

**Muscatine Community School District
Muscatine, Iowa**

Financial Report
Year Ended June 30, 2015

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Muscatine Community School District

Officials

Year Ended June 30, 2015

Name	Title	Term Expires
Board of Education		
Tammi Drawbaugh	Board Member	2017
Timothy Bower	Board Member	2017
John DaBeet	Board Member	2019
Aaron Finn	Board Member	2019
Nathan Mather	Board Member	2019
Randy Naber	Board Member	2017
Mary Wildermuth	Board Member	2019
School Officials		
Jerry Riibe	Superintendent	2016
Jean K. Garner	Director of Finance	2016
Lisa Mosier Bunn	District Secretary	2016
Ahlers & Cooney, P.C.	Attorney	Indefinite

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Independent Auditor's Report

To the Board of Education
Muscatine Community School District
Muscatine, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Muscatine Community School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as 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 accounting principles generally accepted in the United States of America; 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 auditing standards generally accepted in the United States of America 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 entity'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 entity'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 that 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Muscatine Community School District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the basic financial statements, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. As a result, the District's net position for governmental activities and business-type activities has been restated. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress, budgetary comparison information, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 4–15 and 50-57 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 who considers it to be an essential part of 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 auditing standards generally accepted in the United States of America, 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information as listed in the table of contents and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The District's basic financial statements for the years ended June 30, 2006 through 2014, which are not presented herein, were audited by other auditors whose report thereon dated March 2, 2015, expressed unmodified opinions on the basic financial statements. Their report on the Schedule of Revenues by Source and Expenditures by Function for the years ended June 30, 2006 through 2014 stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements as a whole for the years ended June 30, 2006 through 2014 taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2016 on our consideration of the 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 report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Bohnsack & Frommelt LLP". The signature is written in a cursive, flowing style.

Taylor Ridge, Illinois
January 14, 2016

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Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2015

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

2014-15 FINANCIAL HIGHLIGHTS

The District showed an increase in net position of \$7,521,992 and \$2,211,528 during the years ended June 30, 2015 and 2014, respectively.

Total revenues for the fiscal year ended June 30, 2015 and 2014 of \$68,342,664 and \$64,453,205 were comprised of general revenues in the amount of \$51,772,534 and \$53,094,504 and program revenues totaling \$16,570,130 and \$11,358,701, respectively.

As of June 30, 2015, the District's governmental funds reported combined fund balances of \$12,446,978, a decrease of \$1,173,350 in comparison to 2014. As of June 30, 2014, the District's governmental funds reported combined fund balances of \$13,620,328, an increase of \$442,700 in comparison to 2013.

The District's total long-term debt decreased by \$607,138 during fiscal year ended June 30, 2015.

USING THIS ANNUAL REPORT

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

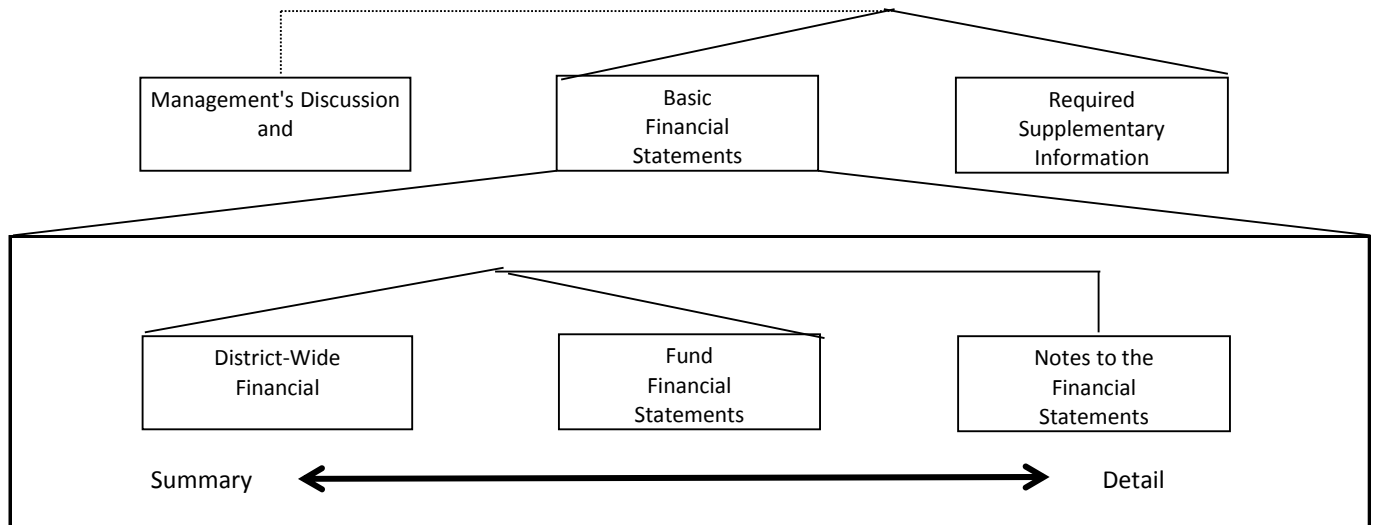
- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These provide information about 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 custodian for the benefit of those outside of the District.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year.
- Other supplementary information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefitting the District.

Muscatine Community School District

**Management's Discussion and Analysis
Year Ended June 30, 2015**

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

Figure A-1
Muscatine Community School District Annual Financial Report



Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2015

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: school nutrition and internal service fund	Instances in which the District administers resources on behalf of someone else, such as scholarship programs, reunion moneys and funds for District employee purchases of pop, etc.
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances	Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows	Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the 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

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2015

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, and liabilities and deferred inflows of resources. 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 statements report the District's net position and how they have changed. Net position – the difference between the District's assets and deferred outflows and liabilities and deferred inflows – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional nonfinancial 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 taxes and state aid finance most of these activities.

Business-type activities: The District charges fees to help it 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 Foundation is a legally separate entity; however, the District appoints the Board of Directors and receives significant financial benefits from the Foundation.

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

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2015

future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between the two statements. The District's major governmental funds for 2014-15 were the General Fund and the Capital Projects Fund. The nonmajor governmental funds include three Special Revenue Funds (the Management Fund, Student Activities Fund, and Support Trust Fund) and the Debt Service Fund. The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business-type activities but provides 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 proprietary funds include a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

3. **Fiduciary funds:** The District is the trustee, or fiduciary, for assets that belong to others. This fund type includes 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 accounts for certain revenue collected for District employee purchases of pop, funeral flowers, etc. and related expenditures and for revenues and expenditures of other various club accounts.

The District is responsible for ensuring 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 of the District include a statement of fiduciary net position, a statement of changes in fiduciary net position, and, for agency funds, statement of fiduciary assets and liabilities.

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

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2015

Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District's net position as of June 30, 2015 compared to June 30, 2014.

Figure A-3 Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total School District	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
		(Restated)		(Restated)		(Restated)
Current and other assets	\$ 39,204,462	\$ 38,757,338	\$ 371,129	\$ 402,677	\$ 39,575,591	\$ 39,160,015
Capital assets	46,923,807	40,099,710	205,788	234,401	47,129,595	40,334,111
Total assets	86,128,269	78,857,048	576,917	637,078	86,705,186	79,494,126
Deferred outflows of resources	3,997,013	2,850,333	129,872	92,615	4,126,885	2,942,948
Long-term liabilities	22,865,512	30,758,552	676,353	916,713	23,541,865	31,675,265
Other liabilities	7,324,424	6,412,573	148,368	222,119	7,472,792	6,634,692
Total liabilities	30,189,936	37,171,125	824,721	1,138,832	31,014,657	38,309,957
Deferred inflows of resources	26,397,276	18,473,203	244,232	-	26,641,508	18,473,203
Net position:						
Net investment in capital assets	46,923,807	40,099,710	205,788	234,401	47,129,595	40,334,111
Restricted	4,936,794	8,481,871	-	-	4,936,794	8,481,871
Unrestricted	(18,322,531)	(22,518,528)	(567,952)	(643,540)	(18,890,483)	(23,162,068)
Total net position	\$ 33,538,070	\$ 26,063,053	\$ (362,164)	\$ (409,139)	\$ 33,175,906	\$ 25,653,914

The District's combined net position as of June 30, 2015 grew by \$7,521,992 (29.3%) over the June 30, 2014 combined net position. Net position in the governmental activities grew by \$7,475,017 (28.6%). The net position of the District's business-type activities increased by \$46,975 (12.9%).

The most significant factors for the increase in net position of the District were the additions of capital assets for various projects including the Jefferson Elementary School and the improved performance of the investments of the District's pension system. The District implemented new accounting standards during fiscal year 2015, Governmental Accounting Standard Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Standard No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. As a result, the District's net position for governmental activities and business-type activities has been restated by (\$24,382,178) and (\$792,238). The District also restated governmental activities net position by (\$2,285,621) to record the early retirement liability.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased by \$3,545,077 (41.7%) primarily due to the use of resources restricted for school infrastructure to purchase and construct capital projects.

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2015

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 by \$4,271,585 (18.4%).

Figure A-4 shows the changes in net position for the year ended June 30, 2015 compared to the year ended June 30, 2014.

Figure A-4 Changes in Net Position From Operating Results

	Governmental Activities		Business-Type Activities		Total School District	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(Not Restated)		(Not Restated)		(Not Restated)	
Revenues:						
Program revenues:						
Charges for services	\$ 1,816,146	\$ 1,420,769	\$ 894,309	\$ 893,814	\$ 2,710,455	\$ 2,314,583
Operating grants and contributions	12,002,620	7,087,035	1,857,055	1,947,083	13,859,675	9,034,118
Capital grants and contributions	-	10,000	-	-	-	10,000
General revenues:						
Property taxes	18,357,721	18,320,746	-	-	18,357,721	18,320,746
Income surtax	304,655	252,332	-	-	304,655	252,332
State foundation aid	27,744,373	29,582,851	-	-	27,744,373	29,582,851
Statewide sales and services tax	5,333,846	4,650,907	-	-	5,333,846	4,650,907
Other	31,848	280,216	91	7,452	31,939	287,668
Total revenues	65,591,209	61,604,856	2,751,455	2,848,349	68,342,664	64,453,205
Expenses:						
Instruction	36,976,995	36,912,548	-	-	36,976,995	36,912,548
Support services	16,512,060	17,775,941	54,450	56,269	16,566,510	17,832,210
Noninstructional	42,635	-	2,650,030	3,085,416	2,692,665	3,085,416
Other	4,584,502	4,411,503	-	-	4,584,502	4,411,503
Total expenses	58,116,192	59,099,992	2,704,480	3,141,685	60,820,672	62,241,677
Change in net position before transfers	7,475,017	2,504,864	46,975	(293,336)	7,521,992	2,211,528
Transfers	-	(256,400)	-	256,400	-	-
Increase (decrease) in net position	\$ 7,475,017	\$ 2,248,464	\$ 46,975	\$ (36,936)	\$ 7,521,992	\$ 2,211,528

In 2014-15, property taxes, income surtax, state foundation aid, and statewide sales and services tax accounted for 78.8% of the revenue from governmental activities while charges for services and grants and contributions accounted for 99.9% of the revenue from business-type activities.

The District's expenses primarily relate to instructional and support services which account for 88.0% of the total expenses.

Total revenue for the District increased by \$3,889,459 (6.0%) in the fiscal year ended June 30, 2015. The most significant revenue category changes were due to an increase in statewide sales and services tax and operating grants and contributions. Statewide sales and service tax increased by \$682,939 (14.6%) primarily due to increased sales tax collections by the state which are allocated to Districts based on enrollment. Operating grants and contributions increased \$4,825,557 (53.4%) due to \$1,650,458 from the state for the Teacher Leadership Compensation system and \$3,175,099 in state categorical funding restricted for particular purposes.

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2015

Total District expenses decreased by \$1,421,005 (2.2%), which was mainly attributable to the changes in the net pension liability as a result of improved investment performance.

Governmental Activities

Revenue for the District's governmental activities in 2014-15 increased by \$3,986,353 (6.4%) from the previous year, while total expenses decreased by (\$983,800) (-1.6%). Governmental activities net position as of June 30, 2015 increased by \$7,475,017 (28.6%) over the June 30, 2014 balance.

The table below presents the total and net cost of the District's four major governmental activities: instruction, support services, noninstructional programs and other expenses, for the year ended June 30, 2015 compared to the year ended June 30, 2014.

	Total Cost of Services		Net Cost of Services	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Instruction	\$ 36,976,995	\$ 36,912,548	\$ 26,173,860	\$ 30,703,991
Support services	16,512,060	17,775,941	15,704,234	17,566,814
Noninstructional	42,635	-	42,635	-
Other	4,584,502	4,411,503	2,376,697	2,311,383
Total	\$ 58,116,192	\$ 59,099,992	\$ 44,297,426	\$ 50,582,188

For the year ended June 30, 2015:

- The cost financed by the users of the District's programs was \$1,816,146.
- Federal and state governments and some local sources subsidized certain programs with grants and contributions totaling \$12,002,620.
- The net cost of governmental activities was financed with \$18,662,376 in property taxes and income surtax, \$27,744,373 of unrestricted state grants, \$5,333,846 in statewide sales and services tax revenue, and \$31,848 in other revenues.

For the year ended June 30, 2014:

- The cost financed by the users of the District's programs was \$1,420,769.
- Federal and state governments and some local sources subsidized certain programs with grants and contributions totaling \$7,097,035.
- The net cost of governmental activities was financed with \$18,573,078 in property taxes and income surtax, \$29,582,851 of unrestricted state grants, \$4,650,907 in statewide sales and services tax revenue, and \$280,216 in other revenues.

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2015

Business-Type Activities

The District's business-type activities include the School Nutrition Fund. Revenues of the District's business-type activities in 2014-15 were \$2,751,455; a decrease of (\$96,894) (-3.4%) from 2013-14. The decrease is primarily due to a decrease in meals claims for state and federal reimbursement of the child nutrition program. Expenses were \$2,704,480; a decrease of (\$437,205) (-13.9%) from 2013-14 primarily due to significant reductions in staff in the current year.

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 balances of \$12,446,978, which reflects a decrease of (\$1,173,350) from last year's ending fund balances of \$13,620,328. The primary reason for the decrease in combined fund balances at the end of the 2014-15 fiscal year is due to approximately \$10,000,000 in capital expenditures for various construction projects.

Governmental Fund Highlights

- The fund balance in the District's General Fund increased by \$3,165,084 from \$6,284,303 as of June 30, 2014 to \$9,449,387 as of June 30, 2015. The General Fund experienced an increase in state sources of revenue primarily due to categorical programs.
- The fund balance in the Capital Projects Fund decreased by (\$4,267,238). The statewide sales, service and use tax generated \$416,247 more in revenue in 2014-15 than in the previous fiscal year. Local tax generated from the physical plant and equipment levy was \$1,489,958 compared to the prior year \$1,500,948 which represents a (\$10,990) decrease from 2013-14. Total capital projects expenditures were \$10,272,277 in 2014-15 compared to \$5,779,199 in 2013-14. In the current year, major expenditures included facility improvements to Jefferson Elementary School.
- The fund balance in the Student Activities Fund increased by \$1,250 during the fiscal year due to the variance of student activities from year-to-year.
- The fund balance in the Management Fund decreased by (\$64,676) during 2014-15.
- The fund balance in the Support Trust Fund decreased (\$7,770) during 2014-15.
- The District had a Debt Service Fund in the current year to account for payment of principal and interest of \$617,967 on computer leases.

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2015

Proprietary Fund Highlights

The net position of the Nutrition Fund increased by \$46,975 (11.4%) during 2014-15 primarily due to reductions in staff operating costs.

Budgetary Highlights

A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District uses the GAAP (Generally Accepted Accounting Principles) method of accounting for budgeting purposes. The District did not amend the budget during the fiscal year.

Iowa law requires that actual spending in each functional area of the budget does not exceed the amount budgeted to be spent in that functional area at any time during the fiscal year. It should also be noted that school districts have two levels of budgetary control. One form of budgetary control exists through the certified budget, which includes all funds of the District as noted above. This budget is certified with the County Auditor and the Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority. The other level of budgetary control is the unspent (maximum) authorized budget and pertains only to the General Fund of the District. The maximum authorized budget is the total spending authority in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the actual General Fund cash. It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

Total revenues were \$1,291,233 more than budgeted, a variance of 1.8%. Total expenditures were \$1,227,325 less than budgeted, a variance of 1.7%. While total expenditures were less than budgeted, the District exceeded budget expenditures in the support services function and other expenditures function due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2015

Capital Asset and Debt Administration

Capital Assets

By the end of the 2014-15 fiscal year, the District had invested \$47,129,595 (net of accumulated depreciation of \$38,640,934) in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment and administrative offices. This amount represents a net increase of \$6,795,484 or 16.8% from last year. (More detailed information about capital assets can be found in Note 4 to the financial statements). Total depreciation expense for the year was \$3,202,282.

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total School District	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Land	\$ 1,515,234	\$ 1,406,537	\$ -	\$ -	\$ 1,515,234	\$ 1,406,537
Construction in progress	11,173,997	1,879,868	-	-	11,173,997	1,879,868
Buildings	31,154,907	33,373,330	-	-	31,154,907	33,373,330
Improvements other than buildings	1,335,647	1,419,898	-	-	1,335,647	1,419,898
Furniture and equipment	1,744,022	2,020,077	205,788	234,401	1,949,810	2,254,478
Total	\$ 46,923,807	\$ 40,099,710	\$ 205,788	\$ 234,401	\$ 47,129,595	\$ 40,334,111

Long-Term Liabilities

As of June 30, 2015, the District had the following long-term liabilities:

	Governmental Activities		Business-Type Activities		Total School District	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Computer leases	\$ -	\$ 607,138	\$ -	\$ -	\$ -	\$ 607,138
Early retirement	2,572,720	2,285,621	-	-	2,572,720	2,285,621
Net OPEB liability	947,654	633,282	47,780	31,860	995,434	665,142
Net pension liability	19,345,138	27,232,511	628,573	884,853	19,973,711	28,117,364
Total	\$ 22,865,512	\$ 30,758,552	\$ 676,353	\$ 916,713	\$ 23,541,865	\$ 31,675,265

More information regarding the District's long-term liabilities is provided in Note 5 to the financial statements.

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2015

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 experienced a significant decline in student enrollment on the October 1, 2015 certified enrollment. The total school age students provided instructional programs/services by our district is down 195.26 students and the weighted enrollment that is used to calculate budget authority is down 158.46 students. Since one of the major factors in determining the district's budget authority or ability to spend is enrollment, this decline will have a major impact on future budgets, staffing, and facility needs.
- Although we do not know the full impact the still depressed but somewhat rebounding 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 2015 free and reduced percentage is 51.82% with one school's percentages at or above 84% 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.
- The constituents of Muscatine voted on September 8, 2015 to renew the revenue purpose statement for the use of the SAVE funds to the year 2029. In doing so this will continue to allow the district to use the funds where needed.
- 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, and 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

Statement of Net Position

June 30, 2015

	Primary Government			Muscatine Community School Foundation
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and pooled investments	\$ 17,777,555	\$ 286,913	\$ 18,064,468	\$ 2,443,233
Receivables:				
Property tax:				
Current year	202,660	-	202,660	-
Succeeding year	18,880,746	-	18,880,746	-
Accounts	46,824	6,888	53,712	-
Income surtax	285,622	-	285,622	-
Due from other governments	1,937,386	-	1,937,386	-
Inventories	73,669	77,328	150,997	-
Capital assets:				
Nondepreciable	12,689,231	-	12,689,231	-
Depreciable, net	34,234,576	205,788	34,440,364	-
Total assets	86,128,269	576,917	86,705,186	2,443,233
Deferred Outflows of Resources,				
pension related deferred outflows	3,997,013	129,872	4,126,885	-
Liabilities				
Accounts payable	1,256,008	1,493	1,257,501	24,125
Retainage payable	509,934	-	509,934	-
Salaries and benefits payable	5,558,482	102,575	5,661,057	-
Unearned revenue	-	44,300	44,300	-
Long-term liabilities:				
Portion due within one year:				
Early retirement	733,090	-	733,090	-
Portion due after one year:				
Early retirement	1,839,630	-	1,839,630	-
Net OPEB liability	947,654	47,780	995,434	-
Net pension liability	19,345,138	628,573	19,973,711	-
Total liabilities	30,189,936	824,721	31,014,657	24,125
Deferred Inflows of Resources				
Succeeding year property tax	18,880,746	-	18,880,746	-
Pension related deferred inflows	7,516,530	244,232	7,760,762	-
Total deferred inflows of resources	26,397,276	244,232	26,641,508	-
Net Position				
Net investment in capital assets	46,923,807	205,788	47,129,595	-
Restricted for:				
Categorical funding	1,672,511	-	1,672,511	-
Management levy	907,227	-	907,227	-
Physical plant and equipment levy	832,202	-	832,202	-
Student activities	418,918	-	418,918	-
School infrastructure	1,052,479	-	1,052,479	-
Instructional programs	53,457	-	53,457	-
Scholarships and grants	-	-	-	2,339,745
Unrestricted	(18,322,531)	(567,952)	(18,890,483)	79,363
Total net position	\$ 33,538,070	\$ (362,164)	\$ 33,175,906	\$ 2,419,108

See Notes to Financial Statements.

Muscatine Community School District

Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Charges for Services
Governmental activities:		
Instruction	\$ 36,976,995	\$ 1,705,257
Support services:		
Student services	1,662,045	-
Instructional staff services	1,559,083	-
Administration services	6,487,486	-
Operation and maintenance of plant services	4,630,455	-
Transportation services	2,172,991	110,889
	16,512,060	110,889
Noninstructional programs	42,635	-
Other expenditures:		
Interest on long-term debt	9,731	-
Unallocated depreciation	2,366,966	-
AEA flowthrough	2,207,805	-
	4,584,502	-
Total governmental activities	58,116,192	1,816,146
Business-type activities:		
Support services:		
Administration services	54,450	-
	54,450	-
Noninstructional programs, food service operations	2,650,030	894,309
Total business-type activities	2,704,480	894,309
Total primary government	\$ 60,820,672	\$ 2,710,455
Component unit:		
Muscatine community school foundation	197,711	-
General revenues:		
Property tax levied for:		
General purposes		
Capital outlay		
Other specific purposes		
Income surtax		
Statewide sales and services tax		
Unrestricted state grants		
Unrestricted investment earnings		
Total general revenues		

Change in net position

Net position, beginning of year, as restated

Net position, end of year

See Notes to Financial Statements.

Program Revenues		Net (Expense) Revenue and Changes in Net Position			
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
\$ 9,097,878	\$ -	\$ (26,173,860)	\$ -	\$ (26,173,860)	\$ -
672,565	-	(989,480)	-	(989,480)	-
-	-	(1,559,083)	-	(1,559,083)	-
-	-	(6,487,486)	-	(6,487,486)	-
-	-	(4,630,455)	-	(4,630,455)	-
24,372	-	(2,037,730)	-	(2,037,730)	-
696,937	-	(15,704,234)	-	(15,704,234)	-
-	-	(42,635)	-	(42,635)	-
-	-	(9,731)	-	(9,731)	-
-	-	(2,366,966)	-	(2,366,966)	-
2,207,805	-	-	-	-	-
2,207,805	-	(2,376,697)	-	(2,376,697)	-
12,002,620	-	(44,297,426)	-	(44,297,426)	-
-	-	-	(54,450)	(54,450)	-
-	-	-	(54,450)	(54,450)	-
1,857,055	-	-	101,334	101,334	-
1,857,055	-	-	46,884	46,884	-
\$ 13,859,675	\$ -	(44,297,426)	46,884	(44,250,542)	-
141,945	-	-	-	-	(55,766)
15,630,757	-	-	-	15,630,757	-
1,489,958	-	-	-	1,489,958	-
1,237,006	-	-	-	1,237,006	-
304,655	-	-	-	304,655	-
5,333,846	-	-	-	5,333,846	-
27,744,373	-	-	-	27,744,373	-
31,848	91	-	31,939	108,766	108,766
51,772,443	91	-	51,772,534	108,766	108,766
7,475,017	46,975	-	7,521,992	53,000	53,000
26,063,053	(409,139)	-	25,653,914	2,366,108	2,366,108
\$ 33,538,070	\$ (362,164)	\$ -	\$ 33,175,906	\$ 2,419,108	\$ 2,419,108

Muscatine Community School District

Balance Sheet Governmental Funds June 30, 2015

	General	Capital Projects	Nonmajor	Total
Assets				
Cash and pooled investments	\$ 14,654,306	\$ 1,761,846	\$ 1,361,403	\$ 17,777,555
Receivables:				
Property tax:				
Current year	172,687	16,200	13,773	202,660
Succeeding year	15,855,798	1,774,951	1,249,997	18,880,746
Accounts	28,747	-	18,077	46,824
Income surtax	285,622	-	-	285,622
Due from other governments	884,565	1,052,821	-	1,937,386
Inventories	73,669	-	-	73,669
Total assets	\$ 31,955,394	\$ 4,605,818	\$ 2,643,250	\$ 39,204,462
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts payable	\$ 806,105	\$ 436,252	\$ 13,651	\$ 1,256,008
Retainage payable	-	509,934	-	509,934
Salaries and benefits payable	5,558,482	-	-	5,558,482
Total liabilities	6,364,587	946,186	13,651	7,324,424
Deferred Inflows of Resources:				
Unavailable revenue:				
Succeeding year property tax	15,855,798	1,774,951	1,249,997	18,880,746
Income surtax	285,622	-	-	285,622
Statewide sales and services tax	-	266,692	-	266,692
Total deferred inflows of resources	16,141,420	2,041,643	1,249,997	19,433,060
Fund balances:				
Nonspendable	73,669	-	-	73,669
Restricted for:				
Categorical funding	1,672,511	-	-	1,672,511
Management levy	-	-	907,227	907,227
Physical plant and equipment levy	-	832,202	-	832,202
School infrastructure	-	785,787	-	785,787
Student activity purposes	-	-	418,918	418,918
Instructional programs	-	-	53,457	53,457
Unassigned	7,703,207	-	-	7,703,207
Total fund balances	9,449,387	1,617,989	1,379,602	12,446,978
Total liabilities, deferred inflows of resources and fund balances	\$ 31,955,394	\$ 4,605,818	\$ 2,643,250	\$ 39,204,462

See Notes to Financial Statements.

Muscatine Community School District

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position June 30, 2015

Total fund balances of governmental funds	\$ 12,446,978
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	46,923,807
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds.	552,314
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:	
Deferred outflows of resources	3,997,013
Deferred inflows of resources	(7,516,530)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Early retirement	(2,572,720)
Net OPEB liability	(947,654)
Net pension liability	(19,345,138)
Net position of governmental activities	<u><u>\$ 33,538,070</u></u>

See Notes to Financial Statements.

Muscatine Community School District

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2015

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 15,902,022	\$ 1,489,958	\$ 1,237,006	\$ 18,628,986
Tuition	530,347	-	-	530,347
Other	714,448	8,505	594,794	1,317,747
State sources	37,225,824	5,115,995	41,653	42,383,472
Federal sources	2,414,837	8,548	7,290	2,430,675
Total revenues	56,787,478	6,623,006	1,880,743	65,291,227
Expenditures:				
Current:				
Instruction	36,135,505	-	1,373,728	37,509,233
Support services:				
Student services	1,622,331	-	20,259	1,642,590
Instructional staff services	1,511,625	8,177	3,581	1,523,383
Administration services	6,046,660	368,496	41,069	6,456,225
Operation and maintenance of plant services	4,539,689	23,226	365,974	4,928,889
Transportation services	1,564,283	263,367	84,448	1,912,098
	15,284,588	663,266	515,331	16,463,185
Noninstructional programs	-	-	62,880	62,880
Other expenditures:				
Facilities acquisition	-	9,609,011	-	9,609,011
AEA flowthrough	2,207,805	-	-	2,207,805
	2,207,805	9,609,011	-	11,816,816
Debt Service:				
Principal	-	-	607,138	607,138
Interest	-	-	10,829	10,829
	-	-	617,967	617,967
Total expenditures	53,627,898	10,272,277	2,569,906	66,470,081
Excess (deficiency) of revenues over (under) expenditures	3,159,580	(3,649,271)	(689,163)	(1,178,854)
Other financing sources (uses):				
Proceeds from sale of capital assets	5,504	-	-	5,504
Interfund transfers in	-	-	617,967	617,967
Interfund transfers out	-	(617,967)	-	(617,967)
Total other financing sources (uses)	5,504	(617,967)	617,967	5,504
Net change in fund balance	3,165,084	(4,267,238)	(71,196)	(1,173,350)
Fund balances, beginning of year	6,284,303	5,885,227	1,450,798	13,620,328
Fund balances, end of year	\$ 9,449,387	\$ 1,617,989	\$ 1,379,602	\$ 12,446,978

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, 2015

Net change in fund balances - total governmental funds	\$	(1,173,350)
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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 Net Position and are allocated over
their estimated useful lives as depreciation expense in the Statement
of Activities. The amounts of capital outlays and depreciation expense
in the year are as follows:

Expenditures for capital assets	\$	10,008,248	
Depreciation expense		(3,172,581)	
Proceeds from sale of capital assets		(5,504)	
Loss on disposal of capital asset		(6,066)	6,824,097

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the funds, change
in unavailable revenues

299,982

The issuance of long-term debt provides current financial resources to
governmental funds, while the repayments of the principal of long-term
debt consumes the current financial resources of governmental funds.
The issuance of debt increases liabilities in the Statement of Net Position,
while the repayment of long-term debt reduces long-term liabilities. The
following is the detail of the net effect of these differences in the
treatment of long-term debt and related items:

Repayment of principal on capital loan notes	607,138
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The current year District employer share of IPERS contributions are reported
as expenditures in the governmental funds, but are reported as a deferred
outflow of resources in the Statement of Net Position

82,691

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, as follows:

Accrued interest payable	1,098	
Early retirement	(287,099)	
Pension expense	1,434,832	
Net OPEB liability	(314,372)	834,459

Change in net position of governmental activities

\$ 7,475,017

See Notes to Financial Statements.

Muscatine Community School District

Statement of Net Position

Proprietary Funds

June 30, 2015

	Nonmajor Enterprise Fund School Nutrition
Assets	
Cash and cash equivalents	\$ 286,913
Accounts receivable	6,888
Inventories	77,328
Capital assets, net of accumulated depreciation	205,788
Total assets	576,917
Deferred Outflows of Resources, pension related deferred outflows	129,872
Liabilities	
Accounts payable	1,493
Salaries and benefits payable	102,575
Unearned revenue	44,300
Net OPEB liability	47,780
Net pension liability	628,573
Total liabilities	824,721
Deferred Inflows of Resources, pension related deferred inflows	244,232
Net Position	
Net investment in capital assets	205,788
Unrestricted	(567,952)
Total net position	\$ (362,164)

See Notes to Financial Statements.

Muscatine Community School District

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Funds

Year Ended June 30, 2015

	Nonmajor Enterprise Fund School Nutrition
Operating revenues:	
Local sources, charges for services	\$ 894,309
Operating expenses:	
Support services:	
Salaries	34,046
Benefits	14,444
Purchased services	5,920
Supplies	40
	<u>54,450</u>
Noninstructional programs:	
Salaries	1,010,010
Benefits	336,490
Purchased services	18,778
Supplies	1,254,821
Depreciation	29,701
Other	230
	<u>2,650,030</u>
Total operating expenses	<u>2,704,480</u>
Operating (loss)	<u>(1,810,171)</u>
Nonoperating revenues (expenses):	
Interest on investments	91
State sources	22,306
Federal sources	1,834,749
Total nonoperating revenues	<u>1,857,146</u>
Change in net position	46,975
Net position, beginning of year, as restated	(409,139)
Net position, end of year	<u>\$ (362,164)</u>

See Notes to Financial Statements.

Muscatine Community School District

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2015

	Nonmajor Enterprise Fund School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 872,852
Cash payments to employees for services	(1,471,117)
Cash payments to suppliers for goods or services	(1,080,864)
Net cash (used in) operating activities	(1,679,129)
Cash flows from noncapital financing activities:	
State grants received	22,306
Federal grants received	1,630,145
Net cash provided by noncapital financing activities	1,652,451
Cash flows (used in) capital related financing activities,	
Acquisition of capital assets	(1,088)
Cash flows from investing activities, interest on investments	91
Net (decrease) in cash and cash equivalents	(27,675)
Cash and cash equivalents, beginning of year	314,588
Cash and cash equivalents, end of year	<u>\$ 286,913</u>
Reconciliation of operating (loss) to net cash	
(used in) operating activities:	
Operating (loss)	\$ (1,810,171)
Adjustments to reconcile operating (loss) to net cash	
(used in) operating activities:	
Depreciation	29,701
Commodities used	204,604
Decrease in accounts receivable	6,474
(Increase) in inventories	(2,601)
(Decrease) in accounts payable	(3,078)
(Decrease) in salaries and benefits payable	(42,742)
Increase in net OPEB liability	15,920
(Decrease) in net pension liability and related	
deferred outflows of resources and deferred inflows of resources	(49,305)
(Decrease) in unearned revenue	(27,931)
Net cash (used in) operating activities	\$ (1,679,129)
Schedule of noncash items:	
Noncapital financing activities, federal commodities	<u>\$ 204,604</u>

See Notes to Financial Statements.

Muscatine Community School District

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2015

	Private Purpose Trust	Agency
Assets		
Cash and pooled investments	\$ 166,694	\$ 2,138
Total assets	<u>\$ 166,694</u>	<u>\$ 2,138</u>
Liabilities		
Due to other groups	\$ -	\$ 2,138
Total liabilities	<u>\$ -</u>	<u>\$ 2,138</u>
Net Position , restricted for scholarships	<u>\$ 166,694</u>	

See Notes to Financial Statements.

Muscatine Community School District

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

Year Ended June 30, 2015

	Private Purpose Trust
Additions:	
Local sources, other	<u>\$ 23,026</u>
Deductions:	
Instruction, scholarships awarded	<u>\$ 8,000</u>
Net change in net position	15,026
Net Position, beginning of year	<u>151,668</u>
Net Position, end of year	<u><u>\$ 166,694</u></u>

See Notes to Financial Statements.

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

Muscatine Community School District (the 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. The geographic area served includes the City of Muscatine, Iowa and the predominately agricultural territory of Muscatine County. The District is governed by a Board of Education whose members are elected on a nonpartisan 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.

Reporting entity:

For financial reporting purposes, Muscatine Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District.

The 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 entity due to the significance of its operational and financial relationship with the District.

Discretely presented 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 for granting scholarships to its students who attend community colleges and universities. The Foundation is governed by a Board of Directors that is appointed and subject to approval by the District's Board of Education. Two directors of the Foundation's board are required to be held by the District's superintendent and high school principal. The Foundation has a December 31 year-end. Separate financial statements of the Foundation are available at the District's administrative offices.

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

Basis of presentation:

District-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 service.

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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

Net investment in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvements of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

Fund financial statements: Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the District-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 nonmajor governmental funds.

The District reports the following major governmental funds:

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

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

The other governmental funds of the District are considered nonmajor and are as follows:

Special Revenue Funds: Are used to account for the revenue sources that are legally restricted to expenditures for specific purposes:

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Management Fund accounts for tort liability insurance premiums, unemployment compensation insurance claims and early retirement incentive payments.

The Student Activity Fund accounts for money held by the District on behalf of the students who have raised these funds and are responsible for their disposition for co-curricular to extracurricular activities of the District.

The Support Trust Fund accounts for donations specifically restricted for instructional programs.

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Revenue of the fund primarily consists of local property taxes.

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

The District also reported fiduciary funds. The District's fiduciary funds include the following:

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

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

Measurement focus and basis of accounting:

The District-wide financial statements and the 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.

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Proprietary funds distinguished operating revenues and expenses from nonoperating items. Operating revenues and expense 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 fund is 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.

Assets, deferred outflows of resources, liabilities, deferred inflows of resources and fund equity:

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

Cash, pooled investments and cash equivalents: The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for nonnegotiable 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, have maturity date no longer than three months.

Property tax receivable: Property tax in governmental funds is accounted for using the modified accrual basis of accounting. Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. 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. 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 a deferred inflow of resources in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied. The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with 1½ percent per month penalty for delinquent payments; is based on January 1, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2014.

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 governmental commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital assets: Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair 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	\$ 1
Buildings	2,500
Improvements other than buildings	2,500
Intangibles	200,000
Furniture and equipment:	
School Nutrition Fund equipment	250
Other furniture 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
Buildings	50 years
Improvements other than buildings	20 years
Intangibles	2 - 20 years
Furniture and equipment	5 - 15 years

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

Unearned revenue: Proprietary funds defer revenue recognition in connection with resources that have been received but not earned. Unearned revenue in the governmental funds arises when assets are recognized before revenue recognition criteria have been satisfied. Unearned revenue consists primarily of school registration fees and meal revenues collected for the programs and services in the next school year.

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Long-term liabilities: In the District-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.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Interfund activity: Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Fund equity: In the governmental fund financial statements fund balances are classified as follows:

Nonspendable: Balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact.

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.

Committed: Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year-end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned: Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The authority to assign fund balances has been delegated to the Director of Finance.

Unassigned: All amounts not included in other spendable classifications as well as any deficit fund balance of any other governmental fund is reported as unassigned.

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

When an expenditure is incurred for purposes for which amounts in the committed, assigned, or unassigned fund balance classifications could be used, the District's policy is generally to first apply the expenditure to restricted fund balance and then to less restrictive classifications – committed, assigned and then unassigned fund balances.

Deferred outflows/inflows of resources: In addition to assets, the balance sheet and/or statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance or net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The District's deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

In addition to liabilities, the balance sheet and/or statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance or net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources in the government-wide statements consist of succeeding year property tax revenue and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

The District reports unavailable revenue in the governmental funds balance sheet from the statewide sales and services tax, income surtax, and property tax. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

Net position: In proprietary funds, fiduciary funds, and government-wide financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net position restricted by enabling legislation as of June 30, 2015 consists of \$1,672,511 for categorical funding, \$907,227 for management levy purposes, \$832,202 for physical plant and equipment levy, \$418,918 for student activities, \$1,052,479 for school infrastructure, and \$53,457 for instructional programs.

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Net position flow assumption: Sometimes the District will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgets and budgetary control:

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2015, expenditures exceeded the amounts budgeted in support services and other functions.

Note 2. Cash and Pooled Investments

The District's cash and pooled investments consisted of depository accounts at financial institutions including certificate of deposits. The District's deposits in banks as of June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Foundation's cash and investments as of December 31, 2014 consists of the following:

Depository accounts	\$	390,008
Cash equivalents within investment accounts		134
Certificates of deposit		130,359
Mutual funds		1,922,732
	\$	<u>2,443,233</u>

Interest rate risk: The Foundation's formal investment policy does not limit the type of authorized investments. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rates. As of December 31, 2014, the Foundation had the following investments:

Muscatine Community School District

Notes to Basic Financial Statements

Note 2. Cash and Pooled Investments (Continued)

	Investment Maturities (in Years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Foundation Investments					
Certificates of Deposit	\$ 130,359	\$ 60,572	\$ 69,787	\$ -	\$ -
Mutual Funds:					
Edward Jones	1,128,642	1,128,642	-	-	-
Wells Fargo	794,090	794,090	-	-	-
	<u>\$ 2,053,091</u>	<u>\$ 1,983,304</u>	<u>\$ 69,787</u>	<u>\$ -</u>	<u>\$ -</u>

Credit risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of December 31, 2014, credit ratings were not available for the Foundation's investments. The Foundation's investment policy does not specify the types of investments the Foundation is authorized to invest in and there is no formal policy for credit risk.

Concentration of credit risk: The Foundation's formal investment policy attempts to allow flexibility, equality of opportunity and maximum interest yield on the Foundation's investments. The Foundation's investments in mutual funds are not subject to concentration of credit risk.

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. As of December 31, 2014, the Foundation's carrying amount of deposits (cash, cash equivalents, and certificates of deposit) totaled \$521,903 with the bank balance of \$521,403. Of the bank balance, \$351,403 was covered by federal depository insurance with the remaining \$170,500 uninsured and uncollateralized. Investments in mutual funds are not exposed to custodial credit risk.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer To	Transfer From	Amount
Debt Service Fund	Capital Projects Fund	\$ 617,967

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Muscatine Community School District

Notes to Basic Financial Statements

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,406,537	\$ 108,697	\$ -	\$ 1,515,234
Construction in progress	1,879,868	9,332,932	38,803	11,173,997
Total capital assets not being depreciated	3,286,405	9,441,629	38,803	12,689,231
Capital assets being depreciated:				
Buildings	62,107,888	173,857	-	62,281,745
Improvements other than buildings	2,584,941	38,803	-	2,623,744
Furniture and equipment	7,369,510	392,762	395,484	7,366,788
Total capital assets being depreciated	72,062,339	605,422	395,484	72,272,277
Less accumulated depreciation for:				
Buildings	28,734,558	2,392,280	-	31,126,838
Improvements other than buildings	1,165,043	123,054	-	1,288,097
Furniture and equipment	5,349,433	657,247	383,914	5,622,766
Total accumulated depreciation	35,249,034	3,172,581	383,914	38,037,701
Total capital assets being depreciated, net	36,813,305	(2,567,159)	11,570	34,234,576
Governmental activities capital assets, net	\$ 40,099,710	\$ 6,874,470	\$ 50,373	\$ 46,923,807
Business-type activities:				
Furniture and equipment	\$ 807,933	\$ 1,088	\$ -	\$ 809,021
Less accumulated depreciation	573,532	29,701	-	603,233
Business-type activities capital assets, net	\$ 234,401	\$ (28,613)	\$ -	\$ 205,788

Muscatine Community School District

Notes to Basic Financial Statements

Note 4. Capital Assets (Continued)

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction	\$ 46,460
Support services:	
Student services	66,533
Instructional staff services	59,197
Administration	117,730
Operation and maintenance of plant services	182,323
Transportation services	299,092
Noninstructional programs	34,280
Unallocated depreciation	2,366,966
Total governmental activities depreciation expense	\$ 3,172,581
Business-type activities, food service operations	\$ 29,701

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
Computer lease	\$ 607,138	\$ -	\$ 607,138	\$ -	\$ -
Early retirement	2,285,621	1,125,692	838,593	2,572,720	733,090
Net OPEB liability	633,282	314,372	-	947,654	-
Net pension liability	27,232,511	-	7,887,373	19,345,138	-
	<u>\$ 30,758,552</u>	<u>\$ 1,440,064</u>	<u>\$ 9,333,104</u>	<u>\$ 22,865,512</u>	<u>\$ 733,090</u>
Business-type activities:					
Net OPEB liability	\$ 31,860	\$ 15,920	\$ -	\$ 47,780	\$ -
Net pension liability	884,853	-	256,280	628,573	-
	<u>\$ 916,713</u>	<u>\$ 15,920</u>	<u>\$ 256,280</u>	<u>\$ 676,353</u>	<u>\$ -</u>

The District entered into a computer leases on May 23, 2012 with final payment due in fiscal year 2015.

Early retirement: The District offered a voluntary early retirement plan in the current year to its certified, administrative and classified employees. Eligible employees must be at least age 55 and employees must have completed 15 years of service to the District. Employees must complete an application which is required to be approved by the Board of Education.

Muscatine Community School District

Notes to Basic Financial Statements

Note 5. Long-Term Liabilities (Continued)

The early retirement incentive for each eligible employee is equal to 3% of the employee's base salary calculated by using the current year regular salary schedule multiplied by years of service not to exceed 33 years with a maximum cap of \$62,266.

As of June 30, 2015, the District had obligations to 145 participants with a total liability of \$2,572,720. Actual early retirement expenditures for the year ended June 30, 2015 totaled \$838,593. Early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements. Early retirement obligations are generally liquidated by the Management Fund or the General Fund.

Note 6. Other Postemployment Benefits (OPEB)

Plan description: The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 781 active and 79 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is 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 (ARC) of the District, 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 the year ended June 30, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 831,707
Interest on net OPEB obligation	29,931
Adjustment to annual required contribution	(26,543)
Annual OPEB cost	835,095
Contributions made	504,803
Increase in net OPEB obligation	330,292
Net OPEB obligation beginning of year	665,142
Net OPEB obligation end of year	<u><u>\$ 995,434</u></u>

Muscatine Community School District

Notes to Basic Financial Statements

Note 6. Other Postemployment Benefits (OPEB) (Continued)

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, 2015 and the two preceding years are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 1,544,795	55.3%	\$ 93,932
June 30, 2014	1,622,196	64.8%	665,142
June 30, 2015	835,095	60.4%	995,434

Funded status and funding progress: As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$9,032,052, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,032,502. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$30,252,716 and the ratio of the UAAL to covered payroll was 29.9 percent. As of June 30, 2015, 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 health care 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 financial statements, presents 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 benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques 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 the July 1, 2014 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent discount rate based on the District's funding policy. The projected annual medical trend rate is 8 percent with annual decreases of 0.5% to 5.00% with an inflation rate of 3.5%.

Mortality rates are from the RP-2014 Combined Healthy Generational Mortality Table with project scale MP-2014. The UAAL is being amortized as a level percentage amount for an open period over 30 years.

Muscatine Community School District

Notes to Basic Financial Statements

Note 7. Pension and Retirement Benefits

Plan Description – IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Muscatine Community School District

Notes to Basic Financial Statements

Note 7. Pension and Retirement Benefits (Continued)

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The Actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent. The District's contributions to IPERS for the year ended June 30, 2015 were \$3,028,325.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the District reported a liability of \$19,973,711 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's proportion was .493533 percent, which was a decrease of .003064 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$1,461,485. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 217,075	\$ -
Changes of assumptions	881,485	-
Net difference between projected and actual earnings on pension plan investments	-	7,617,398
Changes in proportion and differences between District contributions and proportionate share of contributions	-	143,364
District contributions subsequent to the measurement date	3,028,325	-
Total	<u>\$ 4,126,885</u>	<u>\$ 7,760,762</u>

Muscatine Community School District

Notes to Basic Financial Statements

Note 7. Pension and Retirement Benefits (Continued)

\$3,028,325 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (1,681,173)
2017	(1,681,173)
2018	(1,681,173)
2019	(1,681,173)
2020	62,490
Total	<u>\$ (6,662,202)</u>

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary Increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan, investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above. Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Muscatine Community School District

Notes to Basic Financial Statements

Note 7. Pension and Retirement Benefits (Continued)

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31%
Non US Equity	15%	6.76%
Private Equity	13%	11.34%
Real Estate	8%	3.52%
Core Plus Fixed Income	28%	2.06%
Credit Opportunities	5%	3.67%
TIPS	5%	1.92%
Other Real Assets	2%	6.27%
Cash	1%	-0.69%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 37,739,765	\$ 19,973,710	\$ 4,977,320

Muscatine Community School District

Notes to Basic Financial Statements

Note 7. Pension and Retirement Benefits (Continued)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at www.ipers.org.

Payables to the Pension Plan – At June 30, 2015, the District reported payables to the defined benefit pension plan of \$30,965 for legally required employer contributions and \$9,766 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 8. 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.

Note 9. 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 \$2,207,805 for the year ended June 30, 2015 and is recorded in the General Fund.

Note 10. Categorical Funding

The District’s fund balance restricted for categorical funding as of June 30, 2015 is comprised of the following programs:

Program	Amount
Home school assistance program	\$ 59,348
At-risk programs	63,744
Talented and gifted	246,782
Dropout prevention	376,597
Four-year-old preschool	151,472
Teacher salary supplement	222,731
Empowerment professional development	335
Successful progression for early readers	72,999
Teacher leadership and compensation system	457,516
Professional development	20,987
Total	\$ 1,672,511

Muscatine Community School District

Notes to Basic Financial Statements

Note 11. Commitments

The District has entered into various contracts totaling \$20,204,722 for West Middle School, Jefferson Elementary School, Muscatine High School gym entrance and pool parking lot, and other Muscatine High School construction. As of June 30, 2015, costs of \$18,730,397 had been incurred against the contracts. The balance of \$1,474,325 remaining as of June 30, 2015 will be paid as work on the projects progress.

The Foundation has awarded scholarships as of December 31, 2014 of \$307,100 that have not yet been claimed. These unclaimed scholarships constitute a commitment.

Note 12. 28E Agreement

The District participates in a Chapter 28E agreement with 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 as be a program and tenant partner of the learning center.

Note 13. Governmental Accounting Standards Board (GASB)

The District adopted the following statements during the year ended June 30, 2015:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

Muscatine Community School District

Notes to Basic Financial Statements

Note 13. Governmental Accounting Standards Board (GASB) (Continued)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*, issued November 2013. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The implementation of the above statements did not have a material impact to the District's financial statements except for GASB Statement No. 68 and No. 71 which required the District to change the accounting and reporting of pension expense, net pension liability, and the related deferred inflows of resources and deferred outflows of resources. As a result, the District's financial statements required a restatement as stated in Note 14. In addition, the new standards required new required supplementary information schedules.

As of June 30, 2015, GASB had issued several statements not yet required to be implemented by the District. The Statements which might impact the District are as follows:

GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015, will be effective for the District beginning with its year ending June 30, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, issued June 2015, will be effective for the District beginning with its year ending June 30, 2016. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

Muscatine Community School District

Notes to Basic Financial Statements

Note 13. Governmental Accounting Standards Board (GASB) (Continued)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued June 2015, will be effective for the District beginning with its year ending June 30, 2017. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, will be effective for the District beginning with its year ending June 30, 2018. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued June 2015, will be effective for the District beginning with its year ending June 30, 2016. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The District’s management has not yet determined the effect these GASB Statements will have on the District’s financial statements.

Muscatine Community School District

Notes to Basic Financial Statements

Note 14. Accounting Change and Restatement

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB No. 27*, was implemented during fiscal year 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, GASB 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for governmental and business-type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Governmental Activities	Business-type Activities	Nonmajor Enterprise Funds School Nutrition
Net position June 30, 2014, as previously reported	\$ 52,730,852	\$ 383,099	\$ 383,099
Net pension liability at June 30, 2014	(27,232,511)	(884,853)	(884,853)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	2,850,333	92,615	92,615
Early retirement liability	(2,285,621)	-	-
Net position July 1, 2014, as restated	<u>\$ 26,063,053</u>	<u>\$ (409,139)</u>	<u>\$ (409,139)</u>

In addition to the new accounting standards, the District also restated governmental activities net position to decrease net position \$2,285,621 for the early retirement liability as of July 1, 2014.

The Foundation restated the December 31, 2013 net position \$16,025 to record accounts payable due as of December 31, 2013. In addition, the Foundation changed its financial reporting model based as required by the AICPA based on the nature of the organization to the District.

Muscatine Community School District

Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan

Year Ended June 30, 2015

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	7/1/2008	\$ -	\$ 8,933	\$ 8,933	0.00%	\$ 23,974	37.26%
2010	7/1/2008	-	8,933	8,933	0.00%	25,857	34.55%
2011	7/1/2010	-	9,255	9,255	0.00%	24,900	37.17%
2012	7/1/2010	-	9,255	9,255	0.00%	25,504	36.29%
2013	7/1/2012	-	17,409	17,409	0.00%	26,573	65.51%
2014	7/1/2012	-	17,409	17,409	0.00%	22,079	78.85%
2015	7/1/2014	-	9,033	9,033	0.00%	30,253	29.86%

See Note 6 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.

Note: Amounts reported in thousands.

Muscatine Community School District

**Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Enterprise Fund
Required Supplementary Information
Year Ended June 30, 2015**

	Governmental Funds - Actual	Enterprise Fund - Actual
Revenues:		
Local sources	\$ 20,477,080	\$ 894,400
State sources	42,383,472	22,306
Federal sources	2,430,675	1,834,749
Total revenues	65,291,227	2,751,455
Expenditures/expenses:		
Instruction	37,509,233	-
Support services	16,463,185	54,450
Noninstructional programs	62,880	2,650,030
Other expenditures	12,434,783	-
Total expenditures/expenses	66,470,081	2,704,480
Excess (deficiency) of revenues over (under) expenditures/expenses	(1,178,854)	46,975
Other financing sources (uses):		
Proceeds from sale of capital assets	5,504	-
Interfund transfers in	617,967	-
Interfund transfers out	(617,967)	-
Total other financing sources (uses)	5,504	-
Net change in fund balance	(1,173,350)	46,975
Fund Balance, beginning of year	13,620,328	(409,139)
Fund Balance, end of year	\$ 12,446,978	\$ (362,164)

See Note to Required Supplementary Information-Budgetary Reporting.

Total Actual	Budgeted Amounts		Final to Actual	
	Original	Final	Variance	
\$ 21,371,480	\$ 25,116,250	\$ 25,116,250	\$ (3,744,770)	
42,405,778	37,245,176	37,245,176	5,160,602	
4,265,424	4,390,023	4,390,023	(124,599)	
68,042,682	66,751,449	66,751,449	1,291,233	
37,509,233	39,529,697	39,529,697	2,020,464	
16,517,635	16,313,276	16,313,276	(204,359)	
2,712,910	3,014,090	3,014,090	301,180	
12,434,783	11,544,823	11,544,823	(889,960)	
69,174,561	70,401,886	70,401,886	1,227,325	
(1,131,879)	(3,650,437)	(3,650,437)	2,518,558	
5,504	1,000	1,000	4,504	
617,967	617,967	617,967	-	
(617,967)	(617,967)	(617,967)	-	
5,504	1,000	1,000	4,504	
(1,126,375)	(3,649,437)	(3,649,437)	2,523,062	
13,211,189	13,211,189	13,211,189	-	
\$ 12,084,814	\$ 9,561,752	\$ 9,561,752	\$ 2,523,062	

Muscatine Community School District

Note to Required Supplementary Information – Budgetary Reporting

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

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

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

During the year ended June 30, 2015, expenditures exceeded the amounts budgeted in the support services and other expenditures functions.

Muscatine Community School District

Required Supplementary Information

Schedule of the District's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System

Last Fiscal Year*

	2015
District's proportion of the net pension liability	0.493533%
District's proportionate share of the net pension liability	\$ 19,973,710
District's covered-employee payroll	\$ 33,911,814
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	58.90%
Plan fiduciary net pension as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note 1: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

See Note to Required Supplementary Information-Pension Liability

Muscatine Community School District

Required Supplementary Information
Schedule of District Contributions (in Thousands)
Iowa Public Employees' Retirement System
Last Ten Fiscal Years

	2015	2014	2013	2012
Statutorily required contribution	\$ 3,028	\$ 2,943	\$ 2,784	\$ 2,602
Contributions in relation to the statutorily required contribution	\$ (3,028)	\$ (2,943)	\$ (2,784)	\$ (2,602)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 33,912	\$ 32,956	\$ 32,111	\$ 32,243
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%

See Note to Required Supplementary Information-Pension Liability.

2011	2010	2009	2008	2007	2006
\$ 2,081	\$ 2,088	\$ 1,954	\$ 1,731	\$ 1,599	\$ 1,545
\$ (2,081)	\$ (2,088)	\$ (1,954)	\$ (1,731)	\$ (1,599)	\$ (1,545)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 29,942	\$ 31,398	\$ 30,772	\$ 28,612	\$ 27,809	\$ 26,870
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

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Muscatine Community School District

Note to Required Supplementary Information – Pension Liability

Changes of benefit terms: Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65. In 2008, legislative action transferred four groups – emergency medical service providers, county jailors, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year leg between the valuation date and the effective date of the annual actuarial contribution rate. The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Muscatine Community School District

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015**

	<u>Management Levy</u>
Assets	
Cash and pooled investments	\$ 893,454
Receivables:	
Property tax:	
Current year	13,773
Succeeding year	1,249,997
Accounts	-
Total assets	<u><u>\$ 2,157,224</u></u>
 Liabilities, Deferred Inflows of Resources, and Fund Balances	
Liabilities:	
Accounts payable	\$ -
Total liabilities	<u>-</u>
 Deferred inflows of resources,	
Unavailable revenue-succeeding year property tax	<u>1,249,997</u>
 Fund balances:	
Restricted	<u>907,227</u>
Total fund balances	<u>907,227</u>
 Total liabilities, deferred inflows of resources and fund balances	<u><u>\$ 2,157,224</u></u>

Special Revenue					
Student	Support		Debt		
Activity	Trust	Total	Service	Total	
\$ 414,492	\$ 53,457	\$ 1,361,403	\$ -	\$ 1,361,403	
-	-	13,773	-	13,773	
-	-	1,249,997	-	1,249,997	
18,077	-	18,077	-	18,077	
\$ 432,569	\$ 53,457	\$ 2,643,250	\$ -	\$ 2,643,250	
\$ 13,651	\$ -	\$ 13,651	\$ -	\$ 13,651	
13,651	-	13,651	-	13,651	
-	-	1,249,997	-	1,249,997	
418,918	53,457	1,379,602	-	1,379,602	
418,918	53,457	1,379,602	-	1,379,602	
\$ 432,569	\$ 53,457	\$ 2,643,250	\$ -	\$ 2,643,250	

Muscatine Community School District

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2015

	Management Levy
Revenues:	
Local sources:	
Local tax	\$ 1,237,006
Other	17,423
State sources	41,653
State sources	7,290
Total revenues	1,303,372
Expenditures:	
Current:	
Instruction	791,715
Support services:	
Student services	20,259
Instructional staff services	1,703
Administration services	41,069
Operation and maintenance of plant services	365,974
Transportation services	84,448
Noninstructional programs	62,880
Debt Service:	
Principal	-
Interest	-
Total expenditures	1,368,048
Other financing sources (uses), Transfers in	-
Net change in fund balances	(64,676)
Fund balances, beginning of year	971,903
Fund balances, end of year	\$ 907,227

Special Revenue					
Student			Debt		
Activity	Trust	Total	Service	Total	
\$ -	\$ -	\$ 1,237,006	\$ -	\$ 1,237,006	
577,365	6	594,794	-	594,794	
-	-	41,653	-	41,653	
-	-	7,290	-	7,290	
577,365	6	1,880,743	-	1,880,743	
576,115	5,898	1,373,728	-	1,373,728	
-	-	20,259	-	20,259	
-	1,878	3,581	-	3,581	
-	-	41,069	-	41,069	
-	-	365,974	-	365,974	
-	-	84,448	-	84,448	
-	-	62,880	-	62,880	
-	-	-	607,138	607,138	
-	-	-	10,829	10,829	
576,115	7,776	1,951,939	617,967	2,569,906	
-	-	-	617,967	617,967	
1,250	(7,770)	(71,196)	-	(71,196)	
417,668	61,227	1,450,798	-	1,450,798	
\$ 418,918	\$ 53,457	\$ 1,379,602	\$ -	\$ 1,379,602	

Muscatine Community School District

**Schedule of Combining Balance Sheet
Capital Project Fund - By Account
June 30, 2015**

	Capital Projects Accounts		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 942,469	\$ 819,377	\$ 1,761,846
Receivables:			
Property tax:			
Current year	-	16,200	16,200
Succeeding year	-	1,774,951	1,774,951
Due from other governments	1,052,821	-	1,052,821
Total assets	\$ 1,995,290	\$ 2,610,528	\$ 4,605,818
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable	432,877	3,375	436,252
Retainage payable	509,934	-	509,934
Total liabilities	942,811	3,375	946,186
Deferred Inflows of Resources:			
Unavailable revenue-succeeding year property tax	-	1,774,951	1,774,951
Unavailable revenue-statewide sales and services tax	266,692	-	266,692
Total deferred inflows of resources	266,692	1,774,951	2,041,643
Fund Balances:			
Restricted for:			
Physical plant and equipment	-	832,202	832,202
School infrastructure	785,787	-	785,787
Total fund balances	785,787	832,202	1,617,989
Total liabilities and fund balances	\$ 1,995,290	\$ 2,610,528	\$ 4,605,818

Muscatine Community School District

Schedule of Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Capital Project Fund - By Account

Year Ended June 30, 2015

	Capital Projects Accounts		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	\$ 1,489,958	\$ 1,489,958
Other	6,918	1,587	8,505
State sources	5,067,154	48,841	5,115,995
Federal sources	-	8,548	8,548
Total revenues	5,074,072	1,548,934	6,623,006
Expenditures:			
Current:			
Support services:			
Instructional staff services	-	8,177	8,177
Administration services	-	368,496	368,496
Operation and maintenance of plant services	-	23,226	23,226
Transportation services	-	263,367	263,367
Capital outlay, facilities acquisition	9,448,145	160,866	9,609,011
Total expenditures	9,448,145	824,132	10,272,277
Excess (deficiency) of revenues over (under) expenditures	(4,374,073)	724,802	(3,649,271)
Other financing sources (uses):			
Transfers out	-	(617,967)	(617,967)
Total other financing sources (uses)	-	(617,967)	(617,967)
Net change in fund balance	(4,374,073)	106,835	(4,267,238)
Fund balance, beginning of year	5,159,860	725,367	5,885,227
Fund balance, end of year	\$ 785,787	\$ 832,202	\$ 1,617,989

Muscatine Community School District

Schedule of Combining Statement of Fiduciary Net Position

Private Purpose Trust Fund - By Account

June 30, 2015

	Private Purpose Trust Accounts			
	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Jefferson Culture Fair Scholarship	Total
Assets:				
Cash and pooled investments	\$ 118,380	\$ 46,763	\$ 1,551	\$ 166,694
Total assets	<u>\$ 118,380</u>	<u>\$ 46,763</u>	<u>\$ 1,551</u>	<u>\$ 166,694</u>
Net Position				
Restricted for scholarships	<u>\$ 118,380</u>	<u>\$ 46,763</u>	<u>\$ 1,551</u>	<u>\$ 166,694</u>

Muscatine Community School District

Schedule of Combining Statement of Changes in Fiduciary Net Position

Private Purpose Trust Fund - By Account

Year Ended June 30, 2015

	Private Purpose Trust Accounts			
	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Jefferson Culture Fair Scholarship	Total
Additions:				
Local sources, other:				
Interest	\$ 23,002	\$ 24	\$ -	\$ 23,026
Contributions	-	-	-	-
Total additions	23,002	24	-	23,026
Deductions, current,				
Instruction, scholarships awarded	5,000	3,000	-	8,000
Net change in net position	18,002	(2,976)	-	15,026
Net Position, beginning of year	100,378	49,739	1,551	151,668
Net Position, end of year	\$ 118,380	\$ 46,763	\$ 1,551	\$ 166,694

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Muscatine Community School District

Schedule of Changes in Fiduciary Assets and Liabilities

Agency Fund

Year Ended June 30, 2015

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 11,964	\$ 633,857	\$ 643,683	\$ 2,138
Liabilities				
Due to other groups	\$ 11,964	\$ 633,857	\$ 643,683	\$ 2,138

Muscatine Community School District

Schedule of Revenues by Source and Expenditures by Function

All Governmental Funds - Modified Accrual Basis

Last Ten Years

	Years Ended June 30:			
	2015	2014	2013	2012
Revenues:				
Local sources:				
Local tax	\$ 18,628,986	\$ 18,320,746	\$ 22,530,785	\$ 20,665,245
Tuition	530,347	583,016	621,193	789,295
Other	1,317,747	1,412,458	1,486,224	1,627,100
State sources	42,383,472	38,595,124	32,010,126	32,853,112
Federal sources	2,430,675	2,441,180	2,120,614	3,043,064
Total revenues	\$ 65,291,227	\$ 61,352,524	\$ 58,768,942	\$ 58,977,816
Expenditures:				
Instruction	\$ 37,509,233	\$ 36,426,501	\$ 36,254,296	\$ 35,679,780
Support services:				
Student services	1,642,590	1,641,603	1,646,917	1,543,182
Instructional staff services	1,523,383	1,378,893	1,281,373	3,366,854
Administration services	6,456,225	6,340,544	6,119,304	7,537,234
Operation and maintenance of plant services	4,928,889	5,355,512	5,010,283	4,869,282
Transportation services	1,912,098	1,841,780	1,750,580	1,685,575
Noninstructional programs	62,880	181,691	11,404	14,007
Other expenditures:				
Facilities acquisition	9,609,011	5,030,721	7,081,218	3,690,720
Long-term debt:				
Principal	607,138	596,507	610,484	-
Interest and fiscal charges	10,829	21,460	31,900	-
AEA flowthrough	2,207,805	2,100,120	2,010,185	1,998,046
Total expenditures	\$ 66,470,081	\$ 60,915,332	\$ 61,807,944	\$ 60,384,680

Years Ended June 30:											
2011		2010		2009		2008		2007		2006	
\$	19,333,468	\$	18,712,914	\$	18,488,404	\$	17,842,274	\$	16,956,518	\$	16,861,241
	678,551		646,617		634,578		656,615		685,601		627,827
	2,116,315		1,567,942		1,961,396		2,386,934		2,573,161		2,680,059
	31,615,441		27,787,891		30,363,984		29,280,415		27,849,315		26,377,373
	2,973,055		4,673,746		2,099,916		1,737,646		1,498,477		2,879,013
\$	56,716,830	\$	53,389,110	\$	53,548,278	\$	51,903,884	\$	49,563,072	\$	49,425,513
\$	34,300,836	\$	34,695,516	\$	35,249,068	\$	32,721,204	\$	31,014,838	\$	30,865,988
	1,413,771		1,482,432		1,459,094		1,407,202		1,330,859		1,312,963
	1,406,839		1,061,588		1,092,250		1,138,973		975,467		1,772,001
	6,507,777		5,724,703		5,436,431		5,032,575		4,647,569		2,403,324
	4,492,882		4,185,506		4,244,947		4,424,856		3,781,663		3,668,441
	1,454,728		1,467,975		1,636,008		1,695,177		1,420,991		1,332,785
	20,834		43,334		26,418		41,495		64,175		255,739
	1,724,782		3,153,296		5,385,365		3,772,776		3,554,801		2,714,403
	-		-		-		-		-		760,000
	-		-		-		-		-		21,773
	2,205,295		2,178,281		1,949,818		1,851,969		1,765,207		1,651,446
\$	53,527,744	\$	53,992,631	\$	56,479,399	\$	52,086,227	\$	48,555,570	\$	46,758,863

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Muscatine Community School District

Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Child Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY15 4552	\$ 311,683
National School Lunch Program	10.555	FY15 4553	1,241,379
Commodities -Department of Defense (Noncash)	10.555	FY15	60,990
Commodities (Noncash)	10.555	FY15	143,614
Special Milk Program for Children	10.556	FY15 4555	1,106
Summer Food Service Program for Children	10.559	FY15 4556	35,747
Total Child Nutrition Cluster Programs			1,794,519
Fresh Fruit and Vegetable Program	10.582	FY15 4557	40,229
Total U.S. Department of Agriculture			1,834,748
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY15 4501 4508	986,696
Special Education-Grants to States, IDEA Part B	84.027	FY15 4525	58,325
Vocational Education-Basic Grants to States	84.048	FY15 4647	49,445
Advanced Placement Program	84.330	FY15 4654	2,714
Title IIA Federal Teacher Quality Program	84.367	FY15 4643	209,938
Grants for State Assessments and Related Activities Title VI	84.369	FY15 4648	26,040
Mississippi Bend Area Education Agency:			
Special Education - Grants to States, IDEA Part B	84.027	FY15 4521	267,211
Title III English Language Acquisition State Grants	84.365	FY15 4644	61,733
Total U.S. Department of Education			1,662,102
Total expenditures of federal awards			\$ 3,496,850

See notes to schedule of expenditures of federal awards.

Muscatine Community School District

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal grant activity of Muscatine Community School District under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Muscatine Community School District, it is not intended to and does not present the financial position, changes in net position or cash flows of Muscatine Community School District.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual or accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue from federal awards is recognized when the District has done everything necessary to establish its right to revenue. For governmental funds, revenue from federal awards is recognized when it is both measurable and available. Expenditures of federal awards are recognized in the accounting period when the liability is incurred.

Muscatine Community School District

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015**

Findings		Status	Corrective Action Plan or Other Explanation
Other Findings Related to Statutory Reporting:			
IV-A-14	Expenditures exceeded the certified budget amounts in the support services and non-instructional programs functional areas.	Not corrected	See IV-A-15
IV-B-14	The District purchased gift cards to be used as incentives which does not meet public purpose.	Corrected	
IV-G-14	Variances in certified enrollment for October 2013 were noted	Not corrected	See IV-G-15
IV-I-14	The District owns stock in Sun Life Financial of Canada which is not an allowable investment.	Not corrected	See IV-I-15
IV-K-14	The District has several state allocation and categorical funding carryover balances.	Corrected	
IV-M-14	Purchases in the Student Activity Fund for instructional supplies may not meet the purpose of the fund.	Corrected	

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**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
Muscatine Community School District
Muscatine, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Muscatine Community School District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 14, 2016. Our report included an emphasis of matter paragraph for the implementation of Governmental Accounting Standard Board Statement No. 68.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Muscatine Community School District's internal control.

A deficiency in internal control exists when the design or operation of a 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 that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters which 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, 2015 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.

District's Response to the Findings

The District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results 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.

The image shows a handwritten signature in black ink that reads "Bohnsack & Frommelt LLP". The script is cursive and fluid.

Taylor Ridge, Illinois

January 14, 2016



**Independent Auditor's Report on Compliance For Each
Major Federal Program and Report on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

To the Board of Education
Muscatine Community School District
Muscatine, Iowa

Report on Compliance for Each Major Federal Program

We have audited Muscatine Community School District's (the District) compliance with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section 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 grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 auditing standards generally accepted in the United States of America, 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 Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the 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 of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are 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 the District's internal control over compliance.

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

Bohnsack & Frommelt LLP

Taylor Ridge, Illinois
January 14, 2016

Muscatine Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Part I: Summary of the Independent Auditor's Results

- a) Unmodified opinions were issued on the financial statements.
- b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- c) The audit did not disclose any noncompliance which is material to the financial statements.
- d) No material weaknesses or significant deficiencies over internal control over major programs were disclosed by the audit of each major program.
- e) Type of auditor's reports issued on compliance for each major program: Unmodified
- f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g) Major programs were as follows:
 - CFDA 84.027 Special Education-Grants to States, IDEA Part B
 - Child Nutrition Program Cluster:
 - CFDA 10.553 School Breakfast Program
 - CFDA 10.555 National School Lunch Program
 - CFDA 10.556 Special Milk Program For Children
 - CFDA 10.559 Summer Food Service Program for Children
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i) Muscatine Community School District qualified as a low-risk auditee.

(Continued)

Muscatine Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Part II: Findings Related to the Basic Financial Statements

Instances of noncompliance:

No matters were reported.

Internal control deficiencies:

2015-001

Finding: The District has insufficient segregation of duties over the cash disbursement function.

Condition: The significant deficiency is the result of a combination of the following:

- Access to the master vendor file is not limited. One position has access to set up new vendors in the system or to edit vendor information as well as access to enter invoices, post to the general ledger system, void transactions and reconciles the bank statements. In addition, several other employees have access to the master vendor file.
- A consistent invoice approval process is not applied District-wide. In a sample of twenty-five transactions, two procurement card logs were not signed by the employee's administrator and nine invoices did not have documentation such as a signature or initials of the supervisor indicating approval for payment.

Context: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion.

Effect: Misappropriations of assets could occur and not be detected in a timely basis.

Cause: Access levels are not sufficiently limited and the practices of approving invoices vary by building and department.

Recommendation: We recommend the District remove access to the vendor master file from all employees involved in the cash disbursement process and remove cash disbursement review and processes from employees with general ledger access. In addition, we recommend the District require approvals on all invoices and implement a consistent expectation of the documentation of the approval.

Response and Corrective Action Plan: The District is currently realigning job duties to have one person enter vendors and limit system access for other employees who process disbursements or post journal entries in the general ledger.

Muscatine Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Part III: Findings and Questioned Costs for Federal Awards

Instances of noncompliance:

No matters were reported.

Internal control deficiencies:

No matters were reported.

Part IV: Other Findings Related to Statutory Reporting

IV-A-15

Certified Budget –

Finding: Expenditures for the year ended June 30, 2015, exceeded the amounts budgeted for the support services and other expenditures functions at year-end.

Recommendation: We recommend amending the certified budget prior to expenditures exceeding budgeted amounts.

Response and Corrective Action Plan: 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-15

Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-15

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-15

Business Transactions – Business transactions between the District and District officials or employees were as follows:

(Continued)

Muscatine Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Name	Position	Vendor	Relationship	Amount
Ryan Reifert	Coach	Sprouse Distributing	Owners are family members Father manager Self - employee	\$5,851.06
Rachel Reifert	Teacher	Sprouse Distributing	Owners are family members Father-in-law manager Spouse- employee	\$5,851.06
Susan Krieger	Teacher	Krieger Motors Co. (429) Enterprise Rentals (9229)	Spouse owner	\$4,219.18 \$817.52
Stacie Olsen	Teacher	Muscatine Community Y	Spouse director	\$94,631.45
Rich Hines	Technology	Muscatine Power & Water	Father management	\$808,781.96
Lynn Hines	Teacher	Muscatine Power & Water	Father-in-law management	\$808,781.96
Mary Spratt	Teacher	Muscatine Power & Water	Spouse employee	\$808,781.96
May Lucas	Bus Driver	Lucas Communication	Son owner	\$195.00
Jeff Cochran	Substitute Bus Driver	Bosch Pest Control	Self ownership	\$8,520.00
Renee Hyink	Aide	Bryant Roofing	Brother owner	\$6,432.00
Gina Schliesman	Teacher	Hy-Vee	Spouse Management	\$6,534.38
Jessica Feers	Teacher	Freers and Sons Tree Service	Spouse owner	\$7,900.00
Mary Kisner	Teacher	Avenue Subs	Owner	\$293.94
John Lawrence	Administration	Muscatine Travel	Spouse owner	\$3,432.00
Gina Chesling	Home School Coordinator	Boxshottz / David Chesling Photography	Spouse owner	\$750.00
Randall Naber	School Board Vice President	Substitute Teacher	Self	\$1,972.16

IV-E-15

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-15

Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

(Continued)

Muscatine Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

IV-G-15

Certified Enrollment-

Finding: There were variances to the October 2014 certified enrollment.

Recommendation: We recommend the District review and verify enrollment before the October 1st process.

Response and Corrective Action Plan: The District will review enrollment figures prior to submission to ensure accuracy of the information certified to the Department of Education.

Conclusion: Response accepted.

IV-H-15

Supplementary Weighting – No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-15

Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted other than the following:

Finding: The District owns stock in Sun Life Financial of Canada. This does not appear to be an allowable investment under the provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

Recommendation: We recommend the District continue with its efforts to comply with allowable investments.

Response and Corrective Action Plan: Immediately upon being made aware of the stock, the District has been attempting to sell the investment. The District will continue its efforts to sell the investment.

IV-J-15

Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-15

Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds.

(Continued)

Muscatine Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

IV-L-15

Statewide Sales and Services Tax – No instances of noncompliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax 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, 2015, the District reported the following information regarding the statewide sales and services tax revenue in the District's CAR:

Beginning balance	\$	5,159,860
Revenue / transfers in:		
Statewide sales and services tax revenue		5,067,154
Interest and other		6,918
Expenditures/transfers out:		
School infrastructure:		
Buildings		9,448,145
Ending balance	\$	<u>785,787</u>

For the year ended June 30, 2015, the District reduced the tax levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa as follows:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 3.81000	\$ 4,540,148
Voter PPEL	\$ 0.44000	\$ 524,322

Muscatine Community School District

Corrective Action Plan

Year Ended June 30, 2015

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
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Significant Deficiencies Over Financial Reporting:

2015-001	The District has insufficient segregation of duties over the cash disbursement function.	See response and corrective action plan at 2015-001.	Fiscal Year 2016	Jean Garner
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Other Findings Related to Required Statutory Reporting:

IV-A-15	The District exceeded budgeted expenditures in the support services and other expenditures functions.	See response and corrective action plan at IV-A-15.	Fiscal Year 2016	Jean Garner
IV-G-15	Variances in certified enrollment for October 2014 were noted.	See response and corrective action plan at IV-G-15	Fiscal Year 2016	Jean Garner
IV-I-15	The District has investment that is not allowable.	See response and corrective action plan at IV-I-15	Fiscal Year 2016	Jean Garner