

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

JUNE 30, 2012

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Muscatine Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2011 Election)		
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
(After September 2011 Election)		
Timothy Bower	President	2013
Tammi Drawbaugh	Vice President	2013
Dennis Fox	Board Member	2013
Penny Jones	Board Member	2015
Nathan Mather	Board Member	2015
Brenda Garcia-Van Auken	Board Member	2015
Mary Wildermuth	Board Member	2015
School Officials		
Bill Decker	Superintendent	2012
Jean K. Garner	Director of Finance and Budget	2012
Lisa Mosier	District Secretary	2012
Duane J. Goedken	Attorney	2012
Stanley, Lande & Hunter	Attorney	2012

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, 2012, 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, 2012, and its discretely presented Component Unit as of and for the year ended December 31, 2011 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 December 6, 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muscatine Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2011 (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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

December 6, 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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$49,648,185 in fiscal 2011 to \$51,455,057 in fiscal 2012, while General Fund expenditures increased from \$48,188,902 in fiscal 2011 to \$50,516,777 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$4,110,272 in fiscal 2011 to a balance of \$5,048,552 in fiscal 2012, a 22.83% increase from the prior year.
- The increase in General Fund revenues was attributable to the state fully funding the state foundation aid for the first time in several years. The increase in expenditures was primarily due to an increase in negotiated salaries and benefits.
- The District completed several American Recovery Reinvestment Act (ARRA) and Education Jobs stimulus awards in 2012 totaling \$950,785.
- A major construction and renovation project at Franklin Elementary School was completed in fiscal year 2012. The \$3.4 million project consists of 9,840 square feet for eight additional classrooms, instructional areas, and renovation of existing classrooms.
- A major construction and renovation project at Muscatine High School was started in fiscal year 2012. The \$19 million multi-year multi-phase project consists of approximately 43,500 additional square feet for additional classrooms and instructional areas and renovation of existing classrooms. As of June 30, 2012, approximately \$.5 million of this project was completed. Phase I of the project is adding approximately 30,000 square feet and will cost \$6.8 million, awarded during the summer of 2012.
- At June 30, 2012, the District had approximately \$2.70 million in other long-term debt outstanding. This represents a 35.85% increase from last year. The contributing factor was the \$1.8 million capital leases for the 1:1 initiative.

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.

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.

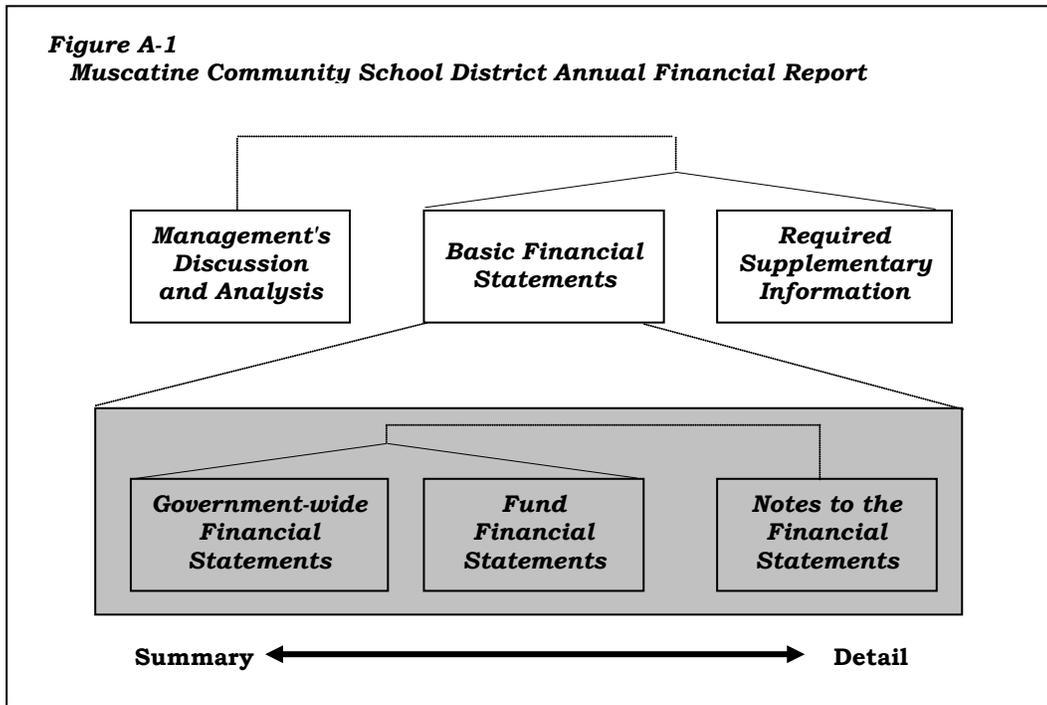


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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, 2012 compared to June 30, 2011.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 40,446,948	39,918,818	663,065	650,236	41,110,013	40,569,054	1.33%
Capital assets	33,433,880	32,108,904	133,057	138,895	33,566,937	32,247,799	4.09%
Total assets	73,880,828	72,027,722	796,122	789,131	74,676,950	72,816,853	2.55%
Long-term obligations	2,698,885	1,986,618	0	0	2,698,885	1,986,618	35.85%
Other liabilities	23,677,866	23,731,694	150,559	180,345	23,828,425	23,912,039	-0.35%
Total liabilities	26,376,751	25,718,312	150,559	180,345	26,527,310	25,898,657	2.43%
Net assets:							
Invested in capital assets, net of related debt	33,433,880	32,108,904	133,057	138,895	33,566,937	32,247,799	4.09%
Restricted	12,215,480	13,454,621	0	0	12,215,480	13,454,621	-9.21%
Unrestricted	1,854,717	745,885	512,506	469,891	2,367,223	1,215,776	94.71%
Total net assets	\$ 47,504,077	46,309,410	645,563	608,786	48,149,640	46,918,196	2.62%

The District's combined net assets increased 2.62%, or \$1,231,444, 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 decreased \$1,239,141 or 9.21% over the prior year. The increase was primarily a result of the decrease in fund balance of the Capital Projects Fund.

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 \$1,151,447 or 94.71%. 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, 2012 compared to the year ended June 30, 2011.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for services	\$ 1,598,835	1,511,728	1,011,473	1,016,402	2,610,308	2,528,130	3.25%
Operating grants and contributions and restricted interest	6,106,828	5,886,996	1,832,643	1,723,298	7,939,471	7,610,294	4.33%
Capital grants and contributions and restricted interest	54,178	68,661	0	0	54,178	68,661	-21.09%
General revenues:							
Property tax	16,637,048	15,690,689	0	0	16,637,048	15,690,689	6.03%
Statewide sales, services and use tax	4,028,197	3,642,779	0	0	4,028,197	3,642,779	10.58%
Unrestricted state grants	29,074,559	28,075,572	0	0	29,074,559	28,075,572	3.56%
Nonspecific program federal grants	858,623	833,735	0	0	858,623	833,735	2.99%
Unrestricted investment earnings	64,279	78,563	505	871	64,784	79,434	-18.44%
Other general revenue	555,269	928,107	5,376	8,990	560,645	937,097	-40.17%
Total revenues	58,977,816	56,716,830	2,849,997	2,749,561	61,827,813	59,466,391	3.97%
Program expenses:							
Governmental activities:							
Instructional	34,605,699	33,317,067	0	0	34,605,699	33,317,067	3.87%
Support services	19,146,548	14,998,796	65,574	63,519	19,212,122	15,062,315	27.55%
Non-instructional programs	71,291	12,920	2,747,646	2,729,119	2,818,937	2,742,039	2.80%
Other expenses	3,959,611	3,972,337	0	0	3,959,611	3,972,337	-0.32%
Total expenses	57,783,149	52,301,120	2,813,220	2,792,638	60,596,369	55,093,758	9.99%
Changes in net assets	1,194,667	4,415,710	36,777	(43,077)	1,231,444	4,372,633	71.84%
Net assets beginning of the year	46,309,410	41,893,700	608,786	651,863	46,918,196	42,545,563	10.28%
Net assets end of year	\$ 47,504,077	46,309,410	645,563	608,786	48,149,640	46,918,196	2.62%

In fiscal 2012, property tax, statewide sales, service and use tax and unrestricted state grants account for 84.34% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.79% of the revenue from business type activities.

The District's total revenues were approximately \$61.83 million of which approximately \$58.98 million was for governmental activities and approximately \$2.85 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.97% increase in revenues and a 9.99% increase in expenses.

Governmental Activities

Revenues for governmental activities were \$58,977,816 and expenses were \$57,783,149.

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		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 34,605,699	33,317,067	3.87%	29,262,476	28,403,754	3.02%
Support services	19,146,548	14,998,796	27.65%	18,727,976	14,650,019	27.84%
Non-instructional programs	71,291	12,920	451.79%	71,291	12,920	451.79%
Other expenses	3,959,611	3,972,337	-0.32%	1,961,565	1,767,042	11.01%
Totals	\$ 57,783,149	52,301,120	10.48%	50,023,308	44,833,735	11.58%

- The cost financed by users of the District's programs was \$1,598,835.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$6,161,006.
- The net cost of governmental activities was financed with \$16,637,048 in property tax, \$4,028,197 in statewide sales, services and use tax, \$29,074,559 in unrestricted state grants, \$858,623 in nonspecific program federal grants, \$64,279 in interest income and \$555,269 in other general revenue.

Business type Activities

Revenues of the District's business type activities were \$2,849,997 and expenses were \$2,813,220. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$16,198,679, above last year's ending fund balances of a \$15,790,001. This primarily resulted from an increase in the General Fund balance.

Governmental Fund Highlights

- The District's increase in General Fund financial position from \$4,110,272 to \$5,048,552 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 while expenditures increased by 4.83% the General Fund balance still increased by \$938,280.

-
- The Capital Projects Fund balance decreased from \$9,493,065 at the beginning of the fiscal year 2012 to \$8,804,350. The beginning balance. The decrease was the result of the District making a down payment on a new computer lease and finishing construction at Franklin Elementary.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$608,786 at June 30, 2011 to \$645,563 at June 30, 2012, representing an increase of 6.04%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$315,775 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in federal 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.

Over the course of the year, Muscatine Community School District amended its annual budget one time to reflect additional expenditures in the support services and non-instructional programs functional areas.

In spite of this budget amendment, expenditures in the support services functional area exceeded the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested approximately \$33.57 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 \$2,573,347.

The original cost of the District's capital assets was \$64.30 million. Governmental funds account for approximately \$63.75 million with the remainder of approximately \$0.55 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 \$1,084,303 at June 30, 2011, compared to \$516,851 reported at June 30, 2012. This decrease resulted from completion of the construction project at Franklin Elementary.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 806,838	761,448	0	0	806,838	761,448	5.96%
Construction in progress	516,851	1,084,303	0	0	516,851	1,084,303	-52.33%
Buildings	28,355,884	26,305,749	0	0	28,355,884	26,305,749	7.79%
Land improvements	1,518,143	1,636,128	0	0	1,518,143	1,636,128	-7.21%
Machinery and equipment	2,236,164	2,321,276	133,057	138,895	2,369,221	2,460,171	-3.70%
Total	\$ 33,433,880	32,108,904	133,057	138,895	33,566,937	32,247,799	3.93%

Long-Term Debt

At June 30, 2012, the District had \$2,698,885 in other long-term debt outstanding. This represents an increase of 35.85% 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 computer leases payable from the Capital Projects: Physical Plant and Equipment Levy Fund of \$1,814,129 at June 30, 2012.

The District had total outstanding Early Retirement payable from the General and Management Levy Funds of \$884,756 at June 30, 2012.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2012	2011	
Computer leases	\$ 1,814,129	0	100.00%
Early Retirement	884,756	1,986,618	-55.46%
Total	\$ 2,698,885	1,986,618	35.85%

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 entered into a capital lease for the purchase of computers for the 1:1 initiative.
- The District negotiated one-year collective bargaining agreements for employee groups. The one-year agreement provided total package increases of 3.72% for fiscal year 2013. The District will need to negotiate collective bargaining agreements for the employee groups for 2014 and beyond.
- The District's fiscal year 2013 regular program cost per pupil will be \$6,001, which is a 2% increase over fiscal year 2012's regular program cost per pupil of \$5,883. The legislators did not set allowable growth for fiscal year 2014, as required by Iowa Code. 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 2011 certified enrollment was 5,304.64, up 11.81 FTE students. This arrested the negative student enrollment trend. The October 2012 certified enrollment decreased slightly

5.16 students to 5,299.48. 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 year 2012, the District spent the last of the \$1.1 million of federal jobs fund money received in fiscal year 2011. This one-time federal funding was available to the district through fiscal year 2012. The district will need to adjust for the loss of this money in future years.
- The district's maximum budget authority will decrease in fiscal year 2013 because of declining enrollment, going off the 101% budget guarantee, and a significant reduction in miscellaneous revenue. The district did not reduce budgeted expenditures by the same or greater amount. Therefore, the district's unspent budget authority in fiscal year 2013 will be significantly lower.
- The voters of Muscatine approved, for the first time, the implementation of the Instructional Support Levy (ISL) in fiscal year 2014. The ISL is expected to generate \$2.2 million of additional budget authority for the district. This authority will be funded by a combination of property taxes and income surtax. The board will determine the mix of funding annually. This additional budget authority has an impact on budgeting decisions that need to be made in regards to the declining unspent budget authority.
- The looming federal funding cliff deadline known as sequestration is January 2, 2013. Although the exact amount of the reduction is not known, estimates range somewhere between 8 and 16 % of federal funds. The actual reduction will not take place until fiscal year 2014. This has significant implications to our federally funded programs such as Title I, Title II, Title III and IDEA Part B.
- The District offered the early retirement incentive program for fiscal year 2013. The program was offered in fiscal year 2012. 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. We are experiencing an increase in the amount of students who qualify for free and reduced lunches and instructional fees. The district's October 2012 free and reduced percentage is 52.48% with two school's percentages at or about 85%.
- The condition of the national, state and local economies directly affects the future economics of the school. Actions taken by the president, congress, and the governor and state legislators to balance the federal and state budgets affect education funding. Federal sequestration, property tax reform, education reform, and No Child Left Behind are just a few issues on the horizon.

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, 2012

	Primary Government			Component Unit
	Govern- mental Activities	Business type Activities	Total	Muscatine Community School Foundation
ASSETS				
Cash and pooled investments	\$ 20,123,709	510,096	20,633,805	2,142,040
Receivables:				
Property tax:				
Delinquent	164,597	0	164,597	0
Succeeding year	18,070,424	0	18,070,424	0
Accounts	59,180	250	59,430	0
Due from other governments	1,403,533	43,405	1,446,938	0
Inventories	51,781	86,212	137,993	0
Net OPEB asset	573,724	23,102	596,826	0
Capital assets, net of accumulated depreciation	33,433,880	133,057	33,566,937	0
TOTAL ASSETS	73,880,828	796,122	74,676,950	2,142,040
LIABILITIES				
Accounts payable	854,818	3,269	858,087	0
Salaries and benefits payable	4,735,382	109,019	4,844,401	0
Accrued interest payable	3,321	0	3,321	0
Deferred revenue:				
Succeeding year property tax	18,070,424	0	18,070,424	0
Other	13,921	0	13,921	0
Unearned revenue	0	38,271	38,271	0
Long-term liabilities:				
Portion due within one year:				
Computer leases payable	610,484	0	610,484	0
Early retirement payable	233,722	0	233,722	0
Portion due after one year:				
Computer leases payable	1,203,645	0	1,203,645	0
Early retirement payable	651,034	0	651,034	0
TOTAL LIABILITIES	26,376,751	150,559	26,527,310	0
NET ASSETS				
Invested in capital assets	33,433,880	133,057	33,566,937	0
Restricted for:				
Scholarships	0	0	0	2,129,455
Support of instructional programs	0	0	0	12,585
Categorical funding	1,843,688	0	1,843,688	0
School infrastructure	7,251,612	0	7,251,612	0
Physical plant and equipment	1,552,738	0	1,552,738	0
Management levy purposes	1,114,933	0	1,114,933	0
Student activities	452,509	0	452,509	0
Unrestricted	1,854,717	512,506	2,367,223	0
TOTAL NET ASSETS	\$ 47,504,077	645,563	48,149,640	2,142,040

SEE NOTES TO FINANCIAL STATEMENTS.

**MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

	Net (Expense) Revenue and Changes in Net Assets								
	Program Revenues				Primary Government		Component Unit		
	Expenses	Operating Grants, Charges for Services		Capital Grants, Contributions and Restricted Interest	Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total	Muscatine Community School Foundation
		Interest	Interest	Activities	Activities	Total	Total	Total	
Functions/Programs:									
Governmental activities:									
Instruction:									
Regular	\$ 20,858,470	717,803	770,298	0	(19,370,369)	0	(19,370,369)	0	
Special	7,517,579	325,262	634,837	0	(6,557,480)	0	(6,557,480)	0	
Other	6,229,650	449,425	2,445,598	0	(3,334,627)	0	(3,334,627)	0	
	<u>34,605,699</u>	<u>1,492,490</u>	<u>3,850,733</u>	<u>0</u>	<u>(29,262,476)</u>	<u>0</u>	<u>(29,262,476)</u>	<u>0</u>	
Support services:									
Student	1,526,243	0	134	0	(1,526,109)	0	(1,526,109)	0	
Instructional staff	3,386,946	0	237,819	0	(3,149,127)	0	(3,149,127)	0	
Administration	7,466,311	0	0	0	(7,466,311)	0	(7,466,311)	0	
Operation and maintenance of plant	5,085,734	0	0	54,178	(5,031,556)	0	(5,031,556)	0	
Transportation	1,681,314	106,345	20,096	0	(1,554,873)	0	(1,554,873)	0	
	<u>19,146,548</u>	<u>106,345</u>	<u>258,049</u>	<u>54,178</u>	<u>(18,727,976)</u>	<u>0</u>	<u>(18,727,976)</u>	<u>0</u>	
Non-instructional programs:									
Food service operations	71,291	0	0	0	(71,291)	0	(71,291)	0	
Other expenditures:									
Long-term debt interest and fiscal charges	3,321	0	0	0	(3,321)	0	(3,321)	0	
AEA flowthrough	1,998,046	0	1,998,046	0	0	0	0	0	
Depreciation(unallocated)*	1,958,244	0	0	0	(1,958,244)	0	(1,958,244)	0	
	<u>3,959,611</u>	<u>0</u>	<u>1,998,046</u>	<u>0</u>	<u>(1,961,565)</u>	<u>0</u>	<u>(1,961,565)</u>	<u>0</u>	
Total governmental activities	57,783,149	1,598,835	6,106,828	54,178	(50,023,308)	0	(50,023,308)	0	
Business type activities:									
Support services:									
Administration	65,574	0	0	0	0	(65,574)	(65,574)	0	
Non-instructional programs:									
Nutrition services	2,747,646	1,011,473	1,832,643	0	0	96,470	96,470	0	
Total non-instructional programs:	<u>2,813,220</u>	<u>1,011,473</u>	<u>1,832,643</u>	<u>0</u>	<u>0</u>	<u>30,896</u>	<u>30,896</u>	<u>0</u>	
Total business type activities	<u>2,813,220</u>	<u>1,011,473</u>	<u>1,832,643</u>	<u>0</u>	<u>0</u>	<u>30,896</u>	<u>30,896</u>	<u>0</u>	
Total primary government	\$ 60,596,369	2,610,308	7,939,471	54,178	(50,023,308)	30,896	(49,992,412)	0	
Total component unit	\$ 229,593	0	201,864	0				(27,729)	
General Revenues:									
Property tax levied for:									
General purposes					\$ 15,285,932	0	15,285,932	0	
Capital outlay					1,351,116	0	1,351,116	0	
Statewide sales, services and use tax					4,028,197	0	4,028,197	0	
Unrestricted state grants					29,074,559	0	29,074,559	0	
Nonspecific program federal grants					858,623	0	858,623	0	
Unrestricted investment earnings					64,279	505	64,784	43,019	
Realized gain on investments					0	0	0	3,680	
Other					555,269	5,376	560,645	1,250	
Total general revenues					<u>51,217,975</u>	<u>5,881</u>	<u>51,223,856</u>	<u>47,949</u>	
Changes in net assets					1,194,667	36,777	1,231,444	20,220	
Net assets beginning of year					46,309,410	608,786	46,918,196	2,121,820	
Net assets end of year					<u>\$ 47,504,077</u>	<u>645,563</u>	<u>48,149,640</u>	<u>2,142,040</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, 2012

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 9,254,132	8,549,962	2,319,615	20,123,709
Receivables:				
Property tax:				
Delinquent	138,690	12,244	13,663	164,597
Succeeding year	15,512,613	1,354,219	1,203,592	18,070,424
Accounts	27,610	0	31,570	59,180
Due from other governments	904,294	499,093	146	1,403,533
Inventories	51,781	0	0	51,781
TOTAL ASSETS	\$ 25,889,120	10,415,518	3,568,586	39,873,224
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 580,602	256,949	17,267	854,818
Salaries and benefits payable	4,733,432	0	1,950	4,735,382
Deferred revenue:				
Succeeding year property tax	15,512,613	1,354,219	1,203,592	18,070,424
Other	13,921	0	0	13,921
Total liabilities	<u>20,840,568</u>	<u>1,611,168</u>	<u>1,222,809</u>	<u>23,674,545</u>
Fund balances:				
Nonspendable	51,781	0	0	51,781
Restricted for:				
Categorical funding	1,843,688	0	0	1,843,688
School infrastructure	0	7,251,612	0	7,251,612
Physical plant and equipment	0	1,552,738	0	1,552,738
Management levy purposes	0	0	1,893,268	1,893,268
Student activities	0	0	452,509	452,509
Unassigned	3,153,083	0	0	3,153,083
Total fund balances	<u>5,048,552</u>	<u>8,804,350</u>	<u>2,345,777</u>	<u>16,198,679</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 25,889,120	10,415,518	3,568,586	39,873,224

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

Total fund balances of governmental funds(page 20)	\$ 16,198,679
 Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in the governmental funds.	33,433,880
Other postemployment benefits are not yet available to finance expenditures of the current fiscal period.	573,724
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(3,321)
Long-term liabilities, such as computer leases and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,698,885)</u>
Net assets of governmental activities(page 18)	<u>\$ 47,504,077</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, 2012

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 13,915,066	5,379,313	1,370,866	20,665,245
Tuition	789,295	0	0	789,295
Other	887,010	38,791	701,299	1,627,100
State sources	32,851,906	566	640	32,853,112
Federal sources	2,988,886	54,178	0	3,043,064
Total revenues	<u>51,432,163</u>	<u>5,472,848</u>	<u>2,072,805</u>	<u>58,977,816</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	21,001,971	33,025	849,593	21,884,589
Special	7,562,122	0	0	7,562,122
Other	5,620,904	0	612,165	6,233,069
	<u>34,184,997</u>	<u>33,025</u>	<u>1,461,758</u>	<u>35,679,780</u>
Support services:				
Student	1,498,051	0	45,131	1,543,182
Instructional staff	1,488,547	1,874,259	4,048	3,366,854
Administration	5,510,449	1,918,300	108,485	7,537,234
Operation and maintenance of plant	4,488,692	176,222	204,368	4,869,282
Transportation	1,347,995	283,166	54,414	1,685,575
	<u>14,333,734</u>	<u>4,251,947</u>	<u>416,446</u>	<u>19,002,127</u>
Non-instructional programs:				
Food service operations	0	0	14,007	14,007
Capital outlay	0	3,690,720	0	3,690,720
Other expenditures:				
AEA flowthrough	1,998,046	0	0	1,998,046
	<u>1,998,046</u>	<u>3,690,720</u>	<u>0</u>	<u>5,688,766</u>
Total expenditures	<u>50,516,777</u>	<u>7,975,692</u>	<u>1,892,211</u>	<u>60,384,680</u>
Excess(Deficiency) of revenues over(under) expenditures	915,386	(2,502,844)	180,594	(1,406,864)
Other financing sources(uses):				
Sale of equipment	1,413	0	0	1,413
Capital Leases	0	1,814,129	0	1,814,129
Transfer in	21,481	0	0	21,481
Transfer out	0	0	(21,481)	(21,481)
Total other financing sources(uses)	<u>22,894</u>	<u>1,814,129</u>	<u>(21,481)</u>	<u>1,815,542</u>
Net change in fund balances	938,280	(688,715)	159,113	408,678
Fund balance beginning of year	4,110,272	9,493,065	2,186,664	15,790,001
Fund balance end of year	<u>\$ 5,048,552</u>	<u>8,804,350</u>	<u>2,345,777</u>	<u>16,198,679</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, 2012

Net change in fund balances - total governmental funds(page 22) \$ 408,678

**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	\$ 3,885,457	
Depreciation expense	(2,548,126)	
Loss on disposal of capital assets	(12,355)	1,324,976

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issued, as follows:

Issued		(1,814,129)
--------	--	-------------

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

(3,321)

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	1,101,862	
Other postemployment benefits	176,601	1,278,463

Changes in net assets of governmental activities(page 19) \$ 1,194,667

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

	School Nutrition
ASSETS	
Current assets:	
Cash and pooled investments	\$ 510,096
Accounts receivable	250
Due from other governments	43,405
Inventories	86,212
Total current assets	639,963
Non-current assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	133,057
Net OPEB asset	23,102
Total non-current assets	156,159
TOTAL ASSETS	796,122
LIABILITIES	
Current liabilities:	
Accounts payable	3,269
Salaries and benefits payable	109,019
Unearned revenue	38,271
TOTAL LIABILITIES	150,559
NET ASSETS	
Invested in capital assets	133,057
Unrestricted	512,506
TOTAL NET ASSETS	\$ 645,563

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 335,046
Miscellaneous	19,773
TOTAL OPERATING REVENUES	354,819
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant:	
Services	3,660
Non-instructional programs:	
Food service operations:	
Salaries	334,181
Benefits	47,466
Services	5,273
Supplies	611,961
Depreciation	15,592
Other	13,931
Total non-instructional programs	1,028,404
TOTAL OPERATING EXPENSES	1,032,064
OPERATING LOSS	(677,245)
NON-OPERATING REVENUES (EXPENSES):	
State sources	9,413
Federal sources	642,880
Interest income	21
Loss on disposal of assets	(662)
TOTAL NON-OPERATING REVENUES (EXPENSES)	651,652
Change in net assets	(25,593)
Net assets beginning of year	280,603
Net assets end of year	\$ 255,010

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 1,027,185
Cash received from miscellaneous operating activities	5,376
Cash payments to employees for services	(1,395,651)
Cash payments to suppliers for goods or services	(1,288,064)
Net cash used in operating activities	(1,651,154)
Cash flows from non-capital financing activities:	
State grants received	26,422
Federal grants received	1,646,921
Net cash provided by non-capital financing activities	1,673,343
Cash flows from capital financing activities:	
Acquisitions of assets	(19,383)
Cash flows from investing activities:	
Interest on investment	505
Net increase in cash and cash equivalents	3,311
Cash and cash equivalents at beginning of year	506,785
Cash and cash equivalents at end of year	\$ 510,096
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,796,371)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	148,294
Depreciation	25,221
Increase in inventories	(2,832)
Decrease in accounts receivable	12,545
Decrease in accounts payable	(6,342)
Decrease in salaries and benefits payable	(26,611)
Increase in unearned revenue	3,167
Increase in net OPEB asset	(8,225)
Net cash used in operating activities	\$ (1,651,154)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at \$148,294.

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2012

	Private Purpose Trust	
	Scholarship Fund	Agency Fund
ASSETS		
Cash and pooled investments:		
U.S. Treasury Bonds	\$ 74,000	0
Certificates of Deposit	45,125	0
Other	31,215	123,542
TOTAL ASSETS	<u>150,340</u>	<u>123,542</u>
LIABILITIES		
Due to other groups	0	123,542
TOTAL LIABILITIES	<u>0</u>	<u>123,542</u>
NET ASSETS		
Reserved for scholarships	101,002	0
Unreserved	49,338	0
TOTAL NET ASSETS	<u>\$ 150,340</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, 2012

	Private Purpose Trust
	Scholarship Fund
Additions:	
Local sources:	
Interest on investments	\$ 6,750
Deletions:	
Instruction	
Regular:	
Scholarships awarded	10,500
Change in net assets	(3,750)
Net assets beginning of year	154,090
Net assets end of year	\$ 150,340

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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 or more 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, 2012 expenditures in the support services functional area exceeded amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2012 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, 2012, 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, 2012, 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, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Activity	<u>\$ 21,481</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, 2012 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
Computer Leases	\$ 0	1,814,129	0	1,814,129	610,484
Early Retirement	1,986,618	505,661	1,607,523	884,756	233,722
Total	\$ 1,986,618	2,319,790	1,607,523	2,698,885	844,206

Computer Leases

Details of the District's June 30, 2012 computer lease indebtedness is as follows:

Year Ending June 30,	Laptop Lease of May 23, 2012				Laptop Lease of May 23, 2012				Total		
	Interest Rates	Principal	Interest	Total	Interest Rates	Principal	Interest	Total	Principal	Interest	Total
2013	1.85 %	\$ 561,748	31,802	593,550	0.13 %	\$ 48,736	98	48,834	\$ 610,484	31,900	642,384
2014	1.85	572,155	21,395	593,550	0.13	24,352	65	24,417	596,507	21,460	617,967
2015	1.85	582,754	10,796	593,550	0.13	24,384	33	24,417	607,138	10,829	617,967
Total		\$ 1,716,657	63,993	1,780,650		\$ 97,472	196	97,668	\$ 1,814,129	64,189	1,878,318

Early Retirement

The District 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 receives the proceeds after the normal deductions for FICA, Medicare, state and federal taxes.

At June 30, 2012, the District has obligations to 53 participants with a liability of \$884,756. Early retirement expenditures for the year ended June 30, 2012, totaled \$1,607,523. 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, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 761,448	45,390	0	806,838
Construction in progress	1,084,303	3,024,361	3,591,813	516,851
Total capital assets not being depreciated	<u>1,845,751</u>	<u>3,069,751</u>	<u>3,591,813</u>	<u>1,323,689</u>
Capital assets being depreciated:				
Buildings	49,108,160	3,890,394	0	52,998,554
Land improvements	2,439,694	0	0	2,439,694
Machinery and equipment	6,678,263	517,125	201,271	6,994,117
Total capital assets being depreciated	<u>58,226,117</u>	<u>4,407,519</u>	<u>201,271</u>	<u>62,432,365</u>
Less accumulated depreciation for:				
Buildings	22,802,411	1,840,259	0	24,642,670
Land improvements	803,566	117,985	0	921,551
Machinery and equipment	4,356,987	589,882	188,916	4,757,953
Total accumulated depreciation	<u>27,962,964</u>	<u>2,548,126</u>	<u>188,916</u>	<u>30,322,174</u>
Total capital assets being depreciated, net	<u>30,263,153</u>	<u>1,859,393</u>	<u>12,355</u>	<u>32,110,191</u>
Governmental activities capital assets, net	<u>\$ 32,108,904</u>	<u>4,929,144</u>	<u>3,604,168</u>	<u>33,433,880</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 556,722	19,383	28,137	547,968
Less accumulated depreciation	417,827	25,221	28,137	414,911
Business type activities capital assets, net	<u>\$ 138,895</u>	<u>(5,838)</u>	<u>0</u>	<u>133,057</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 65,413
Support services:		
Student		47,482
Instructional staff		41,140
Administration		114,282
Operation and maintenance of plant		81,994
Transportation		227,510
Non-instructional programs:		
Food service operations		12,061
		<u>589,882</u>
Unallocated depreciation		<u>1,958,244</u>
Total governmental activities depreciation expense		<u>\$ 2,548,126</u>
Business type activities:		
Food services		<u>\$ 25,221</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 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered salary for the year ended June 30, 2012. 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. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$2,602,406, \$2,081,289 and \$2,088,100 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, 2012, 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	(18,540)
Adjustment to annual required contribution	15,714
Annual OPEB cost (expense)	<u>845,174</u>
Contributions made	<u>(1,030,000)</u>
Increase in net OPEB obligation	(184,826)
Net OPEB obligation - beginning of year	<u>(412,000)</u>
Net OPEB obligation - end of year	<u><u>\$ (596,826)</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. 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, 2012.

For the fiscal year 2012, the District contributed \$1,030,000 to the medical plan. Plan members receiving benefits contributed \$767,000, or 42.7% 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, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 908,046	117.28 %	\$ (147,954)
2011	846,954	131.18	(412,000)
2012	845,174	121.87	(596,826)

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, 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 \$25.504 million, and the ratio of the UAAL to the covered payroll was 36.3%. As of June 30, 2012, 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, 2010 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2010.

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, 2012 is comprised of the following programs:

Program	Amount
Home school assistance program	\$ 29,183
Weighted at-risk programs	290,483
Talented and gifted	141,464
Returning dropouts and dropout prevention	433,126
Four-year-old preschool	495,277
Beginning teacher mentoring	4,504
Teacher salary supplement	225,032
Market factor	1,945
Teacher quality, professional development	94,548
Model core curriculum	101,586
Market factor incentives	26,540
Total	<u><u>\$ 1,843,688</u></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 \$1,998,046 for the year ended June 30, 2012 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 \$700,000 for various projects at the High School. At June 30, 2012, \$507,561 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) 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, 2012, 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, 2012

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 23,081,640	1,017,354	24,098,994	24,109,630	24,109,630	(10,636)
State sources	32,853,112	26,422	32,879,534	33,343,938	33,343,938	(464,404)
Federal sources	3,043,064	1,806,221	4,849,285	4,058,470	4,058,470	790,815
Total revenues	<u>58,977,816</u>	<u>2,849,997</u>	<u>61,827,813</u>	<u>61,512,038</u>	<u>61,512,038</u>	<u>315,775</u>
Expenditures/Expenses:						
Instruction	35,679,780	0	35,679,780	36,446,439	36,446,439	766,659
Support services	19,002,127	65,574	19,067,701	14,927,377	16,688,367	(2,379,334)
Non-instructional programs	14,007	2,747,646	2,761,653	2,866,927	3,020,037	258,384
Other expenditures	5,688,766	0	5,688,766	6,748,448	6,748,448	1,059,682
Total expenditures/expenses	<u>60,384,680</u>	<u>2,813,220</u>	<u>63,197,900</u>	<u>60,989,191</u>	<u>62,903,291</u>	<u>(294,609)</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	(1,406,864)	36,777	(1,370,087)	522,847	(1,391,253)	21,166
Other financing sources, net	<u>1,815,542</u>	<u>0</u>	<u>1,815,542</u>	<u>500</u>	<u>500</u>	<u>1,815,042</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	408,678	36,777	445,455	523,347	(1,390,753)	1,836,208
Balance beginning of year	<u>15,790,001</u>	<u>608,786</u>	<u>16,398,787</u>	<u>16,031,113</u>	<u>16,031,113</u>	<u>367,674</u>
Balance end of year	<u>\$ 16,198,679</u>	<u>645,563</u>	<u>16,844,242</u>	<u>16,554,460</u>	<u>14,640,360</u>	<u>2,203,882</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012

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 \$1,914,100.

During the year ended June 30, 2012, 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			Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
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
2012	July 1, 2010	0	9,255	9,255	0.0	25,504	36.3

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.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Manage- ment Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	\$ 1,891,732	427,883	2,319,615
Receivables:			
Property tax:			
Delinquent	13,663	0	13,663
Succeeding year	1,203,592	0	1,203,592
Accounts	0	31,570	31,570
Due from other governments	146	0	146
TOTAL ASSETS	\$ 3,109,133	459,453	3,568,586
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 12,273	4,994	17,267
Salaries and benefits payable	0	1,950	1,950
Deferred revenue:			
Succeeding year property tax	1,203,592	0	1,203,592
Total liabilities	1,215,865	6,944	1,222,809
Restricted for:			
Management levy purposes	1,893,268	0	1,893,268
Student Activities	0	452,509	452,509
Total fund balances	1,893,268	452,509	2,345,777
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,109,133	459,453	3,568,586

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2012

	Manage- ment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,370,866	0	1,370,866
Other	24,370	676,929	701,299
State sources	640	0	640
TOTAL REVENUES	<u>1,395,876</u>	<u>676,929</u>	<u>2,072,805</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	849,593	0	849,593
Other	0	612,165	612,165
Support services:			
Student	45,131	0	45,131
Instructional staff	4,048	0	4,048
Administration	108,485	0	108,485
Operation and maintenance of plant	204,368	0	204,368
Transportation	53,037	1,377	54,414
Non-instructional programs:			
Food service operations	14,007	0	14,007
TOTAL EXPENDITURES	<u>1,278,669</u>	<u>613,542</u>	<u>1,892,211</u>
Excess of revenues over expenditures	117,207	63,387	180,594
Other financing uses:			
Transfer out	0	(21,481)	(21,481)
Net change in fund balances	117,207	41,906	159,113
Fund balance beginning of year	<u>1,776,061</u>	<u>410,603</u>	<u>2,186,664</u>
Fund balance end of year	<u>\$ 1,893,268</u>	<u>452,509</u>	<u>2,345,777</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET FOR CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2012

	Capital Projects Fund		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 6,997,405	1,552,557	8,549,962
Receivables:			
Delinquent	0	12,244	12,244
Succeeding year	0	1,354,219	1,354,219
Due from other governments	498,964	129	499,093
Total assets	\$ 7,496,369	2,919,149	10,415,518
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 244,757	12,192	256,949
Deferred revenue			
Succeeding year property tax	0	1,354,219	1,354,219
Total liabilities	244,757	1,366,411	1,611,168
Fund balances:			
Restricted for:			
School infrastructure	7,251,612	0	7,251,612
Physical plant and equipment	0	1,552,738	1,552,738
Total fund balances	7,251,612	1,552,738	8,804,350
Total liabilities and fund balances	\$ 7,496,369	2,919,149	10,415,518

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, 2012

	Capital Project Fund		
	Statewide Sales & Services Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 4,028,197	1,351,116	5,379,313
Other	30,076	8,715	38,791
State sources	0	566	566
Federal sources	0	54,178	54,178
TOTAL REVENUES	<u>4,058,273</u>	<u>1,414,575</u>	<u>5,472,848</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	0	33,025	33,025
Support services:			
Instructional staff	0	1,874,259	1,874,259
Adminstration	935,716	982,584	1,918,300
Operation and maintenance of plant	15,745	160,477	176,222
Transportation	0	283,166	283,166
Capital outlay	3,083,243	607,477	3,690,720
TOTAL EXPENDITURES	<u>4,034,704</u>	<u>3,940,988</u>	<u>7,975,692</u>
Excess(deficiency) of revenues over(under) expenditures	23,569	(2,526,413)	(2,502,844)
OTHER FINANCING SOURCES:			
Capital leases	0	1,814,129	1,814,129
Net Change in fund balances	23,569	(712,284)	(688,715)
Fund balance beginning of year	<u>7,228,043</u>	<u>2,265,022</u>	<u>9,493,065</u>
Fund balance end of year	<u>\$ 7,251,612</u>	<u>1,552,738</u>	<u>8,804,350</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, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Interfund Transfers	Balance End of Year
<u>High School:</u>					
Activity Tickets	\$ 8,588	0	2,730	0	5,858
Petty Cash	1,600	0	0	0	1,600
Student Services	15,585	7,867	5,236	0	18,216
Band	8,725	35,726	25,806	(5,634)	13,011
Chorus	5	20,014	12,685	0	7,334
All Colors Count	1,178	1,888	2,270	0	796
Interact Club	4,805	0	1,830	0	2,975
Drama	22,255	17,018	13,367	0	25,906
Forensics	58	5,389	4,772	0	675
Annual Auroran	257	51,637	51,558	0	336
Weekly Auroran	712	1,940	90	0	2,562
Auxiliary Scholarship	1,083	833	244	0	1,672
Class of 2010	3,860	0	3,860	0	0
Class of 2011	395	0	395	0	0
Class of 2012	0	395	0	0	395
Future Business Leaders	5	2,706	2,497	0	214
French Club	959	300	800	0	459
German Club	1,623	870	1,023	0	1,470
Spanish Club	696	250	49	0	897
Library Club	1,380	28	0	(1,408)	0
MHS Science Club	1,569	0	0	0	1,569
Model UN	5,166	9,615	5,015	0	9,766
Student Council	4,232	46,394	45,588	0	5,038
Athletics	78,893	217,986	235,091	(6,800)	54,988
Cheerleaders	100	15,486	15,390	0	196
Donation Fund	49,449	8,250	900	0	56,799
Pom Pom	26	21,671	16,911	0	4,786
Sports Calendar	73,715	33,935	12,838	0	94,812
Tournaments	21,071	61,787	39,695	0	43,163
Special Ed Work Experience	8	3,851	0	(3,859)	0
	307,998	565,836	500,640	(17,701)	355,493
<u>Elementary Schools:</u>					
Madison Friends of Playgroud C.D.	8,127	45	0	0	8,172

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	5,061	8,719	8,096	0	5,684
Fund Raisers	19,993	25,860	20,226	(2,754)	22,873
Student Council	1,919	696	995	0	1,620
General Activity	17,646	335	61	0	17,920
Little Store	1,735	140	222	0	1,653
Music/Drama	4,920	2,949	1,866	0	6,003
Yearbook	4,634	4,416	4,267	0	4,783
Juice	3,633	0	906	0	2,727
Officials	42	7,000	7,042	0	0
Bookfairs	0	481	0	(481)	0
CMS Petty Cash	200	0	0	0	200
	<u>59,783</u>	<u>50,596</u>	<u>43,681</u>	<u>(3,235)</u>	<u>63,463</u>
<u>West Middle School:</u>					
Athletics	8,303	11,746	13,785	0	6,264
Fund Raisers	7,471	0	7,471	0	0
General Activity	8	32,623	25,274	0	7,357
Little Store	510	0	510	0	0
Music/Drama	3,746	1,970	4,817	0	899
WMS Bookfairs	51	15	0	(66)	0
Officials	11	7,311	7,322	0	0
Student Council	2,334	0	2,334	0	0
Yearbook	5,396	5,021	5,433	0	4,984
Band	4,599	877	2,275	0	3,201
WMS Petty Cash	200	0	0	0	200
	<u>32,629</u>	<u>59,563</u>	<u>69,221</u>	<u>(66)</u>	<u>22,905</u>
<u>Central Office:</u>					
Interest Investments	1,658	889	0	(71)	2,476
Activity Van	408	0	0	(408)	0
	<u>2,066</u>	<u>889</u>	<u>0</u>	<u>(479)</u>	<u>2,476</u>
Total	<u>\$ 410,603</u>	<u>676,929</u>	<u>613,542</u>	<u>(21,481)</u>	<u>452,509</u>

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 PRIVATE PURPOSE TRUST FUND
 JUNE 30, 2012

	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	16,973	28,152	45,125
Other	3,826	27,389	31,215
TOTAL ASSETS	<u>94,799</u>	<u>55,541</u>	<u>150,340</u>
TOTAL LIABILITIES			
	<u>0</u>	<u>0</u>	<u>0</u>
NET ASSETS			
Restricted for scholarships	74,000	27,002	101,002
Unrestricted	20,799	28,539	49,338
	<u>\$ 94,799</u>	<u>55,541</u>	<u>150,340</u>

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, 2012

	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Total
Additions:			
Local sources:			
Interest on investments	\$ 6,581	169	6,750
Deductions:			
Instruction:			
Regular:			
Scholarships awarded	8,000	2,500	10,500
Change in net assets	(1,419)	(2,331)	(3,750)
Net assets beginning of year	96,218	57,872	154,090
Net assets end of year	\$ 94,799	55,541	150,340

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2012

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 153,747	724,248	754,453	123,542
LIABILITIES				
Due to other groups	\$ 153,747	724,248	754,453	123,542

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 NINE YEARS

	Modified Accrual Basis								
	Years Ended June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 20,665,245	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	789,295	678,551	646,617	634,578	656,615	685,601	627,827	1,095,561	1,182,937
Other	1,627,100	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	32,853,112	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	3,043,064	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	0	156,851	203,136	13
Total	\$ 58,977,816	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	\$ 21,884,589	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	7,562,122	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	6,233,069	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	1,543,182	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	3,366,854	1,406,839	1,061,588	1,092,250	1,138,973	975,467	1,772,001	1,362,482	1,380,395
Administration	7,537,234	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	4,869,282	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	1,685,575	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	0	197,781	3,024	176,779
Non-instructional programs	14,007	20,834	43,334	26,418	41,495	64,175	57,958	68,506	81,022
Capital outlay	3,690,720	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	0	760,000	735,000	869,478
Interest and fiscal charges	0	0	0	0	0	0	21,773	47,869	69,953
Other expenditures:									
AEA flow-through	1,998,046	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	\$ 60,384,680	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, 2012

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 12	\$ 342,233
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 12	1,319,049 *
SPECIAL MILK PROGRAM FOR CHILDREN	10.556	FY 12	894
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 12	77,664
			<u>1,739,840</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 12	<u>66,381</u>
U.S. DEPARTMENT OF DEFENSE:			
MUSCATINE COUNTY:			
FLOOD CONTROL PROJECTS	12.106	FY 12	<u>54,178</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-G	683,570
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-GC	300,381
			<u>983,951</u>
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 10	5,021
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 11	36,469
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 12	23,373
			<u>64,863</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 12	<u>218,386</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 12	<u>33,514</u>
EDUCATION OF HOMELESS CHILDREN AND YOUTH, RECOVERY ACT	84.387	FY 10	6,024
EDUCATION OF HOMELESS CHILDREN AND YOUTH, RECOVERY ACT	84.387	FY 11	3,335
			<u>9,359</u>
EDUCATION JOBS FUND	84.410	FY 11	832,960
EDUCATION JOBS FUND	84.410	FY 12	16,303
			<u>849,263</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 12	287,026
SPECIAL EDUCATION - GRANTS TO STATES(MATH PROJECTS)	84.027	FY 11	27,117
SPECIAL EDUCATION - GRANTS TO STATES(IRIS)	84.027	FY 12	13,564
			<u>327,707</u> **
SPECIAL EDUCATION - GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 10	<u>92,163</u> **
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 12	<u>61,088</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
IOWA DEPARTMENT OF HUMAN SERVICES			
HEAD START	93.600	FY 11	<u>33,672</u>
TOTAL			<u>\$ 4,534,365</u>

* Includes non-cash awards of \$148,294.

** - Total for Special Education Cluster is \$419,870

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, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 6, 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

The management of Muscatine Community School District is responsible for establishing and maintaining effective internal controls 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-12 and II-B-12 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, 2012 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.

December 6, 2012

NOLTE, CORNMAN & JOHNSON P.C.

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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, 2012. 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, 2012.

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.



NOLTE, CORNMAN & JOHNSON, P.C.

December 6, 2012

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

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 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.556 - Special Milk Program for Children
 - CFDA Number 10.559 - Summer Food Service Program for Children

 - 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
 - Individual Programs
 - CFDA Number 84.367 - Improving Teacher Quality State Grants
- (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, 2012

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-12 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 - The districts reviewed Chapter 9 of the LEA Administrative Manual and with the guidance of our external auditors, have cleared up accounts in question. We created a special purpose trust fund and have made transfers with board approval to the appropriate funds.

Conclusion - Response accepted

II-B-12 Gate Admissions - It was noted that the District does utilize pre-number tickets for athletic events, however the District does not utilize pre-numbered tickets for other events that requires an admission.

Recommendation -The District should have internal control procedures established for handling cash for all activity events that charge admission and communicate the policies and procedures to the individuals involved.

Response - The district utilizes pre-numbered tickets for most all events, with the exception of events that order their own tickets. The district has communicated with all ticket takers and event sponsors the policies and procedures on reconciliation and proper handling of money.

Conclusion - Response accepted

OTHER MATTERS:

II-C-12 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 is in the final stages of establishing an Audit Committee. The Board approved the Audit Committee Charter at the November 12, 2012 school board meeting.

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-12 Certified Budget - District expenditures for the year ended June 30, 2012 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-12 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-12 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.

However, we noted during our audit charges to the District credit card for travel expenses had no detailed receipts attached for supporting documentation. According to District Board policy 703.8, employees that charge expenses to the District credit card must attach a detailed receipt to the claim form otherwise the expense becomes the employees' expense.

Recommendation - The District should review Board Policy 703.8 with employees to ensure that receipts for all credit card expenses are attached for supporting documentation.

Response - The district makes every attempt to secure proper supporting documentation for all disbursements. The district will be more diligent in obtaining supporting documentation and communicating with employees Board Policy 703.08, regarding credit card use.

Conclusion - Response accepted

IV-D-12 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	\$3,811
Stacie Olsen, Teacher Spouse is director of Muscatine Community YMCA	Services	\$70,429
Susan Krieger, Teacher Spouse owns Krieger Motors Company Spouse owns Enterprise Rentals	Vehicle Purchases Services	\$30,530 \$3,072
Mary Shihadeh, Preschool Coordinator Mother owns A Childs Place	Services	\$112,264
Lori Baker, Teacher Spouse Vice-President of Hometown Plumbing & Heating	Services	\$72,004
Cathy Reifert, Receptionist Mother owns and spouse manages Sprouse Distributing	Supplies	\$13,757
Ryan Reifert, Coach Grandmother owns and father manages Sprouse Distributing	Supplies	\$13,757
Rachel Reifert, Teacher Father owns Wester Drug Store Grandmother owns and father-in-law manages Sprouse Distributing	Supplies Supplies	\$783 \$13,757
May Lucas, Bus Driver Son owns Lucas Communication	Services	\$100,324

Name, Title and Business Connection	Transaction Description	Amount
Kevin Lange, Mechanic Brother owns Lange Safety Service	Services	\$1,563
Jason Wester, Technology Father owns Wester Drug Store	Supplies	\$783
Robert Weaton, High School Principal Spouse owns Skywriter Invitations	Services	\$151
Nathan Mather, Board Member Father owns Vision Center, P.C.	Services	\$1,175
Jeff Cochran, Bus Driver Owner of Bosch Pest Control	Services	\$10,785
Mary Kisner, Teacher Owner of Avenue Subs	Food purchases	\$253
Mary Whitacre, Teacher Spouse owns Martin & Whitacre	Surveying Services	\$2,890
Robyn Canfield, Substitute Teacher Spouse is the Store manager of Hy-Vee	Supplies	\$13,168
John Lawrence, Middle School Principal Spouse owns Muscatine Travel	Services	\$40,769
Gina Schliesman Spouse is manager at Hy-Vee	Supplies	\$13,168
Jessica Feers, Teacher Spouse owns Freers and Sons Tree Service	Services	\$8,925

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-12 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-12 Board Minutes - We noted during our audit that numerous transfers between the Student Activity Fund and the General Fund; however, we were unable to determine if these transfers were approved by the Board of Directors.

Recommendation - The District should review transfers to determine if they are actually transfers or reclassification for entries which were recorded in an incorrect fund. If it is determined to be a transfer then the District should get approval from the Board prior to the transfer being made.

Response - In reviewing those transactions in question, it was determined that these were not actually transfers but reclassifications for entries which were recorded in an incorrect fund. The district will be more cognizant as to where it records transactions so these types of entries are at a minimum. The district is aware of the need for Board approval of transfers and will receive Board approval prior to any transfers between funds.

Conclusion - Response accepted

IV-G-12 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students reported on the District's certified enrollment was overstated by 1.32 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-12 Supplementary Weighting - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-I-12 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-12 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-12 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-12 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, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 7,228,043
Revenues:		
Sales tax revenues	\$ 4,028,197	
Other local revenues	30,076	4,058,273
		<u>11,286,316</u>
Expenditures:		
School infrastructure construction	2,513,863	
Equipment	954,059	
Other	566,782	4,034,704
		<u>4,034,704</u>
Ending balance		<u>\$ 7,251,612</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	\$ 0.54000	\$ 644,100

IV-M-12 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. The District is in the process of obtaining records from the High School Administration regarding the pop machine proceeds. The district is determining whether the money should be recorded in District's fund and all transactions go through the District's books.

Conclusion - Response accepted.

IV-N-12 Payroll Authorization - We noted during our audit, the District does not have written authorization to mail employee's payroll checks. Chapter 91A.3 of the Code of Iowa requires that an employer have a written request from an employee before wages can be sent to an employee by mail.

Recommendation - The District should obtain written authorization from each employee who desires to receive a payroll check by mail.

Response - The district has sent every employee that has been paid in the last year a written authorization form for him/her to sign giving us voluntary written authorization for us to mail payroll checks. A letter accompanied the form and an email was sent out explaining the authorization and a comment that if we did not receive a signed form, we could no longer mail the employee payroll check.

Conclusion -Response accepted.

IV-O-12 Middle School Band - We noted that the Middle School did fundraisers for the band; however, the revenue was recorded in the Student Activity Fund. The District subsequently transferred funds from the Student Activity to the General fund for instructional band expenses.

Recommendation - When fundraisers are done, the revenues should be recorded in the fund that legally may expend the funds, for the intended fundraised purpose. As the fundraiser is used for instructional purposes it is inappropriate to record the revenue in the Student Activity fund. The District should record the revenues in the General fund where the program is part of the instructional program of the District.

Response - The district agrees with the recommendation and will review the purposes of each fundraiser and determine which fund the revenues should be recorded.

Conclusion - Response accepted.