MUSCATINE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2013

Contents

		Page
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis (MD&A)		7-16
Basic Financial Statements:	Exhibit	
Government-Wide Financial Statements:		
Statement of Net Position	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Position	G	24
Statement of Revenues, Expenses and Changes in Fund Net Position	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Position	J	27
Statement of Changes in Fiduciary Net Position	K	28
Notes to Financial Statements		29-40
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances – Budget and Actual – All Governmental Funds and Proprietary Fund		42
Notes to Required Supplementary Information – Budgetary Reporting		43
Schedule of Funding Progress for the Retiree Health Plan		44
Supplementary Information:	Schedule	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	47
Combining Balance Sheet for Capital Project Accounts	3	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Capital Project Fund	4	49
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	50-51
Combining Balance Sheet Private Purpose Trust Fund	6	52
Combining Statement of Changes in Net Position Private Purpose Trust Fund	7	53
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	8	54
Schedule of Revenues by Source and Expenditures by Function – All Governmental Fund Types	9	55
Schedule of Expenditures of Federal Awards	10	56
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		57-58
Independent Auditor's Report on Compliance for Each Major Program, on Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133		59-60
Schedule of Findings and Questioned Costs		61-67

Muscatine Community School District

Officials

Name	Title	Term Expires
	Board of Education	
Penny Jones	President (Resigned June 2013)	2015
Mary Wildermuth	Vice President (Appointed Board President June 2013)	2015
Tammi Drawbaugh	Board Member (Appointed Board Vice President June 2013)	2013
Dennis Fox	Board Member	2013
Timothy Bower	Board Member	2013
Nathan Mather	Board Member	2015
Brenda Garcia-Van Auken	Board Member	2015
Clyde Evans	Board Member (Appointed June 2013)	2013
	School Officials	
Bill Decker	Superintendent	2013
Jean K. Garner	Director of Finance and Budget	2013
Lisa Mosier	District Secretary	2013
Duane J. Goedken	Attorney	2013
Stanley, Lande & Hunter	Attorney	2013

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:

Report on the Financial Statements

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, Muscatine Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Muscatine Community School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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 42 through 44 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 inquires, 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.

Supplementary Information

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 third paragraph of this report, the financial statements for the six years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited in accordance with the standards referred to in the third paragraph 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. Other supplementary 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.

The Supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underling accounting and other records used to prepare the basic financial statements or to the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2014, on our consideration of Muscatine Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that reports 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.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2014
Newton Iowa

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, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from $51,455,057 in fiscal 2012 to $51,019,255 in fiscal 2013, while General Fund expenditures increased from $50,516,777 in fiscal 2012 to $51,395,946 in fiscal 2013. This resulted in a decrease in the District's General Fund balance from $5,048,552 in fiscal 2012 to a balance of $4,671,861 in fiscal 2013, a 7.46% decrease from the prior year.

- A major construction and renovation project at Muscatine High School 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. Phase I of the project occurred during fiscal year 2013, adding approximately 30,000 square feet and will cost $6.8 million. As of June 30, 2013, approximately $5.8 million of this project was complete.

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 Position 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.

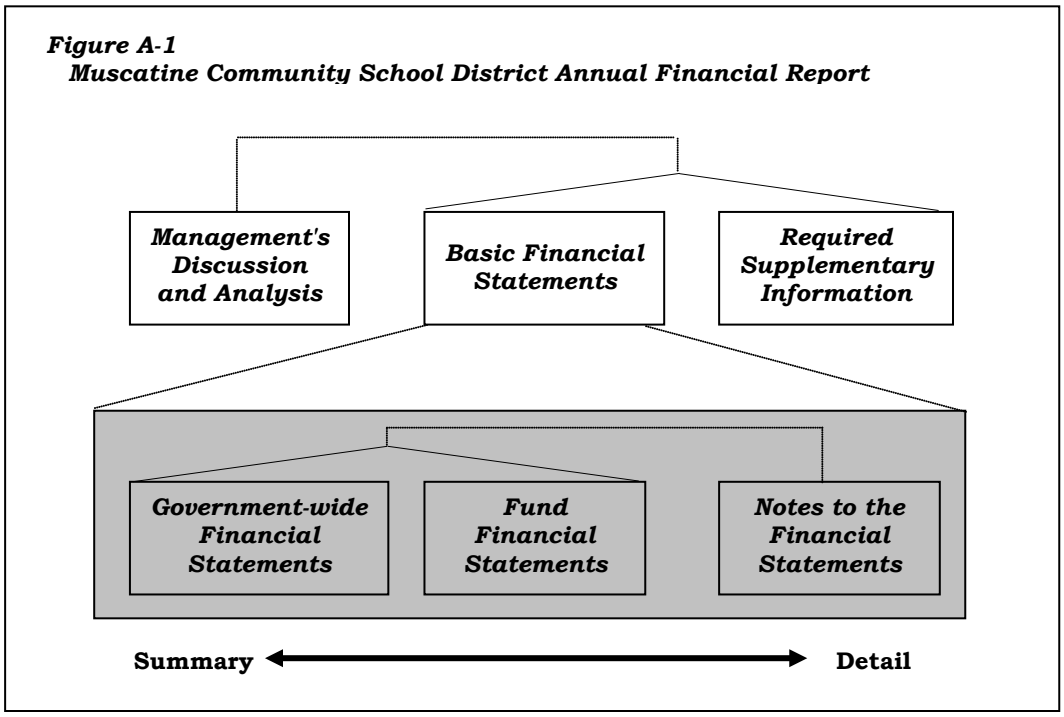

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows	• Statement of fiduciary net position • Statement of changes in fiduciary net position
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 Position 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 position and how they have changed. Net position – 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 position is 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 one enterprise fund, the School Nutrition Fund..

The required financial statements for the proprietary funds include a statement of net position, a statement of revenues, expenses and changes in fund net position 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 position and a statement of changes in fiduciary net position.

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 position at June 30, 2013 compared to June 30, 2012.

Figure A-3
Condensed Statement of Net Position

	Governmental Activities		Business type Activities		Total School District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	$ 38,310,499	40,446,948	511,793	663,065	38,822,292	41,110,013	-5.56%
Capital assets	38,599,626	33,433,880	112,018	133,057	38,711,644	33,566,937	15.33%
Total assets	76,910,125	73,880,828	623,811	796,122	77,533,936	74,676,950	3.83%
Long-term obligations	1,293,078	2,698,885	4,499	0	1,297,577	2,698,885	-51.92%
Other liabilities	25,134,659	23,677,866	199,277	150,559	25,333,936	23,828,425	6.32%
Total liabilities	26,427,737	26,376,751	203,776	150,559	26,631,513	26,527,310	0.39%
Net position:							
Invested in capital assets, net of related debt	38,599,626	33,433,880	112,018	133,057	38,711,644	33,566,937	15.33%
Restricted	9,495,888	12,215,480	0	0	9,495,888	12,215,480	-22.26%
Unrestricted	2,386,874	1,854,717	308,017	512,506	2,694,891	2,367,223	13.84%
Total net position	$ 50,482,388	47,504,077	420,035	645,563	50,902,423	48,149,640	5.72%

The District's combined net position increased 5.72%, or $2,752,783, over the prior year. The largest portion of the District's net position is 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 position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased $2,719,592 or 22.26% from the prior year. The decrease was primarily a result of the decrease in the fund balance of the Capital Projects Fund related to ongoing construction in the District.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased $327,668 or 13.84%. This increase in unrestricted net position was a result of a decrease in the District's computer lease indebtedness.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-4
Changes in Net Position

	Governmental Activities		Business type Activities		Total School District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Revenues:							
Program revenues:							
Charges for services	$ 1,308,173	1,598,835	910,469	1,011,473	2,218,642	2,610,308	-15.00%
Operating grants and contributions and restricted interest	5,575,839	6,106,828	1,797,193	1,832,643	7,373,032	7,939,471	-7.13%
Capital grants and contributions and restricted interest	33,000	54,178	0	0	33,000	54,178	-39.09%
General revenues:							
Property tax	18,130,165	16,637,048	0	0	18,130,165	16,637,048	8.97%
Statewide sales, services and use tax	4,400,620	4,028,197	0	0	4,400,620	4,028,197	9.25%
Unrestricted state grants	28,835,505	29,074,559	0	0	28,835,505	29,074,559	-0.82%
Nonspecific program federal grants	53,955	858,623	0	0	53,955	858,623	-93.72%
Unrestricted investment earnings	50,963	64,279	328	505	51,291	64,784	-20.83%
Other general revenue	380,722	555,269	2,712	5,376	383,434	560,645	-31.61%
Total revenues	58,768,942	58,977,816	2,710,702	2,849,997	61,479,644	61,827,813	-0.56%
Program expenses:							
Governmental activities:							
Instructional	36,013,605	34,605,699	0	0	36,013,605	34,605,699	4.07%
Support services	15,738,566	19,146,548	60,262	65,574	15,798,828	19,212,122	-17.77%
Non-instructional programs	39,807	71,291	2,875,968	2,747,646	2,915,775	2,818,937	3.44%
Other expenses	3,998,653	3,959,611	0	0	3,998,653	3,959,611	0.99%
Total expenses	55,790,631	57,783,149	2,936,230	2,813,220	58,726,861	60,596,369	-3.09%
Increase (decrease) in net position	2,978,311	1,194,667	(225,528)	36,777	2,752,783	1,231,444	-123.54%
Net position beginning of the year	47,504,077	46,309,410	645,563	608,786	48,149,640	46,918,196	2.62%
Net position end of year	$ 50,482,388	47,504,077	420,035	645,563	50,902,423	48,149,640	5.72%

In fiscal 2013, property tax, statewide sales, service and use tax and unrestricted state grants account for 87.40% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.89% of the revenue from business type activities.

The District's total revenues were approximately $61.48 million of which approximately $58.77 million was for governmental activities and approximately $2.71 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 0.56% decrease in revenues and a 3.09% decrease in expenses.

Governmental Activities

Revenues for governmental activities were $58,768,942 and expenses were $55,790,631.

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		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	$ 36,013,605	34,605,699	4.07%	31,303,700	29,262,476	6.98%
Support services	15,738,566	19,146,548	-17.80%	15,541,644	18,727,976	-17.01%
Non-instructional programs	39,807	71,291	-44.16%	39,807	71,291	-44.16%
Other expenses	3,998,653	3,959,611	0.99%	1,988,468	1,961,565	1.37%
Totals	$ 55,790,631	57,783,149	-3.45%	48,873,619	50,023,308	-2.30%

- The cost financed by users of the District's programs was $1,308,173.
- Federal and state governments subsidized certain programs with grants and contributions totaling $5,608,839.
- The net cost of governmental activities was financed with $18,130,165 in property tax, $4,400,620 in statewide sales, services and use tax, $28,835,505 in unrestricted state grants, $53,955 in nonspecific program federal grants, $50,963 in interest income and $380,722 in other general revenue.

Business type Activities

Revenues of the District's business type activities were $2,710,702 and expenses were $2,936,230. 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 $13,177,628, below last year's ending fund balances of a $16,198,679. This primarily resulted from a decrease in the Capital Projects fund balance.

Governmental Fund Highlights

- The District's decrease in General Fund financial position from $5,048,552 to $4,671,861 is the product of many factors. Increases in local tax revenue partially offset the decrease revenues from other sources, but expenditures increased, primarily in the other instruction functional area, resulting in a decrease in fund balance.

- The Capital Projects Fund balance decreased from $8,804,350 at the beginning of the fiscal year 2013 to $6,109,575 at the end of fiscal 2013. The decrease was related to an increase in capital outlay expenditures associated with construction projects which are still unfinished at year end.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from $645,563 at June 30, 2012 to $420,035 at June 30, 2013, representing a decrease of 34.94%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Muscatine Community School District amended its annual budget one time to reflect additional expenditures in the other expenditures functional area due to increased construction costs.

The District's revenues were $396,152 less 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested approximately $38.71 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment, and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was $2,687,576.

The original cost of the District's capital assets was $71.76 million. Governmental funds account for approximately $71.21 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 $516,851 reported at June 30, 2012, compared to $7,203,320 reported at June 30, 2013. This increase resulted from continued work on the District's outstanding construction projects during the year. These projects will be capitalized as part of the District's capital asset listing when completed.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total School District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Land	$ 846,818	806,838	0	0	846,818	806,838	4.96%
Construction in progress	7,203,320	516,851	0	0	7,203,320	516,851	1293.69%
Buildings	26,764,326	28,355,884	0	0	26,764,326	28,355,884	-5.61%
Land improvements	1,476,040	1,518,143	0	0	1,476,040	1,518,143	-2.77%
Machinery and equipment	2,309,122	2,236,164	112,018	133,057	2,421,140	2,369,221	2.19%
Total	$ 38,599,626	33,433,880	112,018	133,057	38,711,644	33,566,937	13.29%

Long-Term Debt

At June 30, 2013, the District had $1,297,577 in other long-term debt outstanding. This represents a decrease of 107.99% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had computer leases payable from the Capital Projects: Physical Plant and Equipment Levy Fund of $1,203,645 at June 30, 2013.

The District had a net OPEB liability of $93,932 at June 30, 2013. $89,433 of this total is in the governmental activities and $4,499 is in the business type activities.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business type Activities		Total School District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Computer leases	$ 1,203,645	1,814,129	0	0	1,203,645	1,814,129	-50.72%
Termination benefits	0	884,756	0	0	0	884,756	-100.00%
Net OPEB liability	89,433	0	4,499	0	93,932	0	100.00%
Total	$ 1,293,078	2,698,885	4,499	0	1,297,577	2,698,885	-107.99%

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 is in the midst of a four-year 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 3.89% for fiscal year 2014. The district will need to negotiate collective bargaining agreements for the employee groups for 2015 and beyond.
- The District's fiscal year 2014 regular program cost per pupil will be $6,121, which is a 2% increase over fiscal year 2013's regular program cost per pupil of $6,001. The legislators also granted a non-reoccurring allocation equivalent to 2% or $635,940 of additional spending authority counted as miscellaneous revenue. The legislators again did not set supplemental

state aid amount for fiscal year 2015, 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 2013 certified enrollment was 5,344.38, up 44.9 FTE students from October 2012 certified enrollment of 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. An increasing enrollment positively 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.

- September 11, 2012 the voters of Muscatine approved, for the first time, the implementation of the Instructional Support Levy (ISL) in fiscal year 2014. The ISL generates approximately $2.2 million of additional budget authority for the district. Funding for this authority is 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 made in regards to the declining unspent budget authority.

- The District offered the early retirement incentive program for fiscal years 2012, 2013, and 2014. The goal of the program is to reduce expenditures within the General Fund, through attrition or by hiring less senior replacement personnel. This action may affect our management levy rate and the General Fund expenditures for salaries in the future.

- The District was one of the 39 school districts in the state whose teacher leadership and compensation application was approved for fiscal year 2015. This will give the district approximately $1.6 million to support teacher leadership opportunities, attract new teachers, promote collaboration, and more importantly improve student achievement by strengthening instruction.

- 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 2013 free and reduced percentage is 53.51% with one school's percentages at or about 87% and another at 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

Exhibit A

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Component Unit
	Govern-mental Activities	Business type Activities	Total	Muscatine Community School Foundation
ASSETS				
Cash and pooled investments	$ 17,936,402	370,851	18,307,253	2,311,050
Receivables:				
Property tax:				
Delinquent	153,982	0	153,982	0
Succeeding year	18,279,634	0	18,279,634	0
Accounts	61,739	23,071	84,810	0
Due from other governments	1,843,535	34,643	1,878,178	0
Inventories	35,207	83,228	118,435	0
Capital assets, net of accumulated depreciation	38,599,626	112,018	38,711,644	0
TOTAL ASSETS	76,910,125	623,811	77,533,936	2,311,050
LIABILITIES				
Accounts payable	1,680,656	12,799	1,693,455	0
Salaries and benefits payable	5,172,581	144,278	5,316,859	0
Accrued interest payable	1,788	0	1,788	0
Deferred revenue:				
Succeeding year property tax	18,279,634	0	18,279,634	0
Unearned revenue	0	42,200	42,200	0
Long-term liabilities:				
Portion due within one year:				
Computer leases payable	596,507	0	596,507	0
Portion due after one year:				
Computer leases payable	607,138	0	607,138	0
Net OPEB liability	89,433	4,499	93,932	0
TOTAL LIABILITIES	26,427,737	203,776	26,631,513	0
NET POSITION				
Invested in capital assets	38,599,626	112,018	38,711,644	0
Restricted for:				
Scholarships	0	0	0	2,298,351
Support of instructional programs	0	0	0	12,699
Categorical funding	990,121	0	990,121	0
School infrastructure	5,343,179	0	5,343,179	0
Physical plant and equipment	766,396	0	766,396	0
Management levy purposes	1,897,073	0	1,897,073	0
Student activities	437,919	0	437,919	0
Support trust	61,200	0	61,200	0
Unrestricted	2,386,874	308,017	2,694,891	0
TOTAL NET POSITION	$ 50,482,388	420,035	50,902,423	2,311,050

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern-mental Activities	Business Type Activities	Total	Muscatine Community School Foundation
Functions/Programs:								
Governmental activities:								
Instruction:								
Regular	$ 21,587,903	645,934	476,048	0	(20,465,921)	0	(20,465,921)	0
Special	7,688,572	191,404	751,366	0	(6,745,802)	0	(6,745,802)	0
Other	6,737,130	361,109	2,284,044	0	(4,091,977)	0	(4,091,977)	0
	36,013,605	1,198,447	3,511,458	0	(31,303,700)	0	(31,303,700)	0
Support services:								
Student	1,617,395	0	0	0	(1,617,395)	0	(1,617,395)	0
Instructional staff	1,182,579	0	40,653	0	(1,141,926)	0	(1,141,926)	0
Administration	6,199,006	0	0	0	(6,199,006)	0	(6,199,006)	0
Operation and maintenance of plant	5,006,623	0	0	33,000	(4,973,623)	0	(4,973,623)	0
Transportation	1,732,963	109,726	13,543	0	(1,609,694)	0	(1,609,694)	0
	15,738,566	109,726	54,196	33,000	(15,541,644)	0	(15,541,644)	0
Non-instructional programs:								
Food service operations	39,807	0	0	0	(39,807)	0	(39,807)	0
Long-term debt interest and fiscal charges	30,367	0	0	0	(30,367)	0	(30,367)	0
Other expenditures:								
AEA flowthrough	2,010,185	0	2,010,185	0	0	0	0	0
Depreciation(unallocated)*	1,958,101	0	0	0	(1,958,101)	0	(1,958,101)	0
	3,968,286	0	2,010,185	0	(1,958,101)	0	(1,958,101)	0
Total governmental activities	55,790,631	1,308,173	5,575,839	33,000	(48,873,619)	0	(48,873,619)	0
Business type activities:								
Support services:								
Administration	50,597	0	0	0	0	(50,597)	(50,597)	0
Operation and maintenance of plant	9,665	0	0	0	0	(9,665)	(9,665)	0
	60,262	0	0	0	0	(60,262)	(60,262)	0
Non-instructional programs:								
Nutrition services	2,875,968	910,469	1,797,193	0	0	(168,306)	(168,306)	0
Total non-instructional programs:	2,936,230	910,469	1,797,193	0	0	(228,568)	(228,568)	0
Total business type activities	2,936,230	910,469	1,797,193	0	0	(228,568)	(228,568)	0
Total primary government	$ 58,726,861	2,218,642	7,373,032	33,000	(48,873,619)	(228,568)	(49,102,187)	0
Total component unit	$ 169,723	0	211,080	0				41,357
General Revenues:								
Property tax levied for:								
General purposes					$ 16,771,557	0	16,771,557	0
Capital outlay					1,358,608	0	1,358,608	0
Statewide sales, services and use tax					4,400,620	0	4,400,620	0
Unrestricted state grants					28,835,505	0	28,835,505	0
Nonspecific program federal grants					53,955	0	53,955	0
Unrestricted investment earnings					50,963	328	51,291	38,340
Realized gain on investments					0	0	0	4,118
Unrealized gain on investments					0	0	0	80,202
Other					380,722	2,712	383,434	4,993
Total general revenues					51,851,930	3,040	51,854,970	127,653
Changes in net position					2,978,311	(225,528)	2,752,783	169,010
Net position beginning of year					47,504,077	645,563	48,149,640	2,142,040
Net position end of year					$ 50,482,388	420,035	50,902,423	2,311,050

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

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit C

MUSCATINE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Capital Projects	Nonmajor	Total
ASSETS				
Cash and pooled investments	$ 9,421,955	6,116,860	2,397,587	17,936,402
Receivables:				
Property tax:				
Delinquent	132,263	11,457	10,262	153,982
Succeeding year	16,281,950	1,497,686	499,998	18,279,634
Accounts	60,931	0	808	61,739
Due from other governments	841,673	1,001,657	205	1,843,535
Inventories	35,207	0	0	35,207
TOTAL ASSETS	$ 26,773,979	8,627,660	2,908,860	38,310,499
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 649,222	1,020,399	11,035	1,680,656
Salaries and benefits payable	5,170,946	0	1,635	5,172,581
Deferred revenue:				
Succeeding year property tax	16,281,950	1,497,686	499,998	18,279,634
Total liabilities	22,102,118	2,518,085	512,668	25,132,871
Fund balances:				
Nonspendable	35,207	0	0	35,207
Restricted for:				
Categorical funding	990,121	0	0	990,121
School infrastructure	0	5,343,179	0	5,343,179
Physical plant and equipment	0	766,396	0	766,396
Management levy purposes	0	0	1,897,073	1,897,073
Student activities	0	0	437,919	437,919
Support trust	0	0	61,200	61,200
Unassigned	3,646,533	0	0	3,646,533
Total fund balances	4,671,861	6,109,575	2,396,192	13,177,628
TOTAL LIABILITIES AND FUND BALANCES	$ 26,773,979	8,627,660	2,908,860	38,310,499

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit D

MUSCATINE COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balances of governmental funds(page 20)	$ 13,177,628
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in the governmental funds.	38,599,626
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.	(1,788)
Long-term liabilities, such as computer leases and other postemployment benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(1,293,078)
Net position of governmental activities(page 18)	$ 50,482,388

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit E

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General	Capital Projects	Nonmajor	Total
REVENUES:				
Local sources:				
Local tax	$ 15,563,979	5,759,228	1,207,578	22,530,785
Tuition	621,193	0	0	621,193
Other	707,424	61,226	717,574	1,486,224
State sources	32,009,058	560	508	32,010,126
Federal sources	2,113,044	3,971	3,599	2,120,614
Total revenues	51,014,698	5,824,985	1,929,259	58,768,942
EXPENDITURES:				
Current:				
Instruction:				
Regular	21,115,556	84,635	813,558	22,013,749
Special	7,534,403	0	0	7,534,403
Other	6,046,766	0	659,378	6,706,144
	34,696,725	84,635	1,472,936	36,254,296
Support services:				
Student	1,612,250	0	34,667	1,646,917
Instructional staff	1,269,550	8,177	3,646	1,281,373
Administration	5,783,981	255,600	79,723	6,119,304
Operation and maintenance of plant	4,629,761	145,814	234,708	5,010,283
Transportation	1,393,494	315,326	41,760	1,750,580
	14,689,036	724,917	394,504	15,808,457
Non-instructional programs:				
Food service operations	0	0	11,404	11,404
Capital outlay	0	7,081,218	0	7,081,218
Long-term debt:				
Principal	0	0	610,484	610,484
Interest and fiscal charges	0	0	31,900	31,900
	0	0	642,384	642,384
Other expenditures:				
AEA flowthrough	2,010,185	0	0	2,010,185
Total expenditures	51,395,946	7,890,770	2,521,228	61,807,944
Deficiency of revenues under expenditures	(381,248)	(2,065,785)	(591,969)	(3,039,002)
Other financing sources(uses):				
Sale of equipment	4,557	0	0	4,557
Insurance proceeds	0	13,394	0	13,394
Transfer in	0	0	650,556	650,556
Transfer out	0	(642,384)	(8,172)	(650,556)
Total other financing sources(uses)	4,557	(628,990)	642,384	17,951
Change in fund balances	(376,691)	(2,694,775)	50,415	(3,021,051)
Fund balance beginning of year	5,048,552	8,804,350	2,345,777	16,198,679
Fund balance end of year	$ 4,671,861	6,109,575	2,396,192	13,177,628

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit F

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, 2013

Change in fund balances - total governmental funds(page 22)		$ (3,021,051)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures, depreciation expense and loss on disposal of assets in the current year, are as follows:		
Capital outlay	$ 7,849,741	
Depreciation expense	(2,662,602)	
Loss on disposal of capital assets	(21,393)	5,165,746
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		610,484
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.		1,533
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.		
Termination benefits	884,756	
Other postemployment benefits	(663,157)	221,599
Change in net position of governmental activities(page 19)		$ 2,978,311

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

	School Nutrition
ASSETS	
Current assets:	
Cash and pooled investments	$ 370,851
Accounts receivable	23,071
Due from other governments	34,643
Inventories	83,228
Total current assets	511,793
Non-current assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	112,018
Total non-current assets	112,018
TOTAL ASSETS	623,811
LIABILITIES	
Current liabilities:	
Accounts payable	12,799
Salaries and benefits payable	144,278
Unearned revenue	42,200
Total current liabilities	199,277
Noncurrent liabilities:	
Net OPEB liability	4,499
Total noncurrent liabilities	4,499
TOTAL LIABILITIES	203,776
NET POSITION	
Invested in capital assets	112,018
Unrestricted	308,017
TOTAL NET POSITION	$ 420,035

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit H

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	$ 910,469
Miscellaneous	2,712
TOTAL OPERATING REVENUE	913,181
OPERATING EXPENSES:	
Support services:	
Administration:	
Salaries	31,235
Benefits	14,234
Services	5,128
Operation and maintenance of plant:	
Services	9,665
Total support services	60,262
Non-instructional programs:	
Food service operations:	
Salaries	1,001,185
Benefits	402,158
Services	89,100
Supplies	1,357,639
Depreciation	24,974
Other	912
Total non-instructional programs	2,875,968
TOTAL OPERATING EXPENSES	2,936,230
OPERATING LOSS	(2,023,049)
NON-OPERATING REVENUES:	
State sources	23,481
Federal sources	1,773,712
Interest income	328
TOTAL NON-OPERATING REVENUES	1,797,521
Change in net position	(225,528)
Net position beginning of year	645,563
Net position end of year	$ 420,035

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	$ 891,577
Cash received from miscellaneous operating activities	2,712
Cash payments to employees for services	(1,385,952)
Cash payments to suppliers for goods or services	(1,329,016)
Net cash used in operating activities	(1,820,679)
Cash flows from non-capital financing activities:	
State grants received	23,481
Federal grants received	1,661,560
Net cash provided by non-capital financing activities	1,685,041
Cash flows from capital financing activities:	
Acquisitions of assets	(3,935)
Cash flows from investing activities:	
Interest on investment	328
Net decrease in cash and cash equivalents	(139,245)
Cash and cash equivalents at beginning of year	510,096
Cash and cash equivalents at end of year	$ 370,851
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (2,023,049)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	120,914
Depreciation	24,974
Decrease in inventories	2,984
Increase in accounts receivable	(22,821)
Increase in accounts payable	9,530
Increase in salaries and benefits payable	35,259
Increase in unearned revenue	3,929
Increase in net OPEB liability	27,601
Net cash used in operating activities	$ (1,820,679)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at $120,914.

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit J

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Private Purpose Trust	
	Scholarship Fund	Agency Fund
ASSETS		
Cash and pooled investments:		
U.S. Treasury Bonds	$ 74,000	0
Certificates of Deposit	45,306	0
Other	32,917	8,860
TOTAL ASSETS	152,223	8,860
LIABILITIES		
Due to other groups	0	8,860
NET POSITION		
Reserved for scholarships	101,002	0
Unreserved	51,221	0
TOTAL NET POSITION	$ 152,223	0

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit K

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2013

	Private Purpose Trust Scholarship Fund
Additions:	
Local sources:	
Gifts and contributions	$ 1,222
Interest on investments	6,661
Total additions	7,883
Deletions:	
Instruction	
Regular:	
Scholarships awarded	6,000
Change in net position	1,883
Net position beginning of year	150,340
Net position end of year	$ 152,223

SEE NOTES TO FINANCIAL STATEMENTS.

(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.

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 Position (previously referred to as 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 Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

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

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

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has 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 non-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 position and changes in net position. 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 help 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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - restricted and then unassigned fund balances.

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, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

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 Position. 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	$ 2,500
Buildings	2,500
Land improvements	2,500
Intangibles	200,000
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 Position 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 Position 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 Position.

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 Position – In the government-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position 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. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The District's deposits at June 30, 2013 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, 2013, 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. The investments in the Tamarack Investment Funds are registered and not subject to rating.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Physical Plant and Equipment Levy	$ 642,384
Support Trust	Activity Fund	8,172
		$ 650,556

The Transfer from Capital Projects: Physical Plant and Equipment Levy to the Debt Service to pay for principle and interest on the District's computer lease indebtedness from the 1:1 initiative.

The Activity Fund transferred the Madison Friends of Playground C.D. to the Support Trust since it did not meet the criteria of a student organization or extracurricular activity per the Iowa Department of Education's administrative rule 298A.8.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 806,838	39,980	0	846,818
Construction in progress	516,851	6,686,469	0	7,203,320
Total capital assets not being depreciated	1,323,689	6,726,449	0	8,050,138
Capital assets being depreciated:				
Buildings	52,998,554	344,822	0	53,343,376
Land improvements	2,439,694	77,827	0	2,517,521
Machinery and equipment	6,994,117	700,643	398,564	7,296,196
Total capital assets being depreciated	62,432,365	1,123,292	398,564	63,157,093
Less accumulated depreciation for:				
Buildings	24,642,670	1,936,380	0	26,579,050
Land improvements	921,551	119,930	0	1,041,481
Machinery and equipment	4,757,953	606,292	377,171	4,987,074
Total accumulated depreciation	30,322,174	2,662,602	377,171	32,607,605
Total capital assets being depreciated, net	32,110,191	(1,539,310)	21,393	30,549,488
Governmental activities capital assets, net	$ 33,433,880	5,187,139	21,393	38,599,626

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	$ 547,968	3,935	0	551,903
Less accumulated depreciation	414,911	24,974	0	439,885
Business type activities capital assets, net	$ 133,057	(21,039)	0	112,018

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 35,016
Other	16,080
Support services:	
Student	58,383
Instructional staff	67,251
Administration	120,756
Operation and maintenance of plant	117,504
Transportation	261,108
Non-instructional programs:	
Food service operations	28,403
	704,501
Unallocated depreciation	1,958,101
Total governmental activities depreciation expense	$ 2,662,602
Business type activities:	
Food services	$ 24,974

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2013 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
Computer Leases	$ 1,814,129	0	610,484	1,203,645	596,507
Termination Benefits	884,756	0	884,756	0	0
Net OPEB Liability	0	89,433	0	89,433	0
Total	$ 2,698,885	89,433	1,495,240	1,293,078	596,507

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business Type Activities:					
Net OPEB Liability	$ 0	4,499	0	4,499	0

Computer Leases Payable

Details of the District's June 30, 2013 computer lease indebtedness is as follows:

Year Ending June 30,	Laptop Lease of May 23, 2012 Interest Rates	Principal	Interest	Total	Laptop Lease of May 23, 2012 Interest Rates	Principal	Interest	Total	Total Principal	Total Interest	Total Total
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		$ 1,154,909	32,191	1,187,100		$ 48,736	98	48,834	$ 1,203,645	32,289	1,235,934

(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 5.78% of their annual salary and the District is required to contribute 8.67% of annual covered salary for the year ended June 30, 2013. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were $2,783,590, $2,602,406 and $2,081,289 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 health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 787 active and 66 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, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	$ 1,547,835
Interest on net OPEB obligation	(26,857)
Adjustment to annual required contribution	23,817
Annual OPEB cost (expense)	1,544,795
Contributions made	(854,037)
Increase in net OPEB obligation	690,758
Net OPEB obligation - beginning of year	(596,826)
Net OPEB obligation - end of year	$ 93,932

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. 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, 2013.

For the fiscal year 2013, the District contributed $854,037 to the medical plan.

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, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	$ 846,954	131.18 %	$ (412,000)
2012	845,174	121.87	(596,826)
2013	1,544,795	55.28	93,932

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was approximately $17.409 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of approximately $17.409 million. The covered payroll (annual payroll of active employees covered by the plan) was $26.573 million, and the ratio of the UAAL to the covered payroll was 65.5%. As of June 30, 2013, 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, 2012 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 9.5%. 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 Combined Healthy Generational 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, 2011 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2011.

Projected claim costs of the medical plan adjusted to age 60 are $552 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, 2013 is comprised of the following programs:

Program	Amount
Home school assistance program	$ 36,145
Weighted at-risk programs	222,187
Talented and gifted	169,406
Returning dropouts and dropout prevention	85,367
Four-year-old preschool	189,313
Teacher salary supplement	224,684
Professional development	38,580
Professional development for the model core curriculum	2,685
Market factor incentives	21,754
Total	$ 990,121

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $2,010,185 for the year ended June 30, 2013 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 $9,003,911 for various projects at the High School. At June 30, 2013, $7,203,320 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 capitalized as part of 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.

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, 2013

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance
Revenues:						
Local sources	$ 24,638,202	913,509	25,551,711	25,791,319	25,791,319	(239,608)
Intermediate sources	0	0	0	698,527	698,527	(698,527)
State sources	32,010,126	23,481	32,033,607	31,865,545	31,865,545	168,062
Federal sources	2,120,614	1,773,712	3,894,326	3,520,405	3,520,405	373,921
Total revenues	58,768,942	2,710,702	61,479,644	61,875,796	61,875,796	(396,152)
Expenditures/Expenses:						
Instruction	36,254,296	0	36,254,296	38,650,296	38,650,296	2,396,000
Support services	15,808,457	60,262	15,868,719	15,921,110	15,921,110	52,391
Non-instructional programs	11,404	2,875,968	2,887,372	3,174,883	3,174,883	287,511
Other expenditures	9,733,787	0	9,733,787	8,627,886	9,783,345	49,558
Total expenditures/expenses	61,807,944	2,936,230	64,744,174	66,374,175	67,529,634	2,785,460
Excess(Deficiency) of revenues over(under) expenditures/expenses	(3,039,002)	(225,528)	(3,264,530)	(4,498,379)	(5,653,838)	2,389,308
Other financing sources, net	17,951	0	17,951	0	0	17,951
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(3,021,051)	(225,528)	(3,246,579)	(4,498,379)	(5,653,838)	2,407,259
Balance beginning of year	16,198,679	645,563	16,844,242	17,191,714	17,191,714	(347,472)
Balance end of year	$ 13,177,628	420,035	13,597,663	12,693,335	11,537,876	2,059,787

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

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 $1,155,459.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	$ 0	$ 8,933	$ 8,933	0.0 %	$ 23,974	37.3 %
2010	July 1, 2008	0	8,933	$ 8,933	0.0	25,857	34.5
2011	July 1, 2010	0	9,255	9,255	0.0	24,900	37.2
2012	July 1, 2010	0	9,255	9,255	0.0	25,504	36.3
2013	July 1, 2012	0	17,409	17,409	0.0	26,573	65.5

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

Schedule 1

MUSCATINE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	Special Revenue			
	Management Levy	Student Activity	Support Trust	Total
ASSETS				
Cash and pooled investments	$ 1,890,616	445,771	61,200	2,397,587
Receivables:				
Property tax:				
Delinquent	10,262	0	0	10,262
Succeeding year	499,998	0	0	499,998
Accounts	0	808	0	808
Due from other governments	205	0	0	205
TOTAL ASSETS	$ 2,401,081	446,579	61,200	2,908,860
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 4,010	7,025	0	11,035
Salaries and benefits payable	0	1,635	0	1,635
Deferred revenue:				
Succeeding year property tax	499,998	0	0	499,998
Total liabilities	504,008	8,660	0	512,668
Restricted for:				
Management levy purposes	1,897,073	0	0	1,897,073
Student Activities	0	437,919	0	437,919
Support trust	0	0	61,200	61,200
Total fund balances	1,897,073	437,919	61,200	2,396,192
TOTAL LIABILITIES AND FUND BALANCES	$ 2,401,081	446,579	61,200	2,908,860

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

MUSCATINE COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	Special Revenue Funds					
	Management Levy	Student Activity	Support Trust	Total	Debt Service	Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	$ 1,207,578	0	0	1,207,578	0	1,207,578
Other	10,851	650,607	56,116	717,574	0	717,574
State sources	508	0	0	508	0	508
Federal sources	3,599	0	0	3,599	0	3,599
TOTAL REVENUES	1,222,536	650,607	56,116	1,929,259	0	1,929,259
EXPENDITURES:						
Current:						
Instruction:						
Regular	813,558	0	0	813,558	0	813,558
Other	0	656,290	3,088	659,378	0	659,378
Support services:						
Student	34,667	0	0	34,667	0	34,667
Instructional staff	3,646	0	0	3,646	0	3,646
Administration	79,723	0	0	79,723	0	79,723
Operation and maintenance of plant	233,973	735	0	234,708	0	234,708
Transportation	41,760	0	0	41,760	0	41,760
Non-instructional programs:						
Food service operations	11,404	0	0	11,404	0	11,404
Long-term debt:						
Principal	0	0	0	0	610,484	610,484
Interest and fiscal charges	0	0	0	0	31,900	31,900
TOTAL EXPENDITURES	1,218,731	657,025	3,088	1,878,844	642,384	2,521,228
Excess (Deficiency) of revenues over (under) expenditures	3,805	(6,418)	53,028	50,415	(642,384)	(591,969)
Other financing sources (uses):						
Transfer in	0	0	8,172	8,172	642,384	650,556
Transfer out	0	(8,172)	0	(8,172)	0	(8,172)
Total other financing sources (uses)	0	(8,172)	8,172	0	642,384	642,384
Excess (Deficiency) of revenues and other financing sources over (under) expenditures	3,805	(14,590)	61,200	50,415	0	50,415
Fund balances beginning of year	1,893,268	452,509	0	2,345,777	0	2,345,777
Fund balances end of year	$ 1,897,073	437,919	61,200	2,396,192	0	2,396,192

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

MUSCATINE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECT ACCOUNTS
JUNE 30, 2013

	Capital Projects Fund		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	$ 5,295,815	821,045	6,116,860
Receivables:			
Delinquent	0	11,457	11,457
Succeeding year	0	1,497,686	1,497,686
Due from other governments	1,001,430	227	1,001,657
Total assets	$ 6,297,245	2,330,415	8,627,660
Liabilities and fund balances			
Liabilities:			
Accounts payable	$ 954,066	66,333	1,020,399
Deferred revenue			
Succeeding year property tax	0	1,497,686	1,497,686
Total liabilities	954,066	1,564,019	2,518,085
Fund balances:			
Restricted for:			
School infrastructure	5,343,179	0	5,343,179
Physical plant and equipment	0	766,396	766,396
Total fund balances	5,343,179	766,396	6,109,575
Total liabilities and fund balances	$ 6,297,245	2,330,415	8,627,660

SEE ACCOMPANYING INDEPENDENT AUDITOR’S REPORT.

Schedule 4

MUSCATINE COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2013

	Capital Project Fund		
	Statewide Sales & Services Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	$ 4,400,620	1,358,608	5,759,228
Other	23,577	37,649	61,226
State sources	0	560	560
Federal sources	0	3,971	3,971
TOTAL REVENUES	4,424,197	1,400,788	5,824,985
EXPENDITURES:			
Current:			
Instruction:			
Regular	0	84,635	84,635
Support services:			
Instructional staff	0	8,177	8,177
Adminstration	0	255,600	255,600
Operation and maintenance of plant	7,266	138,548	145,814
Transportation	0	315,326	315,326
Capital outlay	6,325,364	755,854	7,081,218
TOTAL EXPENDITURES	6,332,630	1,558,140	7,890,770
Deficiency of revenues under expenditures	(1,908,433)	(157,352)	(2,065,785)
OTHER FINANCING SOURCES (USES):			
Insurance proceeds	0	13,394	13,394
Transfers out	0	(642,384)	(642,384)
TOTAL OTHER FINANCING SOURCES(USES)	0	(628,990)	(628,990)
Change in fund balances	(1,908,433)	(786,342)	(2,694,775)
Fund balance beginning of year	7,251,612	1,552,738	8,804,350
Fund balance end of year	$ 5,343,179	766,396	6,109,575

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expenditures	Interfund and Intrafund Transfers	Balance End of Year
High School:					
Activity Tickets	$ 5,858	5,399	0	0	11,257
Petty Cash	1,600	0	0	0	1,600
Student Services	18,216	14,102	11,523	0	20,795
Band	13,011	33,162	42,216	0	3,957
Chorus	7,334	14,426	16,119	0	5,641
All Colors Count	796	51	0	0	847
Interact Club	2,975	0	0	427	3,402
Drama	25,906	16,493	15,788	0	26,611
Forensics	675	4,143	4,725	0	93
Annual Auroran	336	47,461	47,750	0	47
Weekly Auroran	2,562	209	0	0	2,771
Auxilary Scholarship	1,672	0	0	935	2,607
Russian Exchange	0	12,676	2,917	(9,759)	0
Class of 2012	395	0	0	0	395
Future Business Leaders	214	987	1,018	0	183
French Club	459	0	0	0	459
German Club	1,470	0	718	0	752
Spanish Club	897	35	532	0	400
MHS Science Club	1,569	0	0	0	1,569
Model UN	9,766	2,277	3,364	0	8,679
Student Council	5,038	58,555	58,870	(935)	3,788
Athletics	54,988	318,428	335,781	0	37,635
Cheerleaders	196	3,995	4,191	0	0
Donation Fund	56,799	175	0	0	56,974
Pom Pom	4,786	7,580	12,366	0	0
Muskie Spirit	0	0	0	9,759	9,759
Sports Calendar	94,812	2,624	12,685	0	84,751
Tournaments	43,163	25,143	16,745	0	51,561
MHS Interact Club	0	2,677	2,250	(427)	0
Admin Fund	0	1,210	0	0	1,210
	355,493	571,808	589,558	0	337,743
Elementary Schools:					
Madison Friends of Playgroud C.D.	8,172	0	0	(8,172)	0

SEE ACCOMPANYING INDEPENDENT AUDITOR’S REPORT.

Schedule 5

Account	Balance Beginning of Year	Revenues	Expenditures	Interfund and Intrafund Transfers	Balance End of Year
Central Middle School:					
Athletics	5,684	12,413	13,012	0	5,085
Fund Raisers	22,873	21,461	28,577	0	15,757
Student Council	1,620	1,083	592	0	2,111
General Activity	17,920	300	0	0	18,220
Little Store	1,653	0	0	0	1,653
Music/Drama	6,003	2,359	3,179	0	5,183
Yearbook	4,783	4,560	0	0	9,343
Juice	2,727	0	0	0	2,727
CMS Petty Cash	200	0	0	0	200
	63,463	42,176	45,360	0	60,279
West Middle School:					
Athletics	6,264	17,828	10,206	0	13,886
Fund Raisers	0	3,709	0	0	3,709
General Activity	7,357	4,150	4,219	0	7,288
Music/Drama	899	3,792	2,246	0	2,445
Yearbook	4,984	6,304	5,028	0	6,260
Band	3,201	125	408	0	2,918
WMS Petty Cash	200	0	0	0	200
	22,905	35,908	22,107	0	36,706
Central Office:					
Interest Investments	2,476	715	0	0	3,191
Total	$ 452,509	650,607	657,025	(8,172)	437,919

Schedule 6

MUSCATINE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
FIDUCIARY FUND, PRIVATE PURPOSE TRUST
JUNE 30, 2013

	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Jefferson Culture Fair Scholarship	Total
ASSETS				
Cash and pooled investments:				
U.S. Treasury Bonds	$ 74,000	0	0	74,000
Certificates of Deposit	17,041	28,265	0	45,306
Other	7,306	24,389	1,222	32,917
TOTAL ASSETS	98,347	52,654	0	152,223
LIABILITIES	0	0	0	0
NET POSITION				
Restricted for scholarships	74,000	27,002	0	101,002
Unrestricted	24,347	25,652	1,222	51,221
TOTAL NET POSITION	$ 98,347	52,654	1,222	152,223

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 7

MUSCATINE COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND, PRIVATE PURPOSE TRUST
YEAR ENDED JUNE 30, 2013

	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Jefferson Culture Fair Scholarship	Total
Additions:				
Local sources:				
Gifts and contributions	$ 0	0	1,222	1,222
Interest on investments	6,548	113	0	6,661
Total additions	6,548	113	1,222	7,883
Deductions:				
Instruction:				
Regular instruction:				
Scholarships awarded	3,000	3,000	0	6,000
Change in net position	3,548	(2,887)	1,222	1,883
Net position beginning of year	94,799	55,541	0	150,340
Net position end of year	$ 98,347	52,654	1,222	152,223

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 8

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND
YEAR ENDED JUNE 30, 2013

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	$ 123,542	623,999	738,681	8,860
LIABILITIES				
Due to other groups	$ 123,542	623,999	738,681	8,860

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 TEN YEARS

	Modified Accrual Basis									
	Years Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	$ 22,530,785	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	621,193	789,295	678,551	646,617	634,578	656,615	685,601	627,827	1,095,561	1,182,937
Other	1,486,224	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	32,010,126	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	2,120,614	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	0	156,851	203,136	13
Total	$ 58,768,942	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	$ 22,013,749	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	7,534,403	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	6,706,144	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	1,646,917	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	1,281,373	3,366,854	1,496,839	1,061,588	1,092,250	1,138,973	975,467	1,772,001	1,362,482	1,380,395
Administration	6,119,304	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	5,010,283	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	1,750,580	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	0	197,781	3,024	176,779
Non-instructional programs	11,404	14,007	20,834	43,334	26,418	41,495	64,175	57,958	68,506	81,022
Capital outlay	7,081,218	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	610,484	0	0	0	0	0	0	760,000	735,000	869,478
Interest and fiscal charges	31,900	0	0	0	0	0	0	21,773	47,869	69,953
Other expenditures:										
AEA flow-through	2,010,185	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	$ 61,807,944	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.

Schedule 10

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 13	$ 316,706
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 13	1,306,667
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 13	63,048
			1,686,421
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 13	87,291
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-G	843,671
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-GC	106,359
			950,030
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 12	13,921
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 13	27,693
			41,614
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 13	224,812
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 13	33,624
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 13	295,828
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 13	65,213
TOTAL			$ 3,384,833

* Includes non-cash awards of $120,914.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
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 in accordance with U.S. generally accepted auditing standard and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the 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, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 24, 2014.

Internal Control Over Financial Reporting

In planning and performing out 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 an 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.

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 misstatement 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 and corrected on a timely basis. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-13 that we consider to be a significant deficiency.

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, 2013 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

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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 PC

NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2014
Newton, Iowa

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
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Independent Auditor's Report on Compliance for Each Major Federal Program, on Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Board of Education of
Muscatine Community School District:

Report on Compliance for Each Major Federal Program

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, 2013. Muscatine Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Muscatine Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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.

Opinion on Each Major Federal Program

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 to each of its major federal programs for the year ended June 30, 2013.

Internal Control Over Compliance

The management of Muscatine Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. 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 to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but no 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 the District's 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. 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.

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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2014
Newton, Iowa

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

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

(a) Unmodified opinions were issued on the financial statements.

(b) A significant deficiency 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 10.559 - Summer Food Service Program for Children

Individual Programs
- CFDA Number 84.010 - Title I Grants to Local Education Agencies

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) Muscatine Community School District did qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-13 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. We have instructed event sponsors when printing tickets that the tickets need to be pre-numbered. 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-B-13 Commodity Pricing - We noted during our audit that the commodity inventory in the School Nutrition Fund was not priced according to the USDA guidelines.

Recommendation - The District should review the procedures in place for calculation of commodity inventory prices. The State of Iowa provides a price guide listing of values to be used in the calculation. The District needs to use the correct price values in calculating the inventory value at year end.

Response - The district agrees with the recommendation, the district does use the State of Iowa price guide listing of values.

Conclusion - Response accepted.

II-C-13 Board Policies - We noted not all board policies have not been updated in the past five years. Board policies should be reviewed by the Board of Directors at least once every five years.

Recommendation - The Board should review policies in a timely manner to ensure they are up to date.

Response - The district makes every effort to update our policies according to schedule. We are unaware of policies that are not up to date.

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-13 Certified Budget - District expenditures for the year ended June 30, 2013 did not exceed the amount budgeted.

IV-B-13 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-13 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-13 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	$18,120
Stacie Olsen, Teacher Spouse is director of Muscatine Community YMCA	Services	$73,685
Susan Krieger, Teacher Spouse owns Krieger Motors Company	Vehicle Purchases	$74,917
Spouse owns Enterprise Rentals	Services	$4,844
Mary Shihadeh, Preschool Coordinator Mother owns A Childs Place	Services	$113,492
Ryan Reifert, Coach Grandmother owns and father manages Sprouse Distributing	Supplies	$11,282
Rachel Reifert, Teacher Grandmother owns and father-in-law manages Sprouse Distributing	Supplies	$11,282
Mary Lucas, Bus Driver Son owns Lucas Communication	Services	$253,553
Kevin Lange, Mechanic Brother owns Lange Safety Service	Services	$1,258
Robert Weaton, High School Principal Spouse owns Skywriter Invitations	Services	$329

Name, Title and Business Connection	Transaction Description	Amount
Nathan Mather, Board Member Father owns Vision Center, P.C.	Services	$1,011
Tammy Drawbaugh, School Board Vice President Employee of HON, Inc	Supplies	$12,663
Jeff Cochran, Bus Driver Owner of Bosch Pest Control	Services	$8,530
Mary Kisner, Teacher Owner of Avenue Subs	Food purchases	$239
Robyn Canfield, Substitute Teacher Spouse is the Store manager of Hy-Vee	Supplies	$11,776
John Lawrence, Middle School Principal Spouse owns Muscatine Travel	Services	$18,269
Gina Scliesman Spouse is manager at Hy-Vee	Supplies	$11,776
Jessica Feers, Teacher Spouse owns Freers and Sons Tree Service	Services	$5,950
Rich Hines, Technology Father is manager at Muscatine Power & Water	Services	$676,988
Lynn Hines, Teacher Father in law is manager at Muscatine Power & Water	Services	$676,988

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-13 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-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

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

Response - The district makes every effort to comply with Chapter 279.35 of the Code of Iowa. We are aware of only one instance where this occurred.

Conclusion - Response accepted.

IV-G-13 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 3.50 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-13 Supplementary Weighting - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-I-13 Deposits and Investments - We noted the District currently owns stock in Sun Life Financial of Canada. This does not appear to be an allowable investment under investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

Recommendation - The District should evaluate methods of complying with Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

Response - The district was unaware of the stock in its name from Sun Life Financial. The district is in communication with Sun Life and is in the process of complying with Chapter 12B and Chapter 12C of the Code of Iowa and our District's investment policy.

Conclusion - Response accepted.

IV-J-13 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-13 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, as evidenced by the district's categorical funding carryover balance decreased $853,567 from the previous year.

Conclusion - Response accepted.

IV-L-13 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, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		$ 7,251,612
Revenues:		
Sales tax revenues	$ 4,400,620	
Other local revenues	23,577	4,424,197
		11,675,809
Expenditures:		
School infrastructure construction	6,325,364	
Other	7,266	6,332,630
Ending balance		$ 5,343,179

For the year ended June 30, 2013, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Per $1,000 of Taxable Valuation	Property Tax Dollars
Physical Plant & Equipment Levy	$ 0.54000	$ 647,149

IV-M-13 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 taken control of the pop machines located in school buildings. The money is going through the district's activity fund. There are a couple pop machines located at the administration center that operate for the convenience of the public. The pricing of the beverages would indicate that there is little to no profits. The revenue and expenses for these machines do not run through the district books.

Conclusion - Response accepted.

IV-N-13 Activity Fund - We noted during our audit that the District receives money for the use of facilities when hosting district and regional events. The District currently receipts district and regional rents into the Student Activity fund.

Recommendation - Chapter 297.9 of the Code of Iowa requires rent to be receipted into the General Fund. The District should receipt rent collected for facility usage into the General Fund.

Response - The district will review Chapter 297.9 of the Code of Iowa. However, the district treats the receipt of money when hosting district and regional events not as rent but as reimbursement of costs associated with hosting events. The district receipts the money in the fund in which the expenses occurred. The money received does not cover the direct costs of hosting such events let alone the indirect cost.

Conclusion - Response acknowledged. Revenue collected for the use of District facilities should be recorded in the General Fund in accordance with Chapter 297.9 of the Code of Iowa. If the costs of hosting an event are higher than the reimbursement received, the District should document how the amount is determined.