,727	6,592	0	5,061
Fund Raisers	16,559	26,585	21,350	(1,801)	19,993
Student Council	1,695	2,003	1,779	0	1,919
General Activity	17,717	0	71	0	17,646
Little Store	1,614	121	0	0	1,735
Music/Drama	4,552	3,096	2,728	0	4,920
Yearbook	4,780	4,905	5,051	0	4,634
Juice	3,509	2,242	2,118	0	3,633
Officials	3,716	0	3,674	0	42
Bookfairs	1,794	200	0	(1,994)	0
CMS Petty Cash	200	0	0	0	200
	<u>58,062</u>	<u>48,879</u>	<u>43,363</u>	<u>(3,795)</u>	<u>59,783</u>
<u>West Middle School:</u>					
Athletics	6,795	13,629	12,121	0	8,303
Fund Raisers	12,117	0	4,646	0	7,471
General Activity	9,176	7,019	15,032	(1,155)	8
Little Store	510	0	0	0	510
Music/Drama	3,018	8,242	7,514	0	3,746
WMS Bookfairs	6,576	126	0	(6,651)	51
Officials	1,294	0	1,283	0	11
Student Council	2,334	0	0	0	2,334
Yearbook	851	4,545	0	0	5,396
Band	4,655	1,441	1,497	0	4,599
WMS Petty Cash	200	0	0	0	200
	<u>47,526</u>	<u>35,002</u>	<u>42,093</u>	<u>(7,806)</u>	<u>32,629</u>
<u>Central Office:</u>					
College for Kids	352	0	0	(352)	0
Interest Investments	0	1,658	0	0	1,658
Miscellaneous	762	0	0	(762)	0
Community Education	8	0	0	(8)	0
Activity Van	34,213	7,673	10,441	(31,037)	408
	<u>35,335</u>	<u>9,331</u>	<u>10,441</u>	<u>(32,159)</u>	<u>2,066</u>
Total	\$ 408,951	695,667	632,376	(61,639)	410,603

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 PRIVATE PURPOSE TRUST FUND
 JUNE 30, 2011

	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Total
ASSETS			
Cash and pooled investments:			
U.S. Treasury Bonds	\$ 74,000	0	74,000
Certificates of Deposit	16,872	27,983	44,855
Other	5,346	29,889	35,235
TOTAL ASSETS	96,218	57,872	154,090
TOTAL LIABILITIES	0	0	0
NET ASSETS			
Reserved for scholarships	74,000	27,002	101,002
Unreserved	22,218	30,870	53,088
	\$ 96,218	57,872	154,090

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN NET ASSETS
 PRIVATE PURPOSE TRUST FUND
 YEAR ENDED JUNE 30, 2011

	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Total
Additions:			
Local sources:			
Interest on investments	\$ 6,657	292	6,949
Deductions:			
Instruction:			
Regular:			
Scholarships awarded	5,000	3,000	8,000
Change in net assets	1,657	(2,708)	(1,051)
Net assets beginning of year	94,561	60,580	155,141
Net assets end of year	\$ 96,218	57,872	154,090

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2011

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 155,798	826,701	828,752	153,747
LIABILITIES				
Due to other groups	\$ 155,798	826,701	828,752	153,747

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis							
	Years Ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 19,333,468	18,712,914	18,488,404	17,842,274	16,956,518	16,861,241	16,469,084	16,371,805
Tuition	678,551	646,617	634,578	656,615	685,601	627,827	1,095,561	1,182,937
Other	2,116,315	1,567,942	1,961,396	2,386,934	2,573,161	2,523,208	1,987,159	1,640,959
State sources	31,615,441	27,787,891	30,363,984	29,280,415	27,849,315	26,377,373	24,926,493	23,761,286
Federal sources	2,973,055	4,673,746	2,099,916	1,737,646	1,498,477	2,879,013	2,057,495	1,938,482
Other sources	0	0	0	0	0	156,851	203,136	13
Total	\$ 56,716,830	53,389,110	53,548,278	51,903,884	49,563,072	49,425,513	46,738,928	44,895,482
Expenditures:								
Current:								
Instruction:								
Regular	\$ 21,272,830	21,963,631	21,963,166	20,465,902	19,111,412	18,801,847	18,951,377	17,678,401
Special	7,633,949	7,169,238	7,590,536	6,956,542	6,760,353	10,525,190	10,372,197	9,765,835
Other	5,394,057	5,562,647	5,695,366	5,298,760	5,143,073	1,538,951	1,156,007	1,117,281
Support services:								
Student	1,413,771	1,482,432	1,459,094	1,407,202	1,330,859	1,312,963	1,263,997	1,183,036
Instructional staff	1,406,839	1,061,588	1,092,250	1,138,973	975,467	1,772,001	1,362,482	1,380,395
Administration	6,507,777	5,724,703	5,436,431	5,032,575	4,647,569	2,403,324	2,478,432	2,166,956
Operation and maintenance of plant	4,492,882	4,185,506	4,244,947	4,424,856	3,781,663	3,668,441	3,388,560	3,376,632
Transportation	1,454,728	1,467,975	1,636,008	1,695,177	1,420,991	1,332,785	1,311,873	937,431
Other support	0	0	0	0	0	197,781	3,024	176,779
Non-instructional programs	20,834	43,334	26,418	41,495	64,175	57,958	68,506	81,022
Other expenditures:								
Facilities acquisitions	1,724,782	3,153,296	5,385,365	3,772,776	3,554,801	2,714,403	4,127,947	4,765,109
Long-term debt:								
Principal	0	0	0	0	0	760,000	735,000	869,478
Interest and fiscal charges	0	0	0	0	0	21,773	47,869	69,953
AEA flow-through	2,205,295	2,178,281	1,949,818	1,851,969	1,765,207	1,651,446	1,581,225	1,561,603
Total	\$ 53,527,744	53,992,631	56,479,399	52,086,227	48,555,570	46,758,863	46,848,496	45,129,911

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 11	\$ 332,792
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 11	1,253,123 *
SPECIAL MILK PROGRAM FOR CHILDREN	10.556	FY 11	1,001
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 11	66,627
			<u>1,653,543</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 11	<u>46,303</u>
U.S. DEPARTMENT OF DEFENSE:			
MUSCATINE COUNTY:			
FLOOD CONTROL PROJECTS	12.106	FY 11	<u>55,496</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-G	491,600
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-GC	145,132
			<u>636,732 **</u>
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	490
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 11	259,459
			<u>259,949 **</u>
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 10	<u>25,288</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 11	<u>259,366</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 11	<u>33,969</u>
EDUCATION OF HOMELESS CHILDREN AND YOUTH, RECOVERY ACT	84.387	FY 10	<u>10,008</u>
STATE FISCAL STABILIZATION FUND(SFSF)			
EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	16,857
STATE FISCAL STABILIZATION FUND(SFSF)			
EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 11	289,868
			<u>306,725 ***</u>
STATE FISCAL STABILIZATION FUND(SFSF)			
GOVERNMENT SERVICES, RECOVERY ACT	84.397	FY 11	<u>258,548 ***</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
U.S. DEPARTMENT OF EDUCATION(CONTINUED): IOWA DEPARTMENT OF EDUCATION(CONTINUED): ARRA-EDUCATION JOBS FUNDS	84.410	FY 11	<u>268,462</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 11	300,439
SPECIAL EDUCATION - GRANTS TO STATES(MATH PROJECTS)	84.027	FY 11	15,383
SPECIAL EDUCATION - GRANTS TO STATES(IRIS)	84.027	FY 11	11,013
			<u>326,835</u> ****
SPECIAL EDUCATION - GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 10	<u>216,447</u> ****
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 11	<u>59,692</u>
TOTAL			<u>\$ 4,417,363</u>

* Includes non-cash awards of \$159,798.

** - Total for Title I Cluster is \$896,681

*** - Total for State Fiscal Stabilization Fund Cluster is \$565,273

**** - Total for Special Education Cluster is \$543,282

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

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Muscatine Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 14, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

February 14, 2012

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and Internal Control
over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Muscatine Community School District:

Compliance

We have audited the compliance of Muscatine Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Muscatine Community School District's major federal programs for the year ended June 30, 2011. Muscatine Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Muscatine Community School District's management. Our responsibility is to express an opinion on Muscatine Community School District's compliance based on our audit.

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

In our opinion, Muscatine Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Muscatine Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Muscatine Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Muscatine Community School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

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

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson P.C." The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

February 14, 2012

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered Programs
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.389 - Title I Grants to Local Educational Agencies, Recovery Act

 - CFDA Number 84.027 - Special Education - Grants to States(Part B)
 - CFDA Number 84.027 - Special Education - Grants to States(Math Projects)
 - CFDA Number 84.027 - Special Education - Grants to States(IRIS)
 - CFDA Number 84.391 - ARRA - Special Education - Grants to States(Part B), Recovery Act

 - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act.
 - CFDA Number 84.397 - ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act.
 - Individual Programs
 - CFDA Number 84.410 - ARRA - Education Jobs Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Muscatine Community School District did not qualify as a low-risk auditee.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-11 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff. We also noted that that as part of the bus driver contract, which we understand is part of the master contract, bus drivers receive an allowance for meals based on the time of the trip. However this allowance is not included on the employees W-2 as a taxable fringe benefit.

Recommendation - In compliance with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches, and determine that the wage paid is in compliance with minimum wage requirements as well as any overtime issues. The meal allowance would appear to be additional compensation to the driver as it is not an accountable plan. This stipend should be included in payroll, per IRS publication 15-B, which identifies taxable fringe benefits.

Response - The district instructed the athletic director and principals whom supervise the coaches to track the time for all non-certified coaches and sponsors. The district will be more diligent in making sure this is done. The district changed their procedures for the payment of the meal allowances for bus drivers. The meal allowance is going through the payroll process as a taxable benefit.

Conclusion - Response accepted.

II-B-11 Agency Funds - We noted during our audit that the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, "Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the district serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or parent-teacher organization which has its own Federal Identification Number. The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District place certain assets into custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund."

The District appears to be improperly accounting for agency accounts. We noted credit card fees, rental of band instruments, and industrial tech donations are reported in the Agency Fund. Agency funds are to account for non-district revenue. Many of these accounts should be reported in the General Fund.

Recommendation - The District should review Chapter 9 of the LEA Administrative Manual which identifies funds and allowable revenues and expenses. The District should

review specifically the Student Activity and Agency Funds. The District should review each agency account for propriety and make the necessary transfers to the proper fund where monies can be appropriately be receipted and expensed.

Response - We will review Chapter 9 of the LEA Administrative Manual and will investigate available alternatives and implement changes whenever possible.

Conclusion - Response accepted.

OTHER MATTERS:

II-C-11 Audit Committee - We noted during our audit that the District does not utilize an audit committee when choosing an audit firm for conducting the District's annual financial statement audit. Although the District is not required to use an audit committee to select and subsequently monitor the audit process, there are additional benefits to using an audit committee.

The role of an audit committee typically focuses on aspects of financial reporting and on the District's processes to manage the District's business and financial risk, and for compliance with significant applicable legal, ethical, and regulatory requirements. The audit committee would be beneficial in assisting the District's Board of Directors with the oversight of the integrity of the financial statements, compliance with legal and regulatory requirements, the independent auditors' qualifications and independence, and the performance of the District's internal audit function and that of the independent auditors.

The membership of the committee could be financial and business leaders from within the community and would not be limited to the District's Board of Directors.

Recommendation - The District has and continues to place high expectations with regard to financial statement presentation as well as the internal control structure of the District. The creation and implementation of an audit committee could further enhance and provide benefits to the District as mentioned above.

Response - The District agrees with the recommendation and will investigate the benefits and feasibility of an Audit Committee.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget - District expenditures for the year ended June 30, 2011 exceeded the certified amounts in the support services function.

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

Response - The District will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-11 Questionable Disbursements - We noted no expenditures that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-11 Business Transactions - Business transactions between the District and District officials are as follows:

Name, Title and Business Connection	Transaction Description	Amount
Renee Hyink, Teacher's Aid Brother owns Bryant Roofing	Services	\$7,437
Stacie Olsen, Teacher Spouse is director of Muscatine Community YMCA	Services	\$69,702
Susan Krieger, Teacher Spouse owns Krieger Motors Company Spouse owns Enterprise Rentals	Vehicle Purchases Services	\$28,768 \$1,251
Mary Shihadeh, Preschool Coordinator Mother owns A Childs Place	Services	\$113,528
Lori Baker, Teacher Spouse Vice-President of Hometown Plumbing & Heating	Services	\$194,935
Cathy Reifert, Receptionist Mother owns and spouse manages Sprouse Distributing	Supplies	\$13,399
Ryan Reifert, Coach Grandmother owns and father manages Sprouse Distributing	Supplies	\$13,399
Rachel Reifert, Teacher Father owns Wester Drug Store Grandmother owns and father-in-law manages Sprouse Distributing	Supplies Supplies	\$207 \$13,399
May Lucas, Bus Driver Son owns Lucas Communication	Services	\$915
Kevin Lange, Mechanic Brother owns Lange Safety Service	Services	\$1,071
Jason Wester, Technology Father owns Wester Drug Store	Supplies	\$207
Robert Weaton, High School Principal Spouse owns Skywriter Invitations	Services	\$65

Name, Title and Business Connection	Transaction Description	Amount
Jeff Cochran, Bus Driver Owner of Bosch Pest Control	Services	\$8,943
Jessica Feers, Teacher Spouse owns Feers and Sons Tree Service	Services	\$7,463
Mary Kisner, Teacher Owner of Avenue Subs	Food purchases	\$220

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with family members or spouses of district employees do not appear to represent a conflict of interest.

In accordance with Attorney General's Opinion dated July 2, 1990, the above transactions with Mr. Cochran and Ms. Kisner do not appear to present a conflict of interest.

IV-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-11 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students reported on Line 1 was overstated by 3.0 students.

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

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

IV-H-11 Supplementary Weighting - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-I-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-11 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds. However, we noted during our audit that the District has several state allocation and categorical funding carryover balances.

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

Response - The District is working on spending the categorical funding on a timely basis while making sure we are good stewards of the funds spending where and when appropriate.

Conclusion - Response accepted.

IV-L-11 Statewide Sales, Services and Use Tax – No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.3 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified annual reports (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District’s CAR:

Beginning balance		\$ 4,576,242
Revenues:		
Sales tax revenues	\$ 3,642,779	
Other local revenues	15,640	3,658,419
		<u>8,234,661</u>
Expenditures:		
School infrastructure construction	\$ 883,094	
Other	123,524	1,006,618
		<u>1,006,618</u>
Ending balance		<u>\$ 7,228,043</u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Physical Plant & Equipment Levy	\$ 0.75000	\$ 870,447

IV-M-11 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - The District will review our procedures and make adjustments to comply.

Conclusion - Response accepted.

IV-N-11 Muscatine Agricultural Learning Center (MALC) - We noted during our audit that the District is in a 28E agreement with the Friends of the Muscatine FFA, Eastern Iowa College and the Muscatine Agricultural Learning Center. MALC has its own board of directors that consists of persons from Friends of the Muscatine FFA, Eastern Iowa Community College and the Muscatine Community School District. This agreement is on file at the Secretary of State.

Upon further review of the operations of MALC, it appears that MALC is operating as a legally separate entity rather than a 28E agreement.

MALC has entered into debt agreements as well as purchased land that is held in MALC's name. According to the articles of agreement for MALC, none of the participants in this agreement are responsible for the debts or land purchases for MALC unless MALC is dissolved within the ten year period of the agreement. If MALC is a 28E agreement rather than an organization, related debts and assets should be shown on the books of the related parties of the agreement. Currently, these items are not reported by the Muscatine Community School District within their financial statements.

MALC has applied for and received an employer identification number (EIN) from the U.S. Treasury Department to be able to deposit payroll taxes. Currently, the District pays all payroll taxes and bills and MALC reimburses the District for the expense. Since MALC has their own EIN and has the appearance of being a separate entity, MALC should be filing their own payroll taxes. If MALC is a 28E entity that receives \$100,000 in a fiscal year, a separate audit is required.

Recommendation - The District's Board of Directors as well as the administration of the other members involved in the 28E agreement should consult legal counsel to determine whether the intent of MALC is to be recognized as a 28E entity or 28E agreement. The participants should then prepare financial statements in accordance with requirements of the organization's legal structure.

Response - The District believes through conversation with legal counsel that MALC is a 28E entity, in which we have a 28E agreement with. Therefore, since MALC is a separate entity our financial statements are correct. The payroll taxes in question are the responsibility of the district as the individual is an employee of the District and not the MALC.

Conclusion - Response acknowledged. The District should obtain a copy of MALC's audit.

IV-O-11 Pop Machine Proceeds - We noted during our audit that revenue from pop machines located in District buildings is not currently being collected and recorded in the District's records.

Recommendation - The revenues collected on the premises of the school are generally considered School proceeds and should be reported appropriately in the District records. The District has control of the vending machines and therefore the profit should be reported and accounted for in the District records. We noted that the Administration appears to maintain an independent accounting for these funds and uses the funds for clothing for staff. If the District wants to allow outside organizations to sell products on the school premises the Board of Directors should be approving those organizations activities.

Response - The District has communicated to the High School Administration there are concerns regarding activities supported by the revenues generated by the pop machines. We have instructed the administration there needs to be a public purpose served and that the benefits of this revenue need to be realized by more than just a few individuals.

Conclusion - Response accepted