

MUSCATINE COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

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Muscatine Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2013 Election)		
Mary Wildermuth	Board President	2015
Tammi Drawbaugh	Vice President	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	2013
(After September 2013 Election)		
Nathan Mather	Board President	2015
Randy Naber	Vice President	2017
Timothy Bower	Board Member	2017
Tammi Drawbaugh	Board Member	2017
Brenda Garcia-Van Auken	Board Member	2015
Tom Johanns	Board Member	2015
Mary Wildermuth	Board Member	2015
School Officials		
Jerry Riibe	Superintendent	2014
Jean K. Garner	Director of Finance and Budget	2014
Lisa Mosier	District Secretary	2014
Duane J. Goedken	Attorney	2014
Stanley, Lande & Hunter	Attorney	2014
Ahlers and Cooney	Attorney	2014

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, 2014, 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, 2014, 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 15 and 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 seven years ended June 30, 2013 (which are not presented herein) and expressed unmodified 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 two years ended June 30, 2006 (which are not presented herein) and expressed unmodified opinions 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 underlying 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 2, 2015, 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, P.C.

March 2, 2015
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, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$51,019,255 in fiscal 2013 to \$54,070,658 in fiscal 2014, while General Fund expenditures increased from \$51,395,946 in fiscal 2013 to \$52,458,216 in fiscal 2014. This resulted in an increase in the District's General Fund balance from \$4,671,861 at June 30, 2013 to a balance of \$6,284,303 at June 30, 2014, a 34.51% increase 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. This entire multi-year multi-phase project is to be funded out of existing Capital Project balance and future revenues. In fiscal year 2014, the first phase of this multi-year project was completed at a cost of \$7,976,753.
- The construction of a new Jefferson elementary building started in fiscal year 2014. The \$11.5 million project is for a new 66,000 square foot building, consisting of classrooms, instructional areas, gymnasium, and cafeteria student commons area. This entire project is to be funded out of existing Capital Project balance and future revenues.
- Fiscal Year 2014 was the first year the district implemented the Instructional Support Levy (ISL). This levy not only provides the district with cash but it also provides the district with additional spending authority. The amount generated by the ISL for fiscal 2014 was \$2,177,255.

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.

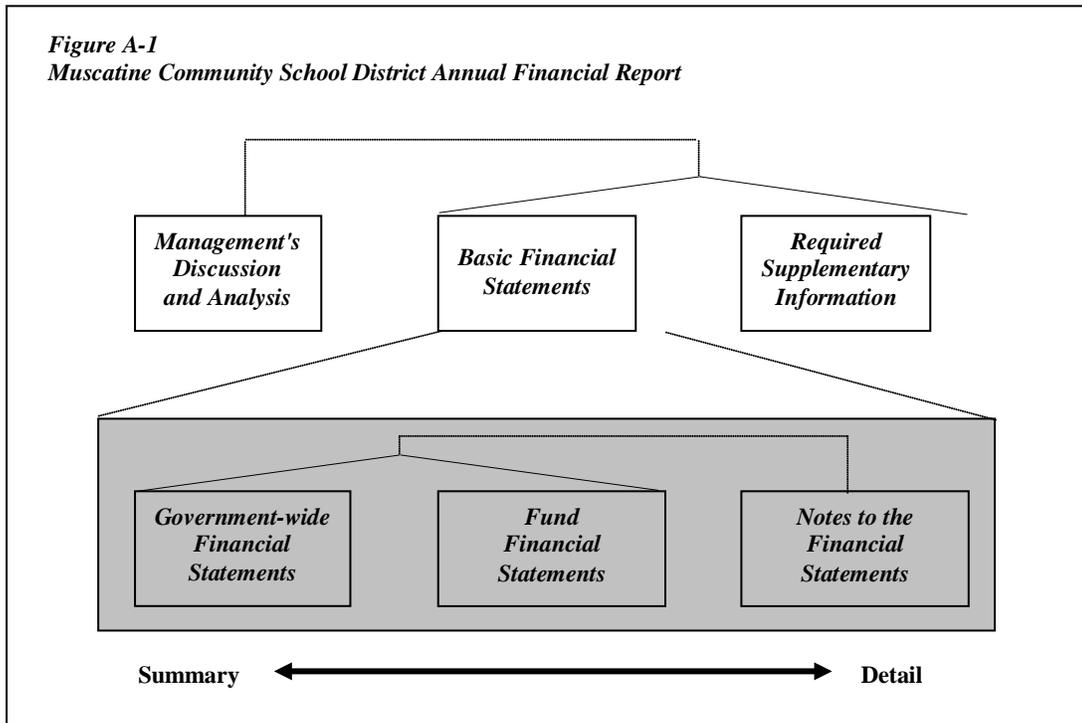


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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	<ul style="list-style-type: none"> Statement of net position Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> Statement of net position Statement of revenues, expenses and changes in fund net position Statement of cash flows 	<ul style="list-style-type: none"> 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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. 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 is 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 three 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.
- *Component unit*: This includes the activities of the Muscatine Community School Foundation. The District receives significant financial benefits from the Foundation although they are legally separate entities.

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 governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net position at June 30, 2014 compared to June 30, 2013.

Figure A-3
Condensed Statement of Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 38,757,338	38,310,499	402,677	511,793	39,160,015	38,822,292	0.87%
Capital assets	40,099,710	38,599,626	234,401	112,018	40,334,111	38,711,644	4.19%
Total assets	78,857,048	76,910,125	637,078	623,811	79,494,126	77,533,936	2.53%
Long-term obligations	1,240,420	1,293,078	31,860	4,499	1,272,280	1,297,577	-1.95%
Other liabilities	6,412,573	6,855,025	222,119	199,277	6,634,692	7,054,302	-5.95%
Total liabilities	7,652,993	8,148,103	253,979	203,776	7,906,972	8,351,879	-5.33%
Deferred inflows of resources	18,473,203	18,279,634	-	-	18,473,203	18,279,634	1.06%
Net position:							
Net investment in capital assets,	40,099,710	38,599,626	234,401	112,018	40,334,111	38,711,644	4.19%
Restricted	8,481,871	9,495,888	-	-	8,481,871	9,495,888	-10.68%
Unrestricted	4,149,271	2,386,874	148,698	308,017	4,297,969	2,694,891	59.49%
Total net position	\$ 52,730,852	50,482,388	383,099	420,035	53,113,951	50,902,423	4.34%

The District's combined net position increased 4.34%, or \$2,211,528, over the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the 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 \$1,014,017 or 10.68% from the prior year. The decrease in restricted net position was primarily a result of the decrease in the fund balance of the Management Levy Fund as compared to the previous year.

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 \$1,603,078 or 59.49%. The increase in unrestricted net position is mainly attributable to the increase in the General Fund carryover balance.

Figure A-4 shows the changes in net position for the year ended June 30, 2014 compared to the year ended June 30, 2013.

Figure A-4
Changes in Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Revenues:							
Program revenues:							
Charges for services	\$ 1,420,769	1,308,173	893,814	910,469	2,314,583	2,218,642	4.32%
Operating grants and contributions and restricted interest	7,087,035	5,575,839	1,947,083	1,797,193	9,034,118	7,373,032	22.53%
Capital grants and contributions and restricted interest	10,000	33,000	-	-	10,000	33,000	-69.70%
General revenues:							
Property tax	18,320,746	18,130,165	-	-	18,320,746	18,130,165	1.05%
Income surtax	252,332	-	-	-	252,332	-	100.00%
Statewide sales, services and use tax	4,650,907	4,400,620	-	-	4,650,907	4,400,620	5.69%
Unrestricted state grants	29,582,851	28,835,505	-	-	29,582,851	28,835,505	2.59%
Nonspecific program federal grants	-	53,955	-	-	-	53,955	-100.00%
Unrestricted investment earnings	29,395	50,963	94	328	29,489	51,291	-42.51%
Other general revenue	250,821	380,722	7,358	2,712	258,179	383,434	-32.67%
Total revenues	61,604,856	58,768,942	2,848,349	2,710,702	64,453,205	61,479,644	4.84%
Program expenses:							
Governmental activities:							
Instructional	36,912,548	36,013,605	-	-	36,912,548	36,013,605	2.50%
Support services	17,775,941	15,738,566	56,269	60,262	17,832,210	15,798,828	12.87%
Non-instructional programs	-	39,807	3,085,416	2,875,968	3,085,416	2,915,775	5.82%
Other expenses	4,411,503	3,998,653	-	-	4,411,503	3,998,653	10.32%
Total expenses	59,099,992	55,790,631	3,141,685	2,936,230	62,241,677	58,726,861	5.99%
Excess(Deficiency) of revenues over(under) expenses	2,504,864	2,978,311	(293,336)	(225,528)	2,211,528	2,752,783	19.66%
Transfers	(256,400)	-	256,400	-	-	-	0.00%
Change in net position	2,248,464	2,978,311	(36,936)	(225,528)	2,211,528	2,752,783	19.66%
Net position beginning of the year	50,482,388	47,504,077	420,035	645,563	50,902,423	48,149,640	5.72%
Net position end of year	\$ 52,730,852	50,482,388	383,099	420,035	53,113,951	50,902,423	4.34%

In fiscal 2014, property tax, statewide sales, service and use tax and unrestricted state grants account for 85.31% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.94% of the revenue from business type activities.

The District's total revenues were approximately \$64.45 million of which approximately \$61.60 million was for governmental activities and approximately \$2.85 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.84% increase in revenues and a 5.99% increase in expenses. Unrestricted state grants increased \$747,346 to help fund the increase in expenses. The increase in expenses is related to increases in negotiated salaries and benefits received by District employees.

Governmental Activities

Revenues for governmental activities were \$61,604,856 and expenses were \$59,099,992.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2014 compared to the year ended June 30, 2013.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 36,912,548	36,013,605	2.50%	30,703,991	31,303,700	-1.92%
Support services	17,775,941	15,738,566	12.95%	17,566,814	15,541,644	13.03%
Non-instructional programs	-	39,807	-100.00%	-	39,807	-100.00%
Other expenses	4,411,503	3,998,653	10.32%	2,311,383	1,988,468	16.24%
Totals	<u>\$ 59,099,992</u>	<u>55,790,631</u>	<u>5.93%</u>	<u>50,582,188</u>	<u>48,873,619</u>	<u>3.50%</u>

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$1,420,769.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$7,097,035.
- The net cost of governmental activities was financed with \$18,320,746 in property tax, \$252,332 in income surtax, \$4,650,907 in statewide sales, services and use tax, \$29,582,851 in unrestricted state grants, \$29,395 in interest income and \$250,821 in other general revenue.

Business type Activities

Revenues of the District's business type activities were \$2,848,349 and expenses were \$3,141,685. 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 \$13,620,328, above last year's ending fund balances of a \$13,177,628. This primarily resulted from an increase in the General Fund balance.

Governmental Fund Highlights

- The District's increasing General Fund financial position from \$4,671,861 to \$6,284,303 is the product of many factors. Growth in local tax collections and unrestricted state grant funding resulted in an increase in revenues as compared to the prior year. However, the increase in revenues was more than enough to offset the increase in fund expenditures causing the increase of \$1,612,442 in fund balance.

- The Capital Projects Fund balance decreased from \$6,109,575 at the beginning of the fiscal year 2014 to \$5,885,227 at the end of fiscal 2014. The decrease in Capital Projects accounts balance is due to continuing construction projects.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$420,035 at June 30, 2013 to \$383,099 at June 30, 2014, representing a decrease of 8.79%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,257,457 more than budgeted revenues, a variance of than 2.00%. The most significant variance resulted from the District receiving more in state sources than originally anticipated.

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested approximately \$40.33 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 \$3,062,109.

The original cost of the District's capital assets was \$76.06 million. Governmental funds account for approximately \$75.25 million with the remainder of approximately \$0.81 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 \$7,203,320 reported at June 30, 2013, compared to \$1,879,868 reported at June 30, 2014. This decrease resulted from continued work on the District's outstanding construction projects during the year that were completed and capitalized as part of the District's capital asset listing. The remaining 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 District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 1,406,537	846,818	-	-	1,406,537	846,818	66.10%
Construction in progress	1,879,868	7,203,320	-	-	1,879,868	7,203,320	-73.90%
Buildings	33,373,330	26,764,326	-	-	33,373,330	26,764,326	24.69%
Land improvements	1,419,898	1,476,040	-	-	1,419,898	1,476,040	-3.80%
Machinery and equipment	2,020,077	2,309,122	234,401	112,018	2,254,478	2,421,140	-6.88%
Total	\$ 40,099,710	38,599,626	234,401	112,018	40,334,111	38,711,644	4.02%

Long-Term Debt

At June 30, 2014, the District had \$1,272,280 in other long-term debt outstanding. This represents a decrease of 1.99% 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 \$607,138 at June 30, 2014.

The District had a net OPEB liability of \$665,142 at June 30, 2014. \$633,282 of this total is in the governmental activities and \$31,860 is in the business type activities.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Computer Leases	\$ 607,138	1,203,645	-	-	607,138	1,203,645	-98.25%
Net OPEB Liability	633,282	89,433	31,860	4,499	665,142	93,932	85.88%
Total	\$ 1,240,420	1,293,078	31,860	4,499	1,272,280	1,297,577	-1.99%

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 approaching the end of a four-year capital lease for the purchase of computers for the 1:1 initiative. Fiscal Year 2015 will be the last payment of the lease. A decision needs to be made on the direction the district wants to go regarding the 1:1 initiative. This decision will have a financial impact to the district.
- 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 a high rate for students who qualify for free and reduced lunches and instructional fees. The district's October 2014 free and reduced percentage is 52.85% with one school's percentages at or about 86% and another at 82%.
- In recent months, the economy especially in the oil industry is starting to show signs of improvement. This development will affect the districts costs associated with transportation and energy.
- Because of the district's desire not to have bonded- indebtedness or to borrow money, the cash flow in the Capital Projects funds has been greatly affected by the construction of the new Jefferson Elementary building. With the commitment of funds toward the Jefferson construction project, this leaves a shortage of funds available within the Capital Project Funds to do other projects for the next few years.
- Starting in fiscal 2015, the district will receive a \$1.6 million Teacher Leadership and Compensation Grant. This is a three-year commitment by the state of Iowa.
- 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.

Muscatine Community School District

BASIC FINANCIAL STATEMENTS

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government			Component Unit *
	Govern- mental Activities	Business Type Activities	Total	Muscatine Community School Foundation
ASSETS				
Cash and pooled investments	\$ 17,609,178	314,588	17,923,766	2,382,133
Receivables:				
Property tax:				
Delinquent	184,272	-	184,272	-
Succeeding year	18,473,203	-	18,473,203	-
Income surtax	252,332	-	252,332	-
Accounts	54,507	7,448	61,955	-
Due from other governments	2,126,473	5,914	2,132,387	-
Inventories	57,373	74,727	132,100	-
Capital assets, net of accumulated depreciation	40,099,710	234,401	40,334,111	-
TOTAL ASSETS	78,857,048	637,078	79,494,126	2,382,133
LIABILITIES				
Accounts payable	1,110,400	4,571	1,114,971	-
Salaries and benefits payable	5,301,075	145,317	5,446,392	-
Advances from grantors	-	26,500	26,500	-
Accrued interest payable	1,098	-	1,098	-
Unearned revenue	-	45,731	45,731	-
Long-term liabilities:				
Portion due within one year:				
Computer leases payable	607,138	-	607,138	-
Portion due after one year:				
Net OPEB liability	633,282	31,860	665,142	-
TOTAL LIABILITIES	7,652,993	253,979	7,906,972	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable property tax revenue	18,473,203	-	18,473,203	-
NET POSITION				
Net investment in capital assets	40,099,710	234,401	40,334,111	-
Restricted for:				
Scholarships	-	-	-	2,320,715
Support of instructional programs	-	-	-	61,418
Categorical funding	1,145,846	-	1,145,846	-
School infrastructure	5,159,860	-	5,159,860	-
Physical plant and equipment	725,367	-	725,367	-
Management levy purposes	971,903	-	971,903	-
Student activities	417,668	-	417,668	-
Support trust	61,227	-	61,227	-
Unrestricted	4,149,271	148,698	4,297,969	-
TOTAL NET POSITION	\$ 52,730,852	383,099	53,113,951	2,382,133

* Component unit information is on a cash basis as of December 31, 2013.

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Functions/Programs:	Net (Expense) Revenue and Changes in Net Position							Component Unit** Muscatine Community School Foundation
	Program Revenues				Primary Government			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total	
Governmental activities:								
Instruction:								
Regular	\$ 21,673,777	596,457	1,233,419	-	(19,843,901)	-	(19,843,901)	-
Special	7,755,020	221,911	1,020,670	-	(6,512,439)	-	(6,512,439)	-
Other	7,483,751	485,612	2,650,488	-	(4,347,651)	-	(4,347,651)	-
	<u>36,912,548</u>	<u>1,303,980</u>	<u>4,904,577</u>	<u>-</u>	<u>(30,703,991)</u>	<u>-</u>	<u>(30,703,991)</u>	<u>-</u>
Support services:								
Student	1,684,721	-	-	-	(1,684,721)	-	(1,684,721)	-
Instructional staff	1,461,514	-	67,600	-	(1,393,914)	-	(1,393,914)	-
Administration	6,438,142	-	-	-	(6,438,142)	-	(6,438,142)	-
Operation and maintenance of plant	6,350,056	-	-	10,000	(6,340,056)	-	(6,340,056)	-
Transportation	1,841,508	116,789	14,738	-	(1,709,981)	-	(1,709,981)	-
	<u>17,775,941</u>	<u>116,789</u>	<u>82,338</u>	<u>10,000</u>	<u>(17,566,814)</u>	<u>-</u>	<u>(17,566,814)</u>	<u>-</u>
Long-term debt interest	20,770	-	-	-	(20,770)	-	(20,770)	-
Other expenditures:								
AEA flowthrough	2,100,120	-	2,100,120	-	-	-	-	-
Depreciation(unallocated)*	2,290,613	-	-	-	(2,290,613)	-	(2,290,613)	-
	<u>4,390,733</u>	<u>-</u>	<u>2,100,120</u>	<u>-</u>	<u>(2,290,613)</u>	<u>-</u>	<u>(2,290,613)</u>	<u>-</u>
Total governmental activities	59,099,992	1,420,769	7,087,035	10,000	(50,582,188)	-	(50,582,188)	-
Business type activities:								
Support services:								
Administration	54,656	-	-	-	-	(54,656)	(54,656)	-
Operation and maintenance of plant	1,613	-	-	-	-	(1,613)	(1,613)	-
	<u>56,269</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(56,269)</u>	<u>(56,269)</u>	<u>-</u>
Non-instructional programs:								
Nutrition services	3,085,416	893,814	1,947,083	-	-	(244,519)	(244,519)	-
Total non-instructional programs	3,141,685	893,814	1,947,083	-	-	(300,788)	(300,788)	-
Total business type activities	3,141,685	893,814	1,947,083	-	-	(300,788)	(300,788)	-
Total primary government	\$ 62,241,677	2,314,583	9,034,118	10,000	(50,582,188)	(300,788)	(50,882,976)	-
Total component unit	\$ 230,762	-	145,957	-	-	-	-	(84,805)
General Revenues & Transfers:								
Property tax levied for:								
General purposes					\$ 16,819,798	-	16,819,798	-
Capital outlay					1,500,948	-	1,500,948	-
Income surtax					252,332	-	252,332	-
Statewide sales, services and use tax					4,650,907	-	4,650,907	-
Unrestricted state grants					29,582,851	-	29,582,851	-
Unrestricted investment earnings					29,395	94	29,489	48,957
Realized gain on investments					-	-	-	15,123
Unrealized gain on investments					-	-	-	89,413
Other					250,821	7,358	258,179	2,395
Transfers					(256,400)	256,400	-	-
Total general revenues & transfers					52,830,652	263,852	53,094,504	155,888
Changes in net position					2,248,464	(36,936)	2,211,528	71,083
Net position beginning of year					50,482,388	420,035	50,902,423	2,311,050
Net position end of year					\$ 52,730,852	383,099	53,113,951	2,382,133

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

** Component unit information is on a cash basis for the year ended December 31, 2013.

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General	Capital Projects	Nonmajor	Total
ASSETS				
Cash and pooled investments	\$ 11,066,537	5,052,178	1,490,463	17,609,178
Receivables:				
Property tax:				
Delinquent	164,249	14,973	5,050	184,272
Succeeding year	15,718,132	1,505,077	1,249,994	18,473,203
Income surtax	252,332	-	-	252,332
Accounts	44,142	-	10,365	54,507
Due from other governments	766,212	1,360,177	84	2,126,473
Inventories	57,373	-	-	57,373
TOTAL ASSETS	\$ 28,068,977	7,932,405	2,755,956	38,757,338
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 513,135	542,101	55,164	1,110,400
Salaries and benefits payable	5,301,075	-	-	5,301,075
Total liabilities	5,814,210	542,101	55,164	6,411,475
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	15,718,132	1,505,077	1,249,994	18,473,203
Income surtax	252,332	-	-	252,332
Total deferred inflows of resources	15,970,464	1,505,077	1,249,994	18,725,535
Fund balances:				
Nonspendable	57,373	-	-	57,373
Restricted for:				
Categorical funding	1,145,846	-	-	1,145,846
School infrastructure	-	5,159,860	-	5,159,860
Physical plant and equipment	-	725,367	-	725,367
Management levy purposes	-	-	971,903	971,903
Student activities	-	-	417,668	417,668
Support trust	-	-	61,227	61,227
Unassigned	5,081,084	-	-	5,081,084
Total fund balances	6,284,303	5,885,227	1,450,798	13,620,328
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 28,068,977	7,932,405	2,755,956	38,757,338

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2014

Total fund balances of governmental funds (page 20)	\$	13,620,328
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in the governmental funds.		40,099,710
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period and, therefore, are recognized as deferred inflows of resources in the governmental funds.		252,332
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.		(1,098)
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.		<u>(1,240,420)</u>
Net position of governmental activities (page 18)	\$	<u>52,730,852</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2014

	General	Capital Projects	Nonmajor	Total
REVENUES:				
Local sources:				
Local tax	\$ 16,318,694	1,500,948	501,104	18,320,746
Tuition	583,016	-	-	583,016
Other	778,833	20,374	613,251	1,412,458
State sources	33,943,427	4,651,496	201	38,595,124
Federal sources	2,441,180	-	-	2,441,180
Total revenues	54,065,150	6,172,818	1,114,556	61,352,524
EXPENDITURES:				
Current:				
Instruction:				
Regular	20,493,697	31,523	801,201	21,326,421
Special	7,628,553	-	-	7,628,553
Other	6,851,613	-	619,914	7,471,527
	34,973,863	31,523	1,421,115	36,426,501
Support services:				
Student	1,616,467	-	25,136	1,641,603
Instructional staff	1,368,087	8,177	2,629	1,378,893
Administration	6,031,360	218,803	90,381	6,340,544
Operation and maintenance of plant	4,875,266	95,361	384,885	5,355,512
Transportation	1,493,053	269,784	78,943	1,841,780
	15,384,233	592,125	581,974	16,558,332
Non-instructional programs:				
Food service operations	-	124,830	56,861	181,691
Capital outlay	-	5,030,721	-	5,030,721
Long-term debt:				
Principal	-	-	596,507	596,507
Interest and fiscal charges	-	-	21,460	21,460
	-	-	617,967	617,967
Other expenditures:				
AEA flowthrough	2,100,120	-	-	2,100,120
Total expenditures	52,458,216	5,779,199	2,677,917	60,915,332
Excess (Deficiency) of revenues over (under) expenditures	1,606,934	393,619	(1,563,361)	437,192
Other financing sources(uses):				
Sale of equipment	5,508	-	-	5,508
Transfer in	-	-	617,967	617,967
Transfer out	-	(617,967)	-	(617,967)
Total other financing sources(uses)	5,508	(617,967)	617,967	5,508
Change in fund balances	1,612,442	(224,348)	(945,394)	442,700
Fund balance beginning of year	4,671,861	6,109,575	2,396,192	13,177,628
Fund balance end of year	\$ 6,284,303	5,885,227	1,450,798	13,620,328

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2014

Change in fund balances - total governmental funds (page 22) \$ 442,700

*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	\$ 4,956,986	
Depreciation expense	(2,928,092)	
Loss on disposal of capital assets	<u>(528,810)</u>	1,500,084

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. 596,507

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. 690

Income surtax accounts receivable is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds. 252,332

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.
 Other postemployment benefits (543,849)

Change in net position of governmental activities (page 19) \$ 2,248,464

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 PROPRIETARY FUND
 JUNE 30, 2014

	<u>School</u> <u>Nutrition</u>
ASSETS	
Current assets:	
Cash and pooled investments	\$ 314,588
Accounts receivable	7,448
Due from other governments	5,914
Inventories	74,727
Total current assets	<u>402,677</u>
Non-current assets:	
Capital assets, net of accumulated depreciation	<u>234,401</u>
TOTAL ASSETS	<u>637,078</u>
LIABILITIES	
Current liabilities:	
Accounts payable	4,571
Salaries and benefits payable	145,317
Advances from grantors	26,500
Unearned revenue	45,731
Total current liabilities	<u>222,119</u>
Non-current liabilities:	
Net OPEB liability	<u>31,860</u>
TOTAL LIABILITIES	<u>253,979</u>
NET POSITION	
Net investment in capital assets	234,401
Unrestricted	148,698
TOTAL NET POSITION	<u>\$ 383,099</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2014

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 893,814
Miscellaneous	7,358
TOTAL OPERATING REVENUE	901,172
OPERATING EXPENSES:	
Support services:	
Administration:	
Salaries	32,454
Benefits	15,786
Services	4,101
Supplies	2,315
Operation and maintenance of plant:	
Services	1,613
Total support services	56,269
Non-instructional programs:	
Food service operations:	
Salaries	1,042,150
Benefits	414,046
Services	67,909
Supplies	1,426,715
Depreciation	134,017
Other	579
Total non-instructional programs	3,085,416
TOTAL OPERATING EXPENSES	3,141,685
OPERATING LOSS	(2,240,513)
NON-OPERATING REVENUES:	
State sources	23,517
Federal sources	1,923,566
Interest income	94
TOTAL NON-OPERATING REVENUES	1,947,177
Deficiency of revenues under expenses	(293,336)
OTHER FINANCING SOURCES	
Capital contributions	256,400
Change in net position	(36,936)
Net position beginning of year	420,035
Net position end of year	\$ 383,099

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 912,968
Cash received from miscellaneous operating activities	7,358
Cash payments to employees for services	(1,449,536)
Cash payments to suppliers for goods or services	(1,347,107)
Net cash used in operating activities	(1,876,317)
Cash flows from non-capital financing activities:	
State grants received	23,517
Federal grants received	1,796,443
Net cash provided by non-capital financing activities	1,819,960
Cash flows from investing activities:	
Interest on investment	94
Net decrease in cash and cash equivalents	(56,263)
Cash and cash equivalents at beginning of year	370,851
Cash and cash equivalents at end of year	\$ 314,588
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,240,513)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	155,852
Depreciation	134,017
Decrease in inventories	8,501
Decrease in accounts receivable	15,623
Decrease in accounts payable	(8,228)
Increase in salaries and benefits payable	1,039
Increase in unearned revenue	3,531
Increase in advances from grantors	26,500
Increase in other post employment benefits	27,361
Net cash used in operating activities	\$ (1,876,317)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2014, the District received Federal commodities valued at \$155,852.

During the year ended June 30, 2014, the Nutrition Fund received capital contributions from the Capital Projects: Statewide Sales, Services and Use Tax Fund of \$256,400.

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
	<u>Scholarship Fund</u>	<u>Fund</u>
ASSETS		
Cash and pooled investments:		
U.S. Treasury Bonds	\$ 74,000	-
Certificates of Deposit	45,442	-
Other	32,226	11,964
TOTAL ASSETS	<u>151,668</u>	<u>11,964</u>
LIABILITIES		
Due to other groups	<u>-</u>	<u>11,964</u>
NET POSITION		
Restricted for scholarships	<u>\$ 151,668</u>	<u>-</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2014

	<u>Private Purpose Trust</u>	<u>Scholarship Fund</u>
Additions:		
Local sources:		
Gifts and contributions	\$ 1,063	
Interest on investments	<u>6,616</u>	
Total additions	<u>7,679</u>	
Deletions:		
Instruction:		
Regular:		
Scholarships awarded		<u>8,234</u>
Change in net position	(555)	
Net position beginning of year		<u>152,223</u>
Net position end of year	<u>\$ 151,668</u>	

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(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 that is appointed by the Muscatine Community School District's Board of Directors. 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 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, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

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 is both restricted and unrestricted net position 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, Deferred Inflows of Resources 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, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2013.

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.

Advances from Grantors - Grant proceeds which have been received by the District but will be spent in a succeeding fiscal year.

Deferred Inflows of Resources - 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 inflows of resources 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 inflows of resources consist 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 Balance - 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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. For the year ended June 30, 2014, District expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2014 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, 2014, 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, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Physical Plant and Equipment Levy	<u>\$ 617,967</u>

The transfer from Capital Projects: Physical Plant and Equipment Levy to the Debt Service Fund was needed for principal and interest payments on the District's computer lease indebtedness.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2014 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 846,818	559,719	-	1,406,537
Construction in progress	7,203,320	3,964,638	9,288,090	1,879,868
Total capital assets not being depreciated	<u>8,050,138</u>	<u>4,524,357</u>	<u>9,288,090</u>	<u>3,286,405</u>
Capital assets being depreciated:				
Buildings	53,343,376	9,145,786	381,274	62,107,888
Land improvements	2,517,521	67,420	-	2,584,941
Machinery and equipment	7,296,196	507,513	434,199	7,369,510
Total capital assets being depreciated	<u>63,157,093</u>	<u>9,720,719</u>	<u>815,473</u>	<u>72,062,339</u>
Less accumulated depreciation for:				
Buildings	26,579,050	2,167,051	11,543	28,734,558
Land improvements	1,041,481	123,562	-	1,165,043
Machinery and equipment	4,987,074	637,479	275,120	5,349,433
Total accumulated depreciation	<u>32,607,605</u>	<u>2,928,092</u>	<u>286,663</u>	<u>35,249,034</u>
Total capital assets being depreciated, net	<u>30,549,488</u>	<u>6,792,627</u>	<u>528,810</u>	<u>36,813,305</u>
Governmental activities capital assets, net	<u>\$ 38,599,626</u>	<u>11,316,984</u>	<u>9,816,900</u>	<u>40,099,710</u>
Business type activities:				
Machinery and equipment	\$ 551,903	256,400	370	807,933
Less accumulated depreciation	439,885	134,017	370	573,532
Business type activities capital assets, net	<u>\$ 112,018</u>	<u>122,383</u>	<u>-</u>	<u>234,401</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 63,923
Support services:	
Student	60,626
Instructional staff	66,907
Administration	95,326
Operation and maintenance of plant	84,893
Transportation	265,804
	<u>637,479</u>
Unallocated depreciation	<u>2,290,613</u>
Total governmental activities depreciation expense	<u>\$ 2,928,092</u>
Business type activities:	
Food services	<u>\$ 134,017</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2014 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
Computer Leases	\$ 1,203,645	-	596,507	607,138	607,138
Net OPEB Liability	89,433	543,849	-	633,282	-
Total	\$ 1,293,078	543,849	596,507	1,240,420	607,138
Business type Activities:					
Net OPEB Liability	\$ 4,499	27,361	-	31,860	-

Computer Leases Payable

Details of the District's June 30, 2014 computer lease indebtedness are as follows:

Year Ending June 30,	Laptop Lease of May 23, 2012			Laptop Lease of May 23, 2012			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2015	1.85 %	\$ 582,754	10,796	0.13 %	\$ 24,384	33	\$ 607,138	10,829	617,967

(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 5.95% of their annual salary and the District is required to contribute 8.93% of annual covered salary for the year ended June 30, 2014. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$2,942,948, \$2,783,590 and \$2,602,406 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, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 1,621,717
Interest on net OPEB obligation	4,227
Adjustment to annual required contribution	(3,748)
Annual OPEB cost	<u>1,622,196</u>
Contributions made	<u>(1,050,986)</u>
Increase in net OPEB obligation	571,210
Net OPEB obligation - beginning of year	<u>93,932</u>
Net OPEB obligation - end of year	<u><u>\$ 665,142</u></u>

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, 2014.

For the fiscal year 2014, the District contributed \$1,050,986 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, 2014 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 845,174	121.87 %	\$ (596,826)
2013	1,544,795	55.28	93,932
2014	1,622,196	64.79	665,142

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, 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 \$22.076 million, and the ratio of the UAAL to the covered payroll was 78.85%. As of June 30, 2014, 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 9.0%. 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.

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, 2014 is comprised of the following programs:

Program	Amount
Home school assistance program	\$ 50,843
Weighted at-risk programs	145,943
Talented and gifted	202,033
Returning dropouts and dropout prevention	231,781
Beginning teacher mentoring and induction	1,824
Four-year-old preschool	191,655
Teacher salary supplement	222,902
Iowa early intervention block grant	5,536
Professional development	35,792
Successful progression for early readers	41,918
Empowerment professional development	13
Professional development for the model core curriculum	6
Market factor incentives	15,600
Total	<u>\$ 1,145,846</u>

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$2,100,120 for the year ended June 30, 2014 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 \$11,780,481 for various projects around the District. At June 30, 2014, \$1,879,868 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) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2014, expenditures in the support services and non-instructional programs functional areas exceeded the amounts budgeted.

(13) 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.

(14) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

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, 2014

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 20,316,220	901,266	21,217,486	25,302,475	25,302,475	(4,084,989)
Intermediate sources	-	-	-	250,000	250,000	(250,000)
State sources	38,595,124	23,517	38,618,641	33,833,123	33,833,123	4,785,518
Federal sources	2,441,180	1,923,566	4,364,746	3,557,818	3,557,818	806,928
Total revenues	61,352,524	2,848,349	64,200,873	62,943,416	62,943,416	1,257,457
Expenditures/Expenses:						
Instruction	36,426,501	-	36,426,501	38,118,646	38,118,646	1,692,145
Support services	16,558,332	56,269	16,614,601	15,993,753	15,993,753	(620,848)
Non-instructional programs	181,691	3,085,416	3,267,107	2,976,241	2,976,241	(290,866)
Other expenditures	7,748,808	-	7,748,808	10,365,677	10,365,677	2,616,869
Total expenditures/expenses	60,915,332	3,141,685	64,057,017	67,454,317	67,454,317	3,397,300
Excess(Deficiency) of revenues over(under) expenditures/expenses	437,192	(293,336)	143,856	(4,510,901)	(4,510,901)	4,654,757
Other financing sources, net	5,508	256,400	261,908	500	500	261,408
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	442,700	(36,936)	405,764	(4,510,401)	(4,510,401)	4,916,165
Balance beginning of year	13,177,628	420,035	13,597,663	13,492,884	13,492,884	104,779
Balance end of year	\$ 13,620,328	383,099	14,003,427	8,982,483	8,982,483	5,020,944

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014

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.

For the year ended June 30, 2014, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

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	\$ -	\$ 8,933	\$ 8,933	-	% \$ 23,974	37.26 %
2010	July 1, 2008	-	8,933	8,933	-	25,857	34.55
2011	July 1, 2010	-	9,255	9,255	-	24,900	37.17
2012	July 1, 2010	-	9,255	9,255	-	25,504	36.29
2013	July 1, 2012	-	17,409	17,409	-	26,573	65.51
2014	July 1, 2012	-	17,409	17,409	-	22,079	78.85

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	Special Revenue			
	Manage- ment Levy	Student Activity	Support Trust	Total
ASSETS				
Cash and pooled investments	\$ 988,676	440,560	61,227	1,490,463
Receivables:				
Property tax:				
Delinquent	5,050	-	-	5,050
Succeeding year	1,249,994	-	-	1,249,994
Accounts	-	10,365	-	10,365
Due from other governments	84	-	-	84
TOTAL ASSETS	\$ 2,243,804	450,925	61,227	2,755,956
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 21,907	33,257	-	55,164
Deferred inflows of resources:				
Unavailable revenue:				
Succeeding year property tax	1,249,994	-	-	1,249,994
Restricted for:				
Management levy purposes	971,903	-	-	971,903
Student activities	-	417,668	-	417,668
Support trust	-	-	61,227	61,227
Total fund balances	971,903	417,668	61,227	1,450,798
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,243,804	450,925	61,227	2,755,956

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2014

	Special Revenue Funds					
	Manage- ment Levy	Student Activity	Support Trust	Total	Debt Service	Total
REVENUES:						
Local sources:						
Local tax	\$ 501,104	-	-	501,104	-	501,104
Other	12,930	600,294	27	613,251	-	613,251
State sources	201	-	-	201	-	201
Total revenues	514,235	600,294	27	1,114,556	-	1,114,556
EXPENDITURES:						
Current:						
Instruction:						
Regular	801,201	-	-	801,201	-	801,201
Other	-	619,914	-	619,914	-	619,914
Support services:						
Student	25,136	-	-	25,136	-	25,136
Instructional staff	2,079	550	-	2,629	-	2,629
Administration	90,300	81	-	90,381	-	90,381
Operation and maintenance of plant	384,885	-	-	384,885	-	384,885
Transportation	78,943	-	-	78,943	-	78,943
Non-instructional programs:						
Food service operations	56,861	-	-	56,861	-	56,861
Long-term debt:						
Principal	-	-	-	-	596,507	596,507
Interest and fiscal charges	-	-	-	-	21,460	21,460
Total expenditures	1,439,405	620,545	-	2,059,950	617,967	2,677,917
Excess (Deficiency) of revenues over (under) expenditures	(925,170)	(20,251)	27	(945,394)	(617,967)	(1,563,361)
Other financing sources:						
Transfer in	-	-	-	-	617,967	617,967
Change in fund balances	(925,170)	(20,251)	27	(945,394)	-	(945,394)
Fund balances beginning of year	1,897,073	437,919	61,200	2,396,192	-	2,396,192
Fund balances end of year	\$ 971,903	417,668	61,227	1,450,798	-	1,450,798

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2014

	Capital Projects Fund		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 4,334,298	717,880	5,052,178
Receivables:			
Delinquent	-	14,973	14,973
Succeeding year	-	1,505,077	1,505,077
Due from other governments	1,359,930	247	1,360,177
TOTAL ASSETS	\$ 5,694,228	2,238,177	7,932,405
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 534,368	7,733	542,101
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	1,505,077	1,505,077
Fund balances:			
Restricted for:			
School infrastructure	5,159,860	-	5,159,860
Physical plant and equipment	-	725,367	725,367
Total fund balances	5,159,860	725,367	5,885,227
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,694,228	2,238,177	7,932,405

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2014

	Capital Project Fund		
	Statewide Sales & Services Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ -	1,500,948	1,500,948
Other	8,929	11,445	20,374
State sources	4,650,907	589	4,651,496
Total revenues	<u>4,659,836</u>	<u>1,512,982</u>	<u>6,172,818</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	-	31,523	31,523
Support services:			
Instructional staff	-	8,177	8,177
Adminstration	-	218,803	218,803
Operation and maintenance of plant	20,500	74,861	95,361
Transportation	-	269,784	269,784
Non-instructional programs:			
Food service operations	124,830	-	124,830
Capital outlay	4,697,825	332,896	5,030,721
Total expenditures	<u>4,843,155</u>	<u>936,044</u>	<u>5,779,199</u>
Excess (Deficiency) of revenues over (under) expenditures	(183,319)	576,938	393,619
Other financing uses:			
Transfer out	-	(617,967)	(617,967)
Change in fund balances	(183,319)	(41,029)	(224,348)
Fund balance beginning of year	<u>5,343,179</u>	<u>766,396</u>	<u>6,109,575</u>
Fund balance end of year	<u>\$ 5,159,860</u>	<u>725,367</u>	<u>5,885,227</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2014

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
<u>High School:</u>					
Activity Tickets	\$ 11,257	4,443	11,257	-	4,443
Petty Cash	1,600	-	-	-	1,600
Student Services	20,795	6,825	9,208	-	18,412
Band	3,957	12,768	10,478	-	6,247
Chorus	5,641	46,892	40,892	-	11,641
All Colors Count	847	-	-	-	847
Interact Club	3,402	-	-	2,113	5,515
Young Ambassadors	-	1,231	-	-	1,231
Drama	26,611	16,882	22,155	-	21,338
Forensics	93	5,316	4,192	-	1,217
Annual Auroran	47	47,965	46,453	(1,128)	431
Weekly Auroran	2,771	1,849	273	1,128	5,475
Auxiliary Scholarship	2,607	-	-	-	2,607
Class of 2012	395	-	-	-	395
Future Business Leaders	183	1,222	1,174	-	231
French Club	459	116	416	-	159
German Club	752	-	-	-	752
Spanish Club	400	-	24	-	376
MHS Science Club	1,569	-	292	-	1,277
Model UN	8,679	10,560	10,328	-	8,911
Student Council	3,788	56,345	54,190	-	5,943
Athletics	37,635	215,743	250,630	-	2,748
Cheerleaders	-	6,641	6,019	-	622
Donation Fund	56,974	1,650	-	-	58,624
Pom Pom	-	-	3	1,297	1,294
Muskie Spirit	9,759	50,985	57,283	(1,297)	2,164
Sports Calendar	84,751	29,185	9,924	-	104,012
Tournaments	51,561	16,039	15,244	-	52,356
MHS Interact Club	-	2,831	718	(2,113)	-
Admin Fund	1,210	2,122	3,027	-	305
East Campus(Garfield)	-	3,700	2,037	-	1,663
	<u>337,743</u>	<u>541,310</u>	<u>556,217</u>	<u>-</u>	<u>322,836</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 5

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
<u>Central Middle School:</u>					
Athletics	5,085	14,502	16,151	-	3,436
Fund Raisers	15,757	8,195	2,399	(19,976)	1,577
6th Grade Fund Raisers	-	2,295	5,125	7,211	4,381
7th Grade Fund Raisers	-	3,140	1,457	(1,162)	521
8th Grade Fund Raisers	-	77	100	9,027	9,004
Band Fund Raisers	-	1,293	1,749	6,477	6,021
Student Council	2,111	72	609	-	1,574
General Activity	18,220	189	2,417	-	15,992
Little Store	1,653	-	-	-	1,653
Music/Drama	5,183	-	657	(1,577)	2,949
Yearbook	9,343	1,208	9,284	-	1,267
Juice	2,727	-	-	-	2,727
CMS Petty Cash	200	-	-	-	200
	<u>60,279</u>	<u>30,971</u>	<u>39,948</u>	<u>-</u>	<u>51,302</u>
<u>West Middle School:</u>					
Athletics	13,886	15,394	11,547	-	17,733
Fund Raisers	3,709	-	-	871	4,580
General Activity	7,288	2,559	3,487	(871)	5,489
Music/Drama	2,445	3,665	2,336	-	3,774
Yearbook	6,260	5,696	6,891	-	5,065
Band	2,918	240	119	-	3,039
WMS Petty Cash	200	-	-	-	200
	<u>36,706</u>	<u>27,554</u>	<u>24,380</u>	<u>-</u>	<u>39,880</u>
<u>Central Office:</u>					
Interest Investments	3,191	459	-	-	3,650
Total	<u>\$ 437,919</u>	<u>600,294</u>	<u>620,545</u>	<u>-</u>	<u>417,668</u>

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST
 JUNE 30, 2014

	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Jefferson Culture Fair Scholarship	Total
ASSETS				
Cash and pooled investments:				
U.S. Treasury Bonds	\$ 74,000	-	-	74,000
Certificates of Deposit	17,092	28,350	-	45,442
Other	9,286	21,389	1,551	32,226
TOTAL ASSETS	100,378	49,739	1,551	151,668
LIABILITIES				
	-	-	-	-
NET POSITION				
Restricted for scholarships	\$ 100,378	49,739	1,551	151,668

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN NET POSITION
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST
 YEAR ENDED JUNE 30, 2014

	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Jefferson Culture Fair Scholarship	Total
Additions:				
Local sources:				
Gifts and contributions	\$ -	-	1,063	1,063
Interest on investments	6,531	85	-	6,616
Total additions	<u>6,531</u>	<u>85</u>	<u>1,063</u>	<u>7,679</u>
Deductions:				
Instruction:				
Regular:				
Scholarships awarded	4,500	3,000	734	8,234
Change in net position	2,031	(2,915)	329	(555)
Net position beginning of year	<u>98,347</u>	<u>52,654</u>	<u>1,222</u>	<u>152,223</u>
Net position end of year	<u>\$ 100,378</u>	<u>49,739</u>	<u>1,551</u>	<u>151,668</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2014

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 8,860	689,172	686,068	11,964
LIABILITIES				
Due to other groups	\$ 8,860	689,172	686,068	11,964

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,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 18,320,746	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
Tuition	583,016	621,193	789,295	678,551	646,617	634,578	656,615	685,601	627,827	1,095,561
Other	1,412,458	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
State sources	38,595,124	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
Federal sources	2,441,180	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
Other sources	-	-	-	-	-	-	-	-	156,851	203,136
Total	\$ 61,352,524	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
Expenditures:										
Current:										
Instruction:										
Regular	\$ 21,326,421	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
Special	7,628,553	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
Other	7,471,527	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
Support services:										
Student	1,641,603	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
Instructional staff	1,378,893	1,281,373	3,366,854	1,406,839	1,061,588	1,092,250	1,138,973	975,467	1,772,001	1,362,482
Administration	6,340,544	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
Operation and maintenance of plant	5,355,512	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
Transportation	1,841,780	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
Other support	-	-	-	-	-	-	-	-	197,781	3,024
Non-instructional programs	181,691	11,404	14,007	20,834	43,334	26,418	41,495	64,175	57,958	68,506
Capital outlay	5,030,721	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
Long-term debt:										
Principal	596,507	610,484	-	-	-	-	-	-	760,000	735,000
Interest and fiscal charges	21,460	31,900	-	-	-	-	-	-	21,773	47,869
Other expenditures:										
AEA flow-through	2,100,120	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
Total	\$ 60,915,332	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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

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 14	\$ 329,565
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 14	1,455,695
SPECIAL MILK PROGRAM FOR CHILDREN	10.556	FY 14	1,203
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 14	71,571
			<u>1,858,034</u>
TEAM NUTRITION GRANTS	10.574	FY 14	<u>4,337</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 14	<u>61,195</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-G	899,200
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-GC	178,551
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - SCHOOLS IN NEED OF ASSISTANCE	84.010	FY 14	28,208
			<u>1,105,959</u>
ENGLISH LANGUAGE ACQUISITION STATE GRANTS(TITLE III)	84.365	FY 14	<u>29,066</u>
IMPROVING TEACHER QUALITY STATE GRANTS(TITLE IIA)	84.367	FY 14	<u>212,215</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 14	<u>28,314</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)			
	84.027	FY 14	<u>266,692</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 14	<u>44,785</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
IOWA DEPARTMENT OF EDUCATION:			
COOPERATIVE AGREEMENTS TO SUPPORT COMPREHENSIVE SCHOOL HEALTH PROGRAMS TO PREVENT THE SPREAD OF HIV AND OTHER IMPORTANT HEALTH PROBLEMS	93.938	FY 14	<u>170</u>
TOTAL			<u>\$ 3,610,767</u>

* Includes non-cash awards of \$155,852.

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.

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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, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 2, 2015.

Internal Control Over Financial Reporting

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

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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified no deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We noted no deficiencies that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted no deficiencies that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muscatine Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a

direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2014 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, P.C.

March 2, 2015
Newton, Iowa

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Independent Auditor's Report on Compliance
for Each Major Federal Program, and on Internal Control over Compliance
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, 2014. 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, 2014.

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 not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Muscatine Community School District’s internal control over compliance.

A deficiency in 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, P.C.

March 2, 2015
Newton, Iowa

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were noted.
- (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 unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:

Clustered Programs:

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

Individual Program:

- CFDA Number 84.010 - Title I Grants to Local Education Agencies
- CFDA Number 84.010 - Title I Grants to Local Education Agencies - SINA

- (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.

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

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-14 Certified Budget - District expenditures for the year ended June 30, 2014 exceeded the certified budget amounts in the support services and non-instructional programs functional areas.

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

Response - The timing of expenditures, which caused the functional areas to be exceeded, precluded the District from amending the budget on a timely basis. The District will amend if necessary in the future.

Conclusion - Response accepted.

IV-B-14 Questionable Disbursements - We noted during our audit instances of the District purchasing gift cards to be used as incentives for participation. Giving gift cards to students does not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - The mentioned instance was a request from an outside organization who gave money to the district for a STEM event that was not a school event. The money was flow through dollars. The district makes every attempt to discourage and disallows the purchase of gift cards. Therefore, the district will make every effort not to participate in such endeavors.

Conclusion - Response accepted.

IV-C-14 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-14 Business Transactions - Business transactions between the District and District officials are as follows:

Name, Title and Business Connection	Transaction Description	Amount
Renee Hyink, Teacher's Aid Brother owns Bryant Roofing	Services	\$7,614
Stacie Olsen, Teacher Spouse is director of Muscatine Community YMCA	Services	\$80,689
Susan Krieger, Teacher Spouse owns Krieger Motors Company Spouse owns Enterprise Rentals	Vehicle Purchases Services	\$43,209 \$1,158
Ryan Reifert, Coach Grandmother owns and father manages Sprouse Distributing	Supplies	\$8,500

Name, Title and Business Connection	Transaction Description	Amount
Rachel Reifert, Teacher Grandmother owns and father-in-law manages Sprouse Distributing	Supplies	\$8,500
Mary Lucas, Bus Driver Son owns Lucas Communication	Services	\$33,604
Mary Spratt, Teacher Spouse is employee at Muscatine Power & Water	Services	\$756,447
Gina Chesling, Home School Coordinator Spouse owns Boxshottz/David Chesling Photography	Services	\$525
Lynn Hines, Teacher Father in law is manager at Muscatine Power & Water	Services	\$756,447
Nathan Mather, Board President Father owns Vision Center, P.C.	Services	\$1,742
Tammy Drawbaugh, Board Member Employee of HON, Inc	Supplies	\$145,471
Jeff Cochran, Bus Driver Owner of Bosch Pest Control	Services	\$9,295
Mary Kisner, Teacher Owner of Avenue Subs	Food purchases	\$302
John Lawrence, Administration Spouse owns Muscatine Travel	Services	\$19,136
Gina Schliesman Spouse is manager at Hy-Vee	Supplies	\$7,429
Jessica Feers, Teacher Spouse owns Feers and Sons Tree Service	Services	\$9,900
Rich Hines, Technology Father is manager at Muscatine Power & Water	Services	\$756,447
Randy Naber Board Vice President	Services	\$1,182

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.

In accordance with Chapter 279.7A of the Code of Iowa the above transactions with Mr. Naber do not appear to represent a conflict of interest.

IV-E-14 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-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-14 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 understated by 13.90 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-14 Supplementary Weighting - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-I-14 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. Unbeknownst to the District, the issuance of 101 shares of stock in a demutualization process was issued in the District's name. 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. The District through an exhaustive process has acquired the stock certificates and has issued a sell order.

Conclusion - Response accepted.

IV-J-14 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-14 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 aware that there should be minimal to no carryover balances in categorical funding. The District is working on spending the categorical funding on a timely basis while making sure, we are good stewards of the funds spending where and when appropriate.

Conclusion - Response accepted.

IV-L-14 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 Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2014, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 5,343,179
Revenues:		
Sales tax revenues	\$ 4,650,907	
Other local revenues	8,929	4,659,836
		<u>10,003,015</u>
Expenditures:		
School infrastructure construction	3,996,028	
Equipment	212,424	
Other	634,703	4,843,155
		<u>5,159,860</u>
Ending balance		<u>\$ 5,159,860</u>

For the year ended June 30, 2014, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Physical Plant & Equipment Levy	<u>\$ 0.44000</u>	<u>\$ 535,758</u>

IV-M-14 Activity Fund - In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. We noted during our audit the purpose of instructional supplies in the form of books purchased from the activity fund.

Recommendation - The District should review the propriety of expenditures that are recorded in the Student Activity Fund. It would appear that the expenditures mentioned are more instructional in nature. Instructional supplies are more appropriately handled in the General Fund.

Response - The District makes every attempt to record expenditures in the appropriate Fund. The District agrees with this recommendation that this expenditure is more appropriately handled in the General Fund.

Conclusion - Response accepted.