

**Muscatine Community School District
Muscatine, Iowa**

Financial Report
Year Ended June 30, 2018

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Muscatine Community School District

Officials

Year Ended June 30, 2018

Name	Title	Term Expires
Board of Education		
Tammi Drawbaugh	President	2021
Mary Wildermuth	Vice President	2019
Randy Naber	Board Member	2019
John DaBeet	Board Member	2019
Aaron Finn	Board Member	2019
Nathan Mather	Board Member	2019
Toby McCarter	Board Member	2021

School Officials		
Jerry Riibe	Superintendent	2018
Tom Anderson	Director of Finance	2018
Lisa Mosier Bunn	District Secretary	2018
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, 2018, 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, 2018, 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 15 to the basic financial statements, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the District's net positions for governmental activities and business-type activities has been restated. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the District's total OPEB liability and related ratios, budgetary comparison information, schedule of proportionate share of the net pension liability, and schedule of contributions on pages 4-14 and 48-55 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 Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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, 2008 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, 2008 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, 2008 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 16, 2019 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.

Bohnsack & Frommelt LLP

Moline, Illinois
January 16, 2019

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Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2018

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, 2018. We encourage readers to consider this information in conjunction with the District's financial statements, which follow:

2017-18 FINANCIAL HIGHLIGHTS

The District showed an increase in net position of \$1,870,198 and \$2,184,681 during the years ended June 30, 2018 and 2017, respectively.

Total revenues for the fiscal year ended June 30, 2018 and 2017 of \$67,837,689 and \$69,303,337 were comprised of general revenues in the amount of \$52,070,826 and \$53,282,770 and program revenues totaling \$15,766,863 and \$16,020,567, respectively.

As of June 30, 2018, the District's governmental funds reported combined fund balances of \$25,591,424 an increase of \$2,741,377 in comparison to 2017. As of June 30, 2017, the District's governmental funds reported combined fund balances of \$22,850,047, an increase of \$3,982,250 in comparison to 2016.

USING THIS ANNUAL REPORT

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

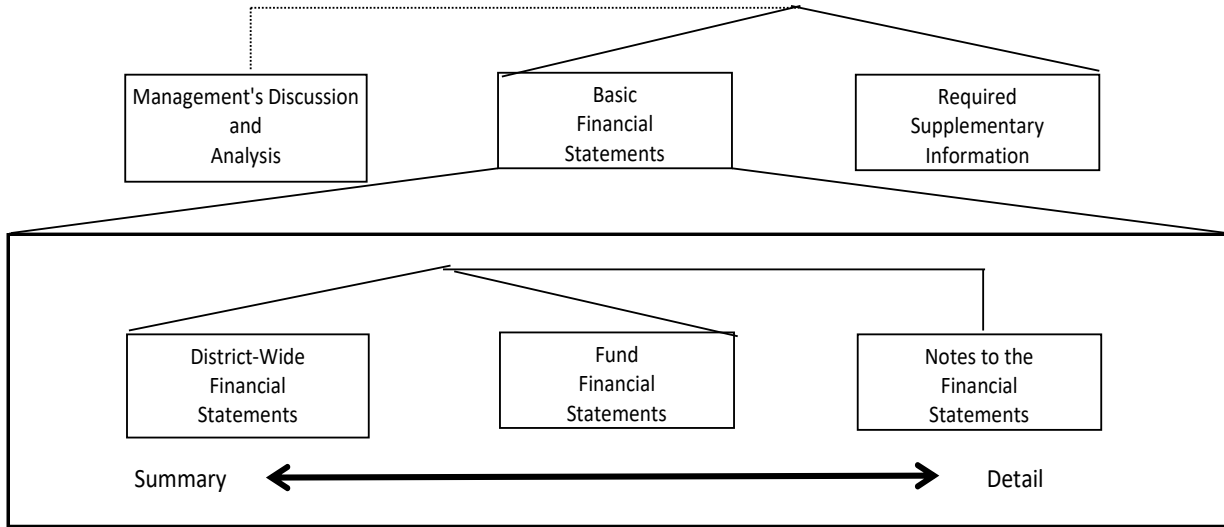
- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These provide information about 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, 2018**

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, 2018**

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, 2018

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 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.

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2018

The District's major governmental funds for 2017-18 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.

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, 2018

Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District's net position as of June 30, 2018 compared to June 30, 2017.

Figure A-3 Condensed Statement of Net Position

	Restated		Restated		Restated	
	Governmental Activities	Business-Type Activities	Total School District	June 30, 2018	June 30, 2017	June 30, 2018
Current and other assets	\$ 53,931,233	\$ 50,800,988	\$ 1,113,666	\$ 1,057,903	\$ 55,044,899	\$ 51,858,891
Capital assets	44,706,963	44,299,135	293,367	159,578	45,000,330	44,458,713
Total assets	98,638,196	95,100,123	1,407,033	1,217,481	100,045,229	96,317,604
Deferred outflows of resources	8,741,532	7,957,951	274,051	244,788	9,015,583	8,202,739
Long-term liabilities	42,608,098	40,697,472	1,522,744	1,453,408	44,130,842	42,150,880
Other liabilities	8,362,934	8,588,019	126,943	116,015	8,489,877	8,704,034
Total liabilities	50,971,032	49,285,491	1,649,687	1,569,423	52,620,719	50,854,914
Deferred inflows of resources	20,754,420	19,873,102	46,582	23,434	20,801,002	19,896,536
Net position:						
Net investment in capital assets	44,706,963	44,299,135	293,367	159,578	45,000,330	44,458,713
Restricted	12,817,306	10,634,314	-	-	12,817,306	10,634,314
Unrestricted	(21,869,993)	(21,033,968)	(308,552)	(290,166)	(22,178,545)	(21,324,134)
Total net position	\$ 35,654,276	\$ 33,899,481	\$ (15,185)	\$ (130,588)	\$ 35,639,091	\$ 33,768,893

The District's combined net position as of June 30, 2018 grew by \$1,870,198 (5.5%) over the June 30, 2017 combined net position. Net position in the governmental activities grew by \$1,754,795 (5.2%). The net position of the District's business-type activities increased by \$115,403 (88.4%).

The most significant factors for the increase in net position of the District were not expending sales services and use tax revenues.

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 increased by \$2,182,992 (20.5%) primarily due to increases in net resources restricted for school infrastructure to purchase and construct capital projects in the future.

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) decreased by \$854,411 (4.0%).

Figure A-4 shows the changes in net position for the year ended June 30, 2018 compared to the year ended June 30, 2017.

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2018

Figure A-4 Changes in Net Position From Operating Results

	Not restated		Not restated		Not restated	
	Governmental Activities	Governmental Activities	Business-Type Activities	Business-Type Activities	Total School District	Total School District
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues:						
Program revenues:						
Charges for services	\$ 1,977,538	\$ 1,819,678	\$ 932,166	\$ 1,010,732	\$ 2,909,704	\$ 2,830,410
Operating grants and contributions	11,073,851	11,333,959	1,696,149	1,856,198	12,770,000	13,190,157
Capital grants and contributions	-	-	87,159	-	87,159	-
General revenues:						
Property taxes	18,978,032	19,499,622	-	-	18,978,032	19,499,622
Income surtax	290,503	320,449	-	-	290,503	320,449
State foundation aid	27,140,362	27,659,942	-	-	27,140,362	27,659,942
Statewide sales and services tax	4,730,465	5,005,378	-	-	4,730,465	5,005,378
Revenue in lieu of tax	723,801	741,288	-	-	723,801	741,288
Other	206,705	55,307	958	784	207,663	56,091
Total revenues	65,121,257	66,435,623	2,716,432	2,867,714	67,837,689	69,303,337
Expenses:						
Instruction	41,772,323	43,347,977	-	-	41,772,323	43,347,977
Support services	19,314,009	18,989,867	5,848	159,950	19,319,857	19,149,817
Noninstructional	56,864	71,289	2,586,417	2,360,906	2,643,281	2,432,195
Other	2,232,030	2,188,667	-	-	2,232,030	2,188,667
Total expenses	63,375,226	64,597,800	2,592,265	2,520,856	65,967,491	67,118,656
Excess of revenues over expenses						
before transfers	1,746,031	1,837,823	124,167	346,858	1,870,198	2,184,681
Transfers	8,764	-	(8,764)	-	-	-
Increase in net position	1,754,795	1,837,823	115,403	346,858	1,870,198	2,184,681
Net position, beginning, as restated						
	33,899,481	39,689,256	(130,588)	(75,856)	33,768,893	39,613,400
Net position, ending	\$ 35,654,276	\$ 41,527,079	\$ (15,185)	\$ 271,002	\$ 35,639,091	\$ 41,798,081

In 2017-18, property taxes, income surtax, state foundation aid, statewide sales and services tax, and revenue in lieu of tax accounted for 79.6% of the revenue from governmental activities while charges for services and grants and contributions accounted for 96.7% of the revenue from business-type activities.

The District's expenses primarily relate to instructional and support services which account for 92.6% of the total expenses.

Total revenue for the District decreased by \$1,465,648 (2.1%) in the fiscal year ended June 30, 2018. The most significant revenue category change was due to a decrease in property tax revenues. Property taxes decreased \$521,590 (2.7%) primarily due to a significant reduction in cash reserve due to a statutory limit. Total District expenses decreased by \$1,151,165 (1.7%), which was mainly attributable to reducing staff by not replacing staff when staff leave the District.

Governmental Activities

Revenue for the District's governmental activities in 2017-18 decreased by \$1,314,366 (2.0%) from the previous year, while total expenses decreased by \$1,222,574 (1.9%). Governmental activities net position as of June 30, 2018 increased by \$1,754,795 (5.2%) over the June 30, 2017 balance.

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2018

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, 2018 compared to the year ended June 30, 2017.

	Total Cost of Services		Net Cost of Services	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Instruction	\$ 41,772,323	\$ 43,347,977	\$ 31,656,143	\$ 30,737,494
Support services	19,314,009	18,989,867	18,610,830	15,580,279
Noninstructional	56,864	71,289	56,864	39,303
Other	2,232,030	2,188,667	-	-
Total	\$ 63,375,226	\$ 64,597,800	\$ 50,323,837	\$ 46,357,076

For the year ended June 30, 2018:

- The cost financed by the users of the District's programs was \$1,977,538.
- Federal and state governments and some local sources subsidized certain programs with grants and contributions totaling \$11,073,851.
- The net cost of governmental activities was financed with \$18,978,032 in property taxes, \$290,503 in income surtax, \$27,140,362 of unrestricted state grants, \$4,730,465 in statewide sales and services tax revenue, \$723,801 in revenue in lieu of tax and \$206,705 in other revenues.

For the year ended June 30, 2017:

- The cost financed by the users of the District's programs was \$1,819,678.
- Federal and state governments and some local sources subsidized certain programs with grants and contributions totaling \$11,333,959.
- The net cost of governmental activities was financed with \$19,499,622 in property taxes, \$320,449 in income surtax, \$27,659,942 of unrestricted state grants, \$5,005,378 in statewide sales and services tax revenue, \$741,288 in revenue in lieu of tax and \$55,307 in other revenues.

Business-Type Activities

The District's business-type activities include the School Nutrition Fund. Revenues of the District's business-type activities in 2017-18 were \$2,716,432, a decrease of \$151,282 (5.2%) from 2016-17. The District did not increase meal prices in 2017-2018. Expenses were \$2,592,265; an increase of \$71,409 (2.8%) from 2016-17 primarily due to increases in other postemployment and pension benefits.

Individual Fund Analysis

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

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2018

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 \$25,591,424, which reflects an increase from last year's ending fund balances of \$22,850,047. The primary reason for the increase in the combined fund balances at the end of the 2017-18 fiscal year is due to an increase in the General Fund fund balance of \$81,798 and increase in the Capital Projects Fund fund balance of \$2,654,589 due to statewide sales services and use tax revenue of \$4,736,863 being spent on projects of \$2,326,391 in the current year.

Governmental Fund Highlights

- The fund balance in the District's General Fund increased by \$81,798 from \$13,622,101 as of June 30, 2017 to \$13,703,899 as of June 30, 2018.
- The fund balance in the Capital Projects Fund increased by \$2,654,589. The statewide sales, service and use tax generated \$218,869 less in revenue in 2017-18 than in the previous fiscal year. Local tax generated from the physical plant and equipment levy was \$2,225,492 compared to the prior year of \$1,859,649 which represents a \$365,843 increase from 2016-17. Total capital projects expenditures were \$4,474,384 in 2017-18 compared to \$5,169,632 in 2016-17. In the current year, major expenditures included the Jefferson Elementary School playground, several bus purchases, and auditorium seating.

Proprietary Fund Highlights

The net position of the Nutrition Fund increased by \$115,403 (88.4%) during 2017-18 primarily due to increases in federal grant revenues while maintaining expenses from the prior year.

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.

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2018

Total revenues were \$556,354 less than budgeted, a variance of 0.81%. Total expenditures were \$6,564,675 less than budgeted, a variance of 9.17%. While total expenditures were less than budgeted, the District exceeded budget expenditures in the support services and noninstructional programs functions due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

Capital Asset and Debt Administration

Capital Assets

By the end of the 2017-18 fiscal year, the District had invested \$45,000,330 (net of accumulated depreciation of \$43,624,607) 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 \$541,617 or 1.2% from last year. (More detailed information about capital assets can be found in Note 3 to the financial statements). Total depreciation expense for the year was \$2,870,197.

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total School District	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Land	\$ 1,454,234	\$ 1,454,234	\$ -	\$ -	\$ 1,454,234	\$ 1,454,234
Construction in progress	2,222,400	481,356	-	-	2,222,400	481,356
Buildings	36,897,592	38,124,340	-	-	36,897,592	38,124,340
Improvements other than buildings	2,496,535	2,472,117	-	-	2,496,535	2,472,117
Furniture and equipment	1,636,202	1,767,088	293,367	159,578	1,929,569	1,926,666
Total	\$ 44,706,963	\$ 44,299,135	\$ 293,367	\$ 159,578	\$ 45,000,330	\$ 44,458,713

Long-Term Liabilities

As of June 30, 2018, the District had the following long-term liabilities:

	Governmental Activities		Business-Type Activities		Total School District	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Compensated absences	\$ 84,391	\$ -	\$ -	\$ -	\$ 84,391	\$ -
Early retirement	1,691,611	2,000,920	-	-	1,691,611	2,000,920
Net OPEB liability	10,260,695	9,665,549	540,037	508,713	10,800,732	10,174,262
Net pension liability	30,571,401	29,342,338	982,707	944,695	31,554,108	30,287,033
Total	\$ 42,608,098	\$ 41,008,807	\$ 1,522,744	\$ 1,453,408	\$ 44,130,842	\$ 42,462,215

More information regarding the District's long-term liabilities is provided in Note 5, 6, and 7 to the financial statements.

Muscatine Community School District

Management's Discussion and Analysis Year Ended June 30, 2018

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 Iowa school funding formula is a complex formula that is pupil driven and increasing total spending authority is driven by increasing the number of pupils or increasing the cost per pupil. The legislature established an increase of "supplemental state aid" or SSA of 1.11% (\$73 per pupil) for the 2017/2018 school year. Funding at the state level continues to be a focal point for education. Low state supplemental aid increases are not satisfying cost of living increases as well as increased costs for operations.
- The October 1, 2017 certified student enrollment count, which is used to determine state foundation aid for the District for the 2018-19 school year, decreased by 148.4 from the October 1, 2016 count. The number of open enrollment students from neighboring district's attending Muscatine Community School District decreased from 53.1 to 44.6. The number of open enrollment students attending neighboring school districts decreased from 178 to 173. The 128.4 open enrollment student net loss costs approximately \$827,666 in expense for the District's general operating fund.
- The District's 4-year-old preschool program enrollment decreased by two students to a total enrollment of 132. The State of Iowa provides funding for four-year-old students enrolled in the program at 50% of regular program cost per student or \$3,335.50 per student for the 2017-18 school year. The District serves 80 preschool students and five community partner's serve the other 184 students.
- A new standalone Physical Education Center with weight training rooms and additional basketball courts opened in October, 2018 and a new Science/STEM lab addition to the high school and major addition on McKinley elementary will begin in early 2019.
- Seven Preschool-5th grade elementary buildings will be consolidated to 1 preschool building and 6 Kindergarten through 6th grade buildings in 2018-2019. Two 7th – 8th grade middle schools in 2018-2019 will be consolidated to 1 Junior High building in 2019-2020 with the oldest school building in the district closing in 2020.
- With the District's desire not to have bonded indebtedness or to borrow money, the cash flow in Capital Projects funds will be greatly affected. The extension of the Secure an Advanced Vision for Education (SAVE, formally LOST Fund) is critical for future capital projects and maintaining school infrastructure.
- The District ended fiscal year 2018 with a positive solvency ratio of 24.2%. This is an increase from the previous year solvency ratio of 22.5%. Unspent spending authority rose to 16.1% from 15.2% from fiscal year 2017 to 2018. Both of these ratios are a measurement of financial health for the District's general operating fund.

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 Tom Anderson, Director of Finance and Budget, Muscatine Community School District, 2900 Mulberry Avenue, Muscatine, Iowa 52761.

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Muscatine Community School District

Statement of Net Position

June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 32,560,046	\$ 1,001,958	\$ 33,562,004
Receivables:			
Property tax:			
Current year	109,025	-	109,025
Succeeding year	19,440,875	-	19,440,875
Accounts	32,252	32,185	64,437
Prepaid expenses	15,557	-	15,557
Income surtax	292,115	-	292,115
Due from other governments	1,481,363	-	1,481,363
Inventories	-	79,523	79,523
Capital assets:			
Nondepreciable	3,676,634	-	3,676,634
Depreciable, net	41,030,329	293,367	41,323,696
Total assets	98,638,196	1,407,033	100,045,229
Deferred Outflows of Resources,			
OPEB related deferred outflows	97,496	5,131	102,627
Pension related deferred outflows	8,644,036	268,920	8,912,956
Total deferred outflows of resources	8,741,532	274,051	9,015,583
Liabilities			
Accounts payable	2,724,055	21,472	2,745,527
Salaries and benefits payable	5,638,879	77,363	5,716,242
Unearned revenue	-	28,108	28,108
Long-term liabilities:			
Portion due within one year:			
Compensated absences	84,391	-	84,391
Early retirement	627,433	-	627,433
Portion due after one year:			
Early retirement	1,064,178	-	1,064,178
Net OPEB liability	10,260,695	540,037	10,800,732
Net pension liability	30,571,401	982,707	31,554,108
Total liabilities	50,971,032	1,649,687	52,620,719
Deferred Inflows of Resources			
Succeeding year property tax	19,440,875	-	19,440,875
OPEB related deferred inflows	127,987	6,736	134,723
Pension related deferred inflows	1,185,558	39,846	1,225,404
Total deferred of resources	20,754,420	46,582	20,801,002
Net Position			
Net investment in capital assets	44,706,963	293,367	45,000,330
Restricted for:			
Categorical funding	685,896	-	685,896
Management levy	1,060,803	-	1,060,803
Physical plant and equipment levy	1,251,599	-	1,251,599
Student activities	322,837	-	322,837
School infrastructure	9,442,838	-	9,442,838
Instructional programs	53,333	-	53,333
Unrestricted	(21,869,993)	(308,552)	(22,178,545)
Total net position	\$ 35,654,276	\$ (15,185)	\$ 35,639,091

See Notes to Basic Financial Statements.

Muscatine Community School District

**Statement of Activities
Year Ended June 30, 2018**

Functions/Programs	Expenses	Charges for Services
Governmental activities:		
Instruction	\$ 41,772,323	\$ 1,926,107
Support services:		
Student services	2,266,884	-
Instructional staff services	3,035,618	-
Administration services	6,702,042	-
Operation and maintenance of plant services	5,597,853	-
Transportation services	1,711,612	51,431
	<u>19,314,009</u>	<u>51,431</u>
Noninstructional programs	<u>56,864</u>	-
Other expenditures:		
AEA flowthrough	2,232,030	-
Total governmental activities	<u>63,375,226</u>	<u>1,977,538</u>
Business-type activities:		
Food service operations, support services:		
Administration services	5,848	-
	<u>5,848</u>	-
Food service operations, noninstructional programs	2,586,417	932,166
Total business-type activities	<u>2,592,265</u>	<u>932,166</u>
Total primary government	<u>\$ 65,967,491</u>	<u>\$ 2,909,704</u>
Component unit:		
Muscatine community school foundation	<u>\$ 2,509,527</u>	<u>\$ -</u>
General revenues:		
Property tax levied for:		
General purposes		
Capital outlay		
Other specific purposes		
Income surtax		
Statewide sales and services tax		
Revenue in lieu of tax		
Unrestricted state grants		
Unrestricted investment earnings		
Transfers		
Total general revenues		
Change in net position		
Net position, beginning of year, as restated		
Net position, end of year		

See Notes to Basic 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
\$ 8,190,073	\$ -	\$ (31,656,143)	\$ -	\$ (31,656,143)	\$ -
635,610	-	(1,631,274)	-	(1,631,274)	-
-	-	(3,035,618)	-	(3,035,618)	-
-	-	(6,702,042)	-	(6,702,042)	-
-	-	(5,597,853)	-	(5,597,853)	-
16,138	-	(1,644,043)	-	(1,644,043)	-
651,748	-	(18,610,830)	-	(18,610,830)	-
-	-	(56,864)	-	(56,864)	-
2,232,030	-	-	-	-	-
11,073,851	-	(50,323,837)	-	(50,323,837)	-
-	-	-	(5,848)	(5,848)	-
-	-	-	(5,848)	(5,848)	-
1,696,149	87,159	-	129,057	129,057	-
1,696,149	87,159	-	123,209	123,209	-
\$ 12,770,000	\$ 87,159	(50,323,837)	123,209	(50,200,628)	-
\$ -	\$ -	-	-	-	(2,509,527)
		15,438,227	-	15,438,227	-
		2,225,492	-	2,225,492	-
		1,314,313	-	1,314,313	-
		290,503	-	290,503	-
		4,730,465	-	4,730,465	-
		723,801	-	723,801	-
		27,140,362	-	27,140,362	-
		206,705	958	207,663	-
		8,764	(8,764)	-	-
		52,078,632	(7,806)	52,070,826	-
		1,754,795	115,403	1,870,198	(2,509,527)
		33,899,481	(130,588)	33,768,893	2,509,527
\$	\$	35,654,276	(15,185)	\$ 35,639,091	\$ -

Muscatine Community School District

**Balance Sheet
Governmental Funds
June 30, 2018**

	General	Capital Projects	Nonmajor	Total
Assets				
Cash and pooled investments	\$ 20,122,803	\$ 10,975,844	\$ 1,461,399	\$ 32,560,046
Receivables:				
Property tax:				
Current year	89,156	12,344	7,525	109,025
Succeeding year	15,637,048	2,273,832	1,529,995	19,440,875
Accounts	17,435	-	14,817	32,252
Prepaid items	15,557	-	-	15,557
Income surtax	292,115	-	-	292,115
Due from other governments	836,007	645,246	110	1,481,363
Total assets	37,010,121	13,907,266	3,013,846	53,931,233
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts payable	1,741,299	938,997	43,759	2,724,055
Salaries and benefits payable	5,635,760	-	3,119	5,638,879
Total liabilities	7,377,059	938,997	46,878	8,362,934
Deferred Inflows of Resources:				
Unavailable revenue:				
Succeeding year property tax	15,637,048	2,273,832	1,529,995	19,440,875
Income surtax	292,115	-	-	292,115
Statewide sales and services tax	-	243,885	-	243,885
Total deferred inflows of resources	15,929,163	2,517,717	1,529,995	19,976,875
Fund balances:				
Nonspendable	15,557	-	-	15,557
Restricted for:				
Categorical funding	685,896	-	-	685,896
Management levy	-	-	1,060,803	1,060,803
Physical plant and equipment levy	-	1,251,599	-	1,251,599
School infrastructure	-	9,198,953	-	9,198,953
Student activity purposes	-	-	322,837	322,837
Instructional programs	-	-	53,333	53,333
Assigned	36,752	-	-	36,752
Unassigned	12,965,694	-	-	12,965,694
Total fund balances	13,703,899	10,450,552	1,436,973	25,591,424
Total liabilities, deferred inflows of resources and fund balances	\$ 37,010,121	\$ 13,907,266	\$ 3,013,846	\$ 53,931,233

See Notes to Basic Financial Statements.

Muscatine Community School District

**Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Position
June 30, 2018**

Total fund balances of governmental funds \$ 25,591,424

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. 44,706,963

Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds. 536,000

Pension and OPEB 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:

OPEB related deferred outflows of resources	97,496
OPEB related deferred inflows of resources	(127,987)
Pension related deferred outflows of resources	8,644,036
Pension related deferred inflows of resources	(1,185,558)

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.

Compensated absences	(84,391)
Early retirement	(1,691,611)
Net OPEB liability	(10,260,695)
Net pension liability	(30,571,401)

Net position of governmental activities	<u>\$ 35,654,276</u>
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See Notes to Basic Financial Statements.

Muscatine Community School District

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2018

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 15,939,167	\$ 2,225,492	\$ 1,314,313	\$ 19,478,972
Tuition	533,893	-	-	533,893
Other	731,429	65,948	597,537	1,394,914
State sources	36,701,086	4,824,717	50,031	41,575,834
Federal sources	2,151,907	-	-	2,151,907
Total revenues	56,057,482	7,116,157	1,961,881	65,135,520
Expenditures:				
Current:				
Instruction	36,396,253	426,648	1,332,551	38,155,452
Support services:				
Student services	2,208,749	-	4,534	2,213,283
Instructional staff services	2,966,015	26,359	1,522	2,993,896
Administration services	5,981,624	351,750	103,862	6,437,236
Operation and maintenance of plant services	4,782,876	131,700	345,042	5,259,618
Transportation services	1,417,598	22,118	106,108	1,545,824
	17,356,862	531,927	561,068	18,449,857
Noninstructional programs	8,129	-	63,272	71,401
Other expenditures:				
Facilities acquisition	-	3,515,809	-	3,515,809
AEA flowthrough	2,232,030	-	-	2,232,030
	2,232,030	3,515,809	-	5,747,839
Total expenditures	55,993,274	4,474,384	1,956,891	62,424,549
Excess of revenues over expenditures	64,208	2,641,773	4,990	2,710,971
Other financing sources:				
Transfer in	8,764	-	-	8,764
Proceeds from sale of capital assets	8,826	12,816	-	21,642
Total other financing sources	17,590	12,816	-	30,406
Net change in fund balance	81,798	2,654,589	4,990	2,741,377
Fund balances, beginning of year	13,622,101	7,795,963	1,431,983	22,850,047
Fund balances, end of year	\$ 13,703,899	\$ 10,450,552	\$ 1,436,973	\$ 25,591,424

See Notes to Basic 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, 2018**

Net change in fund balances - total governmental funds \$ 2,741,377

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	3,304,014	
Depreciation expense	(2,829,347)	
Proceeds from sale of capital assets	(21,642)	
Loss on disposal of capital asset	(45,197)	407,828

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 (14,263)

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:

Compensated absences	(84,391)	
Early retirement	309,309	
Net pension expense	(979,427)	
Net OPEB liability	(625,638)	(1,380,147)

Change in net position of governmental activities \$ 1,754,795

See Notes to Basic Financial Statements.

Muscatine Community School District

Statement of Net Position

Proprietary Funds

June 30, 2018

	<u>Enterprise Fund</u> <u>School</u> <u>Nutrition</u>
Assets	
Cash and cash equivalents	\$ 1,001,958
Accounts receivable	32,185
Inventories	79,523
Capital assets, net of accumulated depreciation	293,367
Total assets	<u>1,407,033</u>
Deferred Outflows of Resources:	
OPEB related deferred outflows	5,131
Pension related deferred outflows	268,920
Total deferred outflows of resources	<u>274,051</u>
Liabilities	
Accounts payable	21,472
Salaries and benefits payable	77,363
Unearned revenue	28,108
Net OPEB liability	540,037
Net pension liability	982,707
Total liabilities	<u>1,649,687</u>
Deferred Inflows of Resources:	
OPEB related deferred inflows	6,736
Pension related deferred inflows	39,846
Total deferred inflows of resources	<u>46,582</u>
Net Position	
Net investment in capital assets	293,367
Unrestricted	(308,552)
Total net position	<u>\$ (15,185)</u>

See Notes to Basic Financial Statements.

Muscatine Community School District

**Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2018**

	<u>Enterprise Fund</u> <u>School</u> <u>Nutrition</u>
Operating revenues:	
Local sources, charges for services	\$ 932,166
Operating expenses:	
Support services:	
Salaries	5,848
Total support services	<u>5,848</u>
Noninstructional programs:	
Salaries	940,594
Benefits	437,550
Purchased services	23,191
Supplies	1,133,321
Depreciation	40,850
Other	10,911
Total noninstructional programs	<u>2,586,417</u>
Total operating expenses	<u>2,592,265</u>
Operating (loss)	<u>(1,660,099)</u>
Nonoperating revenues:	
Interest on investments	958
State sources	19,084
Federal sources	1,677,065
Total nonoperating revenues	<u>1,697,107</u>
Income before capital contributions and transfers	37,008
Contributed capital	87,159
Transfers (out)	<u>(8,764)</u>
Change in net position	115,403
Net position, beginning of year, as restated	<u>(130,588)</u>
Net position, end of year	<u>\$ (15,185)</u>

See Notes to Basic Financial Statements.

Muscatine Community School District

**Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2018**

	<u>Enterprise Fund</u> <u>School</u> <u>Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 916,899
Cash payments to employees for services	(1,307,472)
Cash payments to suppliers for goods or services	<u>(938,832)</u>
Net cash (used in) operating activities	<u>(1,329,405)</u>
Cash flows from noncapital financing activities:	
State grants received	19,084
Federal grants received	1,481,857
Transfers (out)	<u>(8,764)</u>
Net cash provided by noncapital financing activities	<u>1,492,177</u>
Cash flows (used in) capital related financing activities, Acquisition of capital assets	<u>(87,480)</u>
Cash flows from investing activities, interest on investments	<u>958</u>
Net increase in cash and cash equivalents	76,250
Cash and cash equivalents, beginning of year	925,708
Cash and cash equivalents, end of year	<u>\$ 1,001,958</u>
Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (1,660,099)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation	40,850
Commodities used	195,208
Decrease in accounts receivable	2,225
Decrease in inventories	18,262
Increase in accounts payable	15,121
Increase in salaries and benefits payable	13,299
Increase in net OPEB liability and related deferred outflows of resources and deferred inflows of resources	32,929
Increase in net pension liability and related deferred outflows of resources and deferred inflows of resources	30,292
(Decrease) in unearned revenue	<u>(17,492)</u>
Net cash (used in) operating activities	<u>\$ (1,329,405)</u>
Schedule of noncash items:	
Noncapital financing activities, federal commodities	<u>\$ 195,208</u>
Capital related financing activities, contributed capital	<u>\$ 87,159</u>

See Notes to Basic Financial Statements.

Muscatine Community School District

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2018

	Private Purpose Trust	Agency
Assets		
Cash and pooled investments	\$ 145,392	\$ 2,013
Interest receivable	1,675	-
Total assets	<u>\$ 147,067</u>	<u>\$ 2,013</u>
Liabilities		
Due to other groups	\$ -	\$ 2,013
Total liabilities	<u>\$ -</u>	<u>\$ 2,013</u>
Net position, restricted for scholarships	<u>\$ 147,067</u>	

See Notes to Basic Financial Statements.

Muscatine Community School District

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2018**

	<u>Private Purpose Trust</u>
Additions:	
Net investment income	<u>\$ 1,405</u>
Deductions:	
Instruction, scholarships awarded	<u>5,796</u>
Net change in net position	(4,391)
Net Position, beginning of year	<u>151,458</u>
Net Position, end of year	<u><u>\$ 147,067</u></u>

See Notes to Basic 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.

On April 15, 2017 the Board approved a motion to divest the Foundation funds to the Community Foundation of Greater Muscatine. The transfer of all assets and operations occurred in August 2017. The District's Board of Education approved dissolving the Foundation on December 10, 2018.

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:

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

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:

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as 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:

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

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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. These are funds for which the District accounts for revenue collected for faculty accounts and related expenditures, and for funds collected for other various special group accounts. 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 government-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.

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.

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 government-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, 2016 assessed property valuations; is for the tax accrual period July 1, 2017 through June 30, 2018 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2017.

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 acquisition 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.

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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	15 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.

Compensated absences: District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect as of June 30, 2018. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund. As of June 30, 2018, the District compensated absences liability is \$84,391 and is due within one year as follows:

Beginning of Year	Additions	Deletions	End of Year
\$ -	\$ 367,055	\$ 282,664	\$ 84,391

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 deposits collected for the programs and services in the next school year.

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.

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 other postemployment benefit expense, and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Muscatine Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 unrecognized items not yet charged to pension expense and other postemployment benefit expense.

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, 2018 consists of \$685,896 for categorical funding, \$1,060,803 for management levy purposes, \$1,251,599 for physical plant and equipment levy, \$322,837 for student activities, \$9,442,838 for school infrastructure, and \$53,333 for instructional programs.

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:

As allowed by GASB Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, the District presents budgetary comparison schedules as required supplementary information based on the program structure of four functional areas as required by state statute for its legally adopted budget. The budgetary comparison and related disclosures are reported as Required Supplementary Information.

The District exceeded the budget expenditures for the support services and noninstructional programs functions.

Muscatine Community School District

Notes to Basic Financial Statements

Note 2. Cash and Pooled Investments

Authorized investments: 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.

Interest rate risk: The District's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk: The District did not have investments subject to credit risk as of June 30, 2018.

Custodial credit risk: The District's cash and pooled investments consisted of depository accounts at financial institutions including certificate of deposits and U.S. Treasury bonds. The District's deposits in banks as of June 30, 2018 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.

Fair value measurements: The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets or identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2018, the District has U.S. Treasury Bonds of \$80,524 with fair value measurement Level 1 inputs.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

Transfer To	Transfer From	Amount
General Fund	School Nutrition Fund	\$ 8,764

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

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2018 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 787,004	\$ 174,639	\$ -	\$ 961,643
Less accumulated depreciation	627,426	40,850	-	668,276
Business-type activities capital assets, net	\$ 159,578	\$ 133,789	\$ -	\$ 293,367

Muscatine Community School District

Notes to Basic Financial Statements

Note 4. Capital Assets (Continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,454,234	\$ -	\$ -	\$ 1,454,234
Construction in progress	481,356	1,790,094	49,050	2,222,400
Total capital assets not being depreciated	1,935,590	1,790,094	49,050	3,676,634
Capital assets being depreciated:				
Buildings	71,028,482	1,149,516	-	72,177,998
Improvements other than buildings	4,003,533	257,820	-	4,261,353
Furniture and equipment	7,458,514	155,634	66,839	7,547,309
Total capital assets being depreciated	82,490,529	1,562,970	66,839	83,986,660
Less accumulated depreciation for:				
Buildings	32,904,142	2,376,264	-	35,280,406
Improvements other than buildings	1,531,416	233,402	-	1,764,818
Furniture and equipment	5,691,426	219,681	-	5,911,107
Total accumulated depreciation	40,126,984	2,829,347	-	42,956,331
Total capital assets being depreciated, net	42,363,545	(1,266,377)	66,839	41,030,329
Governmental activities capital assets, net	\$ 44,299,135	\$ 523,717	\$ 115,889	\$ 44,706,963

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction	\$ 2,574,706
Support services:	
Student services	28,293
Instructional staff services	31,123
Administration	14,147
Operation and maintenance of plant services	39,611
Transportation services	141,467
Total governmental activities depreciation expense	\$ 2,829,347
Business-type activities, food service operations	\$ 40,850

Muscatine Community School District

Notes to Basic Financial Statements

Note 5. Early Retirement

The District offered a voluntary early retirement plan in the current year to its certified 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.

The early retirement incentive for each eligible employee is equal to \$10,000 per year for five years.

As of June 30, 2018, the District had obligations to 129 participants with a total liability of \$1,691,611. Actual early retirement expenditures for the year ended June 30, 2018 totaled \$724,637. Early retirement obligations are generally liquidated by the Management Fund or the General Fund.

Early retirement is recorded as a long-term liability of the Governmental Activities in the government-wide financial statements. A summary of changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
Early retirement	\$ 2,000,920	\$ 415,328	\$ 724,637	\$ 1,691,611	\$ 627,433

Note 6. Postemployment Benefits Other Than Pensions (OPEB)

General Information about the OPEB Plan

Plan description: The District’s defined benefit OPEB plan, Muscatine School District Postemployment Plan Other Than Pensions (the Plan), provides postemployment benefits for eligible participants enrolled in its plans. The Plan is a single employer defined benefit OPEB plan administered by the District. Under Chapter 509A.13 of the Code of Iowa, “Group Insurance for Public Employees,” if a governing body has procured insurance for its employees, the governing body shall allow its employees who retired before the age of sixty-five years of age to continue participation in the group plan at the employee’s own expense until the employee attains sixty-five years of age. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75.

Benefits provided: The Plan provides medical and prescription drug benefits for retirees and their spouses. Participants must be age 55 or older at retirement with 15 or more years of service with the District. The medical/prescription drug coverage is provided through a fully insured plan with United Healthcare of River Valley. Retirees under 65 pay the same premium for the medical/prescription drug benefit as active employees.

The full monthly premium rates as of January 1, 2017 for each plan are as shown below:

Rate Tier	\$250 PPO	\$500 PPO	HDHP
Single	\$ 9,447	\$ 9,183	\$ 6,899
Spouse	8,590	8,329	6,257

Muscatine Community School District

Notes to Basic Financial Statements

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

Employees covered by benefit terms: At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	50
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	759
	<u>809</u>

Total OPEB Liability

The District's total OPEB liability of \$10,800,732 was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017.

Actuarial assumptions and other inputs: The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50% per annum
Salary increases	4.00% per annum
Discount rate	2.98% per annum
Retirees' share of benefit-related costs	100%
Health care cost trend rate	\$250 PPO Plan & \$500 PPO Plan - 7.67% High deductible Health Plan - 5.89% Ultimate Health Care Cost Trend Rate - 5.00%

The discount rate was based on the Bond Buyer 20-Bond GO index. Mortality rates were based on the RP-2014 generational table scaled using MP-17 and applied on a gender-specific basis. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period 2010– 2017.

Muscatine Community School District

Notes to Basic Financial Statements

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

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	\$ 10,174,262
Changes for the year:	
Service cost	895,100
Interest	295,308
Changes of benefit terms	-
Differences between expected and actual experience	111,193
Changes in assumptions or other inputs	(529,164)
Benefit payments	(145,967)
Net changes	626,470
Balance at June 30, 2018	<u>\$ 10,800,732</u>

There were no changes as a result of changes in benefit terms or differences between expected and actual experience. Changes of assumptions or other inputs reflect a change in the discount rate from 3.13% per annum in 2017 to 2.98% per annum in 2018.

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease (1.98%)	Discount Rate (2.98%)	1% Increase (3.98%)
Total OPEB liability	\$ 11,562,060	\$ 10,800,732	\$ 10,075,474

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates: The following presents that total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1-percentage point higher than the current healthcare cost trend rates.

	1% Decrease (6.67% decreasing to 5.00%)	Healthcare Cost Trend Rates (7.67% decreasing to 5.00%)	1% Increase (8.67% decreasing to 5.00%)
Total OPEB liability	\$ 9,581,410	\$ 10,800,732	\$ 12,254,981

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,187,730. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions or other inputs	102,627	134,723
Net difference between projected and actual investments	-	-
Total	<u>\$ 102,627</u>	<u>\$ 134,723</u>

Muscatine Community School District

Notes to Basic Financial Statements

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$	2,679
2020		2,679
2021		2,679
2022		2,679
2023		2,679
Thereafter		18,701
	\$	<u>32,096</u>

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, except members with service before June 30, 2012, will use the highest three-year average salary as of that date 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.

Muscatine Community School District

Notes to Basic Financial Statements

Note 7. Pension and Retirement Benefits (Continued)

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.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State 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 2018, pursuant to the required rate, Regular members contributed 5.95 percent of covered payroll and the District contributed 8.93 percent of covered payroll, for a total rate of 14.88 percent.

The District's contributions to IPERS for the year ended June 30, 2018 were \$3,140,610.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the District reported a liability of \$31,544,108 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the District's proportion was 0.473695 percent, which was a decrease of 0.007562 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$4,153,305.

At June 30, 2018, 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	\$ 289,697	\$ 273,392
Changes of assumptions	5,482,649	-
Net difference between projected and actual earnings on pension plan investments	-	329,571
Changes in proportion and differences between District contributions and proportionate share of contributions	-	622,441
District contributions subsequent to the measurement date	3,140,610	-
Total	\$ 8,912,956	\$ 1,225,404

Muscatine Community School District

Notes to Basic Financial Statements

Note 7. Pension and Retirement Benefits (Continued)

\$3,140,610 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, 2019.

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,	
2019	\$ 574,305
2020	2,263,741
2021	1,291,409
2022	67,032
2023	350,455
Total	<u>\$ 4,546,942</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2017)	2.60 percent per annum
Salary Increases (effective June 30, 2017)	3.25 percent to 16.25 percent, average, including inflation. Rates vary by membership group.
Long-term Investment rate of return (effective June 30, 2017)	7.00 percent, compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25 percent per annum, based on 2.60 percent inflation and 0.65 percent real wage inflation

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience study dated March 2017.

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.

Muscatine Community School District

Notes to Basic Financial Statements

Note 7. Pension and Retirement Benefits (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core Plus Fixed Income	27.0%	2.25%
Domestic Equity	24.0%	6.25%
International Equity	16.0%	6.71%
Private Equity	11.0%	11.15%
Private Real Assets	7.5%	4.18%
Public Real Assets	7.0%	3.27%
Public Credit	3.5%	3.46%
Private Credit	3.0%	4.25%
Cash	1.0%	-0.31%
Total	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and 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 7.0 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 (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate.

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
District's proportionate share of the net pension liability	\$ 51,988,512	\$ 31,544,108	\$ 14,385,284

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, 2018, the District reported payables to the defined benefit pension plan of \$299,816 for legally required employer contributions and \$199,765 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Muscatine Community School District

Notes to Basic Financial Statements

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 \$2,232,030 for the year ended June 30, 2018 and is recorded in the General Fund.

Note 10. Categorical Funding

The District's fund balance restricted for categorical funding as of June 30, 2018 is comprised of the following programs:

Program	Amount
Home school assistance program	\$ 65,730
Talented and gifted	234,263
Nonpublic textbooks	3,402
Four-year-old preschool	28,619
Teacher salary supplement	4,069
Successful progression for early readers	40,022
Teacher leadership and compensation system	249,344
Professional development	60,447
Total	\$ 685,896

Note 11. Commitments

The District has entered into contracts totaling \$2,693,690 for the Physical Education Building. As of June 30, 2018, costs of \$1,848,282 had been incurred against the contracts. The balance of \$845,408 remaining as of June 30, 2018 will be paid as work on the projects progress.

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 obtained 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 provided funds for the construction of the facility as well as be a program and tenant partner of the learning center.

Muscatine Community School District

Notes to Basic Financial Statements

Note 13. Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. Property tax revenues of the District were reduced by the following amounts for the year ended June 30, 2018 under tax abatement agreements of other entities:

Entity	Tax Abatement Program	Amount of Tax Abated
City of Muscatine, Iowa	Urban renewal and economic development projects	\$ 507,667
Muscatine County	Urban renewal and economic development projects	47,971

The State of Iowa reimburses the District an amount equivalent to the increment of valuation on which property tax is divided times \$5.40 per \$1,000 of taxable valuation. For the year ended June 30, 2018, this reimbursement amounted to \$239,286.

Note 14. Governmental Accounting Standards Board (GASB) Statements

The District adopted the following statements during the year ended June 30, 2018:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions: 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. 81, Irrevocable Split-Interest Agreements: The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73: This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Muscatine Community School District

Notes to Basic Financial Statements

Note 14. Governmental Accounting Standards Board (GASB) Statements (Continued)

GASB Statement No. 85, *Omnibus 2017*: The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)).

GASB Statement No. 86, *Certain Debt Extinguishment Issues*: The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The implementation of the above statements did not have a material impact to the District's financial statements except for GASB Statement No. 75 which required the District to change the accounting and reporting of OPEB benefit expense, total OPEB 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 15. In addition, the new standards required new note disclosures and new required supplementary information schedules.

As of June 30, 2018, 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. 83, *Certain Asset Retirement Obligations*, issued November 2016, will be effective for the District beginning with its fiscal year ending June 30, 2019. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

GASB Statement No. 84, *Fiduciary Activities*, issued January 2017, will be effective for the District beginning with its fiscal year ending June 30, 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the identification criteria established by the Statement is on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported as a fiduciary fund in the basic financial statements. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources.

Muscatine Community School District

Notes to Basic Financial Statements

Note 14. Governmental Accounting Standards Board (GASB) Statements (Continued)

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the District beginning with its fiscal year ending June 30, 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, issued April 2018, will be effective for the District beginning with its fiscal year ending June 30, 2019. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

GASB Statement No. 89, *Accounting for Interest Cost before the End of a Construction Period*, issued June 2018, will be effective for the District beginning with its fiscal year ending June 30, 2021. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that was previously accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or an enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

Muscatine Community School District

Notes to Basic Financial Statements

Note 14. Governmental Accounting Standards Board (GASB) Statements (Continued)

GASB Statement No. 90, *Majority Equity Interest-An Amendment of GASB Statement No. 14 and No. 61*, issued August 2018, will be effective for the District beginning with its fiscal year ending June 30, 2020. The primary objectives of this Statement are to improve consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies the reporting of a majority equity interest. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities and deferred inflows of resources at acquisition value at the date the government acquired the 100 percent equity interest in the component unit.

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

Note 15. Restatement

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented as of the beginning of the year ended June 30, 2018. The revised requirements establish new financial reporting requirements for state and local government employers that provide postemployment benefits other than pensions, including additional note disclosures and required supplementary information. Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Beginning net position for governmental, business-type activities and proprietary funds were restated to retroactively report the beginning net OPEB liability and, if applicable, deferred outflows of resources related to contributions made after the measurement date of the beginning total OPEB liability but before the beginning of the District's fiscal year.

	Governmental Activities	Business-type Activities	Enterprise School Nutrition Fund
Net position June 30, 2017, as previously reported	\$ 41,527,079	\$ 271,002	\$ 271,002
Net OPEB obligation	2,037,951	107,123	107,123
Total OPEB liability	(9,665,549)	(508,713)	(508,713)
Net position June 30, 2017, as restated	<u>\$ 33,899,481</u>	<u>\$ (130,588)</u>	<u>\$ (130,588)</u>

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Muscatine Community School District

**Required Supplementary Information
Schedule of Changes in the District's Total OPEB
Liability and Related Ratios
Year ending June 30, 2018**

	<u>2018</u>
Total OPEB liability	
Changes for the year:	
Service cost	\$ 895,100
Interest	295,308
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	111,193
Benefit payments	(529,164)
Other changes	(145,967)
Net changes in total OPEB liability	<u>626,470</u>
Total OPEB liability - beginning	<u>10,174,262</u>
Total OPEB liability - ending	<u><u>\$ 10,800,732</u></u>
Covered employee payroll	\$ 31,689,758
Total OPEB liability as a percentage of covered employee payroll	34%

Notes to Schedule:

Changes of benefit terms:

There were no changes as a result of changes in benefit terms or differences between expected and actual experience.

Changes of assumption:

Changes of assumptions or other inputs reflect a change in the discount rate from 3.13% per annum in 2017 to 2.98% per annum in 2018. The following are the discount rates used in each period:

2018	2.98%
2017	3.13%

No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75

Note: The schedule is intended to present information for ten years. Information prior to 2018 is not available.

See Notes to Required Supplementary Information.

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, 2018**

	Governmental Funds - Actual	Enterprise Fund - Actual
Revenues:		
Local sources	\$ 21,407,779	\$ 933,124
State sources	41,575,834	19,084
Federal sources	2,151,907	1,677,065
Total revenues	65,135,520	2,629,273
Expenditures/expenses:		
Instruction	38,155,452	-
Support services	18,449,857	5,848
Noninstructional programs	71,401	2,586,417
Other expenditures	5,747,839	-
Total expenditures/expenses	62,424,549	2,592,265
Excess (deficiency) of revenues over (under) expenditures/expenses	2,710,971	37,008
Other financing sources (uses):		
Transfers	8,764	(8,764)
Contributed capital	-	87,159
Proceeds from sale of capital assets	21,642	-
Total other financing sources (uses)	30,406	78,395
Net change in fund balance	2,741,377	115,403
Fund balance/net position, beginning of year, as restated	22,850,047	(130,588)
Fund balance/net position, end of year	\$ 25,591,424	\$ (15,185)

See Notes to Required Supplementary Information.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
\$ 22,340,903	\$ 22,074,435	\$ 22,074,435	\$ 266,468
41,594,918	42,453,955	42,453,955	(859,037)
3,828,972	3,792,757	3,792,757	36,215
<u>67,764,793</u>	<u>68,321,147</u>	<u>68,321,147</u>	<u>(556,354)</u>
38,155,452	42,389,440	42,389,440	4,233,988
18,455,705	17,090,139	17,090,139	(1,365,566)
2,657,818	2,388,329	2,388,329	(269,489)
5,747,839	9,713,581	9,713,581	3,965,742
<u>65,016,814</u>	<u>71,581,489</u>	<u>71,581,489</u>	<u>6,564,675</u>
<u>2,747,979</u>	<u>(3,260,342)</u>	<u>(3,260,342)</u>	<u>6,008,321</u>
-	-	-	-
87,159	-	-	87,159
21,642	20,000	20,000	1,642
<u>108,801</u>	<u>20,000</u>	<u>20,000</u>	<u>88,801</u>
2,856,780	<u>\$ (3,240,342)</u>	<u>\$ (3,240,342)</u>	<u>\$ 6,097,122</u>
<u>22,719,459</u>			
<u>\$ 25,576,239</u>			

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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 Four Fiscal Years**

	2018*	2017*	2016*	2015*
District's proportion of the net pension liability	0.473695%	0.481257%	0.494997%	0.503636%
District's proportionate share of the net pension liability	\$ 31,544,108	\$ 30,287,033	\$ 24,455,266	\$ 19,973,711
District's covered-employee payroll	\$ 35,364,277	\$ 34,536,797	\$ 33,911,814	\$ 32,956,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	89.20%	87.69%	72.11%	60.61%
Plan fiduciary net pension as a percentage of the total pension liability	82.21%	81.82%	85.19%	87.61%

*The amounts presented for each fiscal year were determined as of the prior fiscal-year end.

Note: The schedule is intended to present information for ten years. Information prior to 2015 is not available.

See Notes to Required Supplementary Information.

Muscatine Community School District

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

	2018	2017	2016	2015
Statutorily required contribution	\$ 3,141	\$ 3,158	\$ 3,084	\$ 3,028
Contributions in relation to the statutorily required contribution	\$ (3,141)	\$ (3,158)	\$ (3,084)	\$ (3,028)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 35,169	\$ 35,364	\$ 34,537	\$ 33,912
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%

See Notes to Required Supplementary Information.

	2014		2013		2012		2011		2010		2009
\$	2,943	\$	2,784	\$	2,602	\$	2,081	\$	2,088	\$	1,954
\$	(2,943)	\$	(2,784)	\$	(2,602)	\$	(2,081)	\$	(2,088)	\$	(1,954)
\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
\$	32,956	\$	32,111	\$	32,243	\$	29,942	\$	31,398	\$	30,772
	8.93%		8.67%		8.07%		6.95%		6.65%		6.35%

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Muscatine Community School District

Notes to Required Supplementary Information Year Ended June 30, 2018

Note 1. Budgets and Budgetary Accounting

This budgetary comparison is presented as required supplementary information in accordance with Government 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 GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, noninstructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides the District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. There were no amendments to the original budget during the year.

The District exceeded the budgeted expenditures of the support services and noninstructional programs functions.

Note 2. Iowa Public Employees' Retirement System 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.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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.

Muscatine Community School District

**Notes to Required Supplementary Information
Year Ended June 30, 2018**

Note 2. Iowa Public Employees' Retirement System Pension Liability (Continued)

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.

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Muscatine Community School District

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018**

	Special Revenue			
	Management Levy	Student Activity	Support Trust	Total
Assets				
Cash and pooled investments	\$ 1,064,325	\$ 343,741	\$ 53,333	\$ 1,461,399
Receivables:				
Property tax:				
Current year	7,525	-	-	7,525
Succeeding year	1,529,995	-	-	1,529,995
Accounts	-	14,817	-	14,817
Due from other governments	110	-	-	110
Total assets	\$ 2,601,955	\$ 358,558	\$ 53,333	\$ 3,013,846
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts payable	\$ 11,157	\$ 32,602	\$ -	\$ 43,759
Salaries and benefits payable	-	3,119	-	3,119
Total liabilities	11,157	35,721	-	46,878
Deferred inflows of resources, Unavailable revenue-succeeding year property tax	1,529,995	-	-	1,529,995
Fund balance:				
Restricted	1,060,803	322,837	53,333	1,436,973
Total fund balances	1,060,803	322,837	53,333	1,436,973
Total liabilities, deferred inflows of resources and fund balances	\$ 2,601,955	\$ 358,558	\$ 53,333	\$ 3,013,846

Muscatine Community School District

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2018**

	Special Revenue			Total
	Management Levy	Student Activity	Support Trust	
Revenues:				
Local sources:				
Local tax	\$ 1,314,313	\$ -	\$ -	\$ 1,314,313
Other	72,335	525,165	37	597,537
State sources	50,031	-	-	50,031
Total revenues	1,436,679	525,165	37	1,961,881
Expenditures:				
Current:				
Instruction	726,401	605,928	222	1,332,551
Support services:				
Student services	4,534	-	-	4,534
Instructional services	1,522	-	-	1,522
Administration services	103,862	-	-	103,862
Operation and maintenance of plant services	343,113	1,929	-	345,042
Transportation services	101,998	4,110	-	106,108
Noninstructional programs	63,272	-	-	63,272
Total expenditures	1,344,702	611,967	222	1,956,891
Net change in fund balances	91,977	(86,802)	(185)	4,990
Fund balances, beginning of year	968,826	409,639	53,518	1,431,983
Fund balances, end of year	\$ 1,060,803	\$ 322,837	\$ 53,333	\$ 1,436,973

Muscatine Community School District

**Schedule of Combining Balance Sheet
Capital Project Fund - By Account
June 30, 2018**

	<u>Capital Projects Accounts</u>		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 9,491,017	\$ 1,484,827	\$ 10,975,844
Receivables:			
Property tax:			
Current year	-	12,344	12,344
Succeeding year	-	2,273,832	2,273,832
Due from other governments	645,068	178	645,246
Total assets	\$ 10,136,085	\$ 3,771,181	\$ 13,907,266
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable	\$ 693,247	\$ 245,750	\$ 938,997
Total liabilities	693,247	245,750	938,997
Deferred Inflows of Resources:			
Unavailable revenue-succeeding year property tax	-	2,273,832	2,273,832
Unavailable revenue-statewide sales and services tax	243,885	-	243,885
Total deferred inflows of resources	243,885	2,273,832	2,517,717
Fund Balances:			
Restricted for:			
Physical plant and equipment	-	1,251,599	1,251,599
School infrastructure	9,198,953	-	9,198,953
Total fund balances	9,198,953	1,251,599	10,450,552
Total liabilities and fund balances	\$ 10,136,085	\$ 3,771,181	\$ 13,907,266

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, 2018**

	Capital Projects Accounts		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	\$ 2,225,492	\$ 2,225,492
Other	57,190	8,758	65,948
State sources	4,736,863	87,854	4,824,717
Total revenues	4,794,053	2,322,104	7,116,157
Expenditures:			
Current:			
Instruction	-	426,648	426,648
Support services:			
Instructional staff services	-	26,359	26,359
Administration services	1,249	350,501	351,750
Operation and maintenance of plant services	29,377	102,323	131,700
Transportation services	-	22,118	22,118
Capital outlay, facilities acquisition	2,326,391	1,189,418	3,515,809
Total expenditures	2,357,017	2,117,367	4,474,384
Excess (deficiency) of revenues over (under) expenditures	2,437,036	204,737	2,641,773
Other financing sources:			
Proceeds from sale of property	-	12,816	12,816
Total other financing sources	-	12,816	12,816
Net change in fund balance	2,437,036	217,553	2,654,589
Fund balance, beginning of year	6,761,917	1,034,046	7,795,963
Fund balance, end of year	\$ 9,198,953	\$ 1,251,599	\$ 10,450,552

Muscatine Community School District

**Schedule of Combining Statement of Fiduciary Net Position
Private Purpose Trust Fund - By Account
June 30, 2018**

	Private Purpose Trust Accounts			
	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Jefferson Culture Fair Scholarship	Total
Assets:				
Cash and investments	\$ 105,039	\$ 39,052	\$ 1,301	\$ 145,392
Interest receivable	1,675	-	-	1,675
Total assets	106,714	39,052	1,301	147,067
Net Position				
Restricted for scholarships	\$ 106,714	\$ 39,052	\$ 1,301	\$ 147,067

Muscatine Community School District

**Schedule of Combining Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund - By Account
Year Ended June 30, 2018**

	Private Purpose Trust Accounts			
	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Jefferson Culture Fair Scholarship	Total
Additions:				
Local sources, other:				
Net investment income	\$ 1,276	\$ 129	\$ -	\$ 1,405
Total additions	1,276	129	-	1,405
Deductions, current,				
Instruction, scholarships awarded	3,796	2,000	-	5,796
Net change in net position	(2,520)	(1,871)	-	(4,391)
Net position, beginning of year	109,234	40,923	1,301	151,458
Net position, end of year	\$ 106,714	\$ 39,052	\$ 1,301	\$ 147,067

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Muscatine Community School District

Schedule of Changes in Fiduciary Assets and Liabilities

Agency Fund

Year Ended June 30, 2018

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 2,035	\$ 1,072,073	\$ 1,072,095	\$ 2,013
Liabilities				
Due to other groups	\$ 2,035	\$ 1,072,073	\$ 1,072,095	\$ 2,013

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:			
	2018	2017	2016	2015
Revenues:				
Local sources:				
Local tax	\$ 19,478,972	\$ 19,791,734	\$ 19,494,605	\$ 18,628,986
Tuition	533,893	632,257	453,670	530,347
Other	1,394,914	1,242,727	1,237,625	1,317,747
State sources	41,575,834	42,429,101	42,794,193	42,383,472
Federal sources	2,151,907	2,261,820	2,040,564	2,430,675
Total revenues	\$ 65,135,520	\$ 66,357,639	\$ 66,020,657	\$ 65,291,227
Expenditures:				
Instruction	\$ 38,155,452	\$ 39,889,517	\$ 39,758,470	\$ 37,509,233
Support services:				
Student services	2,213,283	1,605,362	1,551,908	1,642,590
Instructional staff services	2,993,896	1,053,761	1,065,752	1,523,383
Administration services	6,437,236	7,172,972	6,339,083	6,456,225
Operation and maintenance of plant services	5,259,618	5,172,014	4,889,562	4,928,889
Transportation services	1,545,824	1,966,010	1,765,709	1,912,098
Noninstructional programs	71,401	80,057	74,045	62,880
Other expenditures:				
Facilities acquisition	3,515,809	3,666,962	2,208,369	9,609,011
Long-term debt:				
Principal	-	-	-	607,138
Interest and fiscal charges	-	-	-	10,829
AEA flowthrough	2,232,030	2,188,667	2,227,592	2,207,805
Total expenditures	\$ 62,424,549	\$ 62,795,322	\$ 59,880,490	\$ 66,470,081

Years Ended June 30:

2014	2013	2012	2011	2010	2009
\$ 18,320,746	\$ 22,530,785	\$ 20,665,245	\$ 19,333,468	\$ 18,712,914	\$ 18,488,404
583,016	621,193	789,295	678,551	646,617	634,578
1,412,458	1,486,224	1,627,100	2,116,315	1,567,942	1,961,396
38,595,124	32,010,126	32,853,112	31,615,441	27,787,891	30,363,984
2,441,180	2,120,614	3,043,064	2,973,055	4,673,746	2,099,916
<u>\$ 61,352,524</u>	<u>\$ 58,768,942</u>	<u>\$ 58,977,816</u>	<u>\$ 56,716,830</u>	<u>\$ 53,389,110</u>	<u>\$ 53,548,278</u>
\$ 36,426,501	\$ 36,254,296	\$ 35,679,780	\$ 34,300,836	\$ 34,695,516	\$ 35,249,068
1,641,603	1,646,917	1,543,182	1,413,771	1,482,432	1,459,094
1,378,893	1,281,373	3,366,854	1,406,839	1,061,588	1,092,250
6,340,544	6,119,304	7,537,234	6,507,777	5,724,703	5,436,431
5,355,512	5,010,283	4,869,282	4,492,882	4,185,506	4,244,947
1,841,780	1,750,580	1,685,575	1,454,728	1,467,975	1,636,008
181,691	11,404	14,007	20,834	43,334	26,418
5,030,721	7,081,218	3,690,720	1,724,782	3,153,296	5,385,365
596,507	610,484	-	-	-	-
21,460	31,900	-	-	-	-
2,100,120	2,010,185	1,998,046	2,205,295	2,178,281	1,949,818
<u>\$ 60,915,332</u>	<u>\$ 61,807,944</u>	<u>\$ 60,384,680</u>	<u>\$ 53,527,744</u>	<u>\$ 53,992,631</u>	<u>\$ 56,479,399</u>

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Muscatine Community School District

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018**

Federal Grantor/Pass-Through Grantor/ Program Title or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Indirect:				
U.S. Department of Agriculture:				
Iowa Department of Education:				
<i>Child Nutrition Cluster Program:</i>				
School Breakfast Program	10.553	FY18 4552	\$ -	\$ 291,371
National School Lunch Program	10.555	FY18 4553	-	1,146,508
Commodities -DOD (Noncash)	10.555	FY18	-	99,964
Commodities (Noncash)	10.555	FY18	-	95,244
Child Nutrition Cluster Program Total			<u>-</u>	<u>1,633,087</u>
Fresh Fruit and Vegetable Program	10.582	FY18 4557	-	43,978
Total U.S. Department of Agriculture			<u>-</u>	<u>1,677,065</u>
U.S. Department of Education:				
Iowa Department of Education:				
Title I Grants to Local Educational Agencies	84.010	FY18 4501	-	962,272
Special Education - Grants to States (IDEA, Part B)	84.027	FY18 4525	-	7,730 (1)
Career and Technical Education- Basic Grants to States	84.048	FY18 4531	-	54,705
Special Education-State Personnel Development Grants	84.323	FY18 4526	-	7,997
Supporting Effective Instruction State Grants	84.367	FY18 4643	-	175,781
Mississippi Bend Area Education Agency:				
Special Education - Grants to States (IDEA, Part B)	84.027	FY18 4521	-	251,414 (1)
English Language Acquisition State Grants	84.365	FY18 4644	-	3,193
Total U.S. Department of Education			<u>-</u>	<u>1,463,092</u>
U.S. Department of Health and Human Services:				
Iowa Department of Education:				
Developmental Disabilities Projects of National Significance	93.631	FY18 4695	-	341
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 3,140,498</u>

(1) Total CFDA No. 84.027 \$259,414

See notes to schedule of expenditures of federal awards.

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Muscatine Community School District

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

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, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2. Significant Accounting Policies

Expenditures reported on the schedule of expenditures of federal awards are reported on the modified accrual or accrual basis of accounting based on the fund type of the program. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 3. Indirect Cost Rate

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Muscatine Community School District

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018**

Findings	Status	Reason for Recurrence and Corrective Action Plan or Other Explanation
Findings Related to the Basic Financial Statements:		
2017-001 The Foundation has insufficient segregation of duties over cash receipts.	Not corrected	Recurrence due to the the timing of changing processes. See corrective action plan at 2018-001.
2017-002 The Foundation has insufficient reconciling and monitoring activities over financial transactions.	Not corrected	Recurrence due to the the timing of changing processes. See corrective action plan at 2018-002.
Findings and Questioned Costs for Federal Awards:		
2017-003 The District has in inadequate internal control process for the documentation of allowable costs of the Title 1 program.	Corrected	
2017-004 The District has in inadequate internal control process to ensure compliance with the eligibility requirements of the program.	Corrected	
Other Findings Related to Required Statutory Reporting:		
IV-A-17 Expenditures for the year ended June 30, 2017 exceeded the amounts budgeted for the noninstructional programs function.	Not corrected	Recurrence due to significant audit adjustments. See corrective action plan at IV-A-18.
IV-B-17 The District has insufficient documentation of public purpose of travel expenditures incurred by two District employees	Corrected	
IV-H-17 Variances in supplementary weighting for October 2016 were noted.	Corrected	
IV-I-17 Finding 1: The District has investment that is not allowed.	Corrected	
Finding 2: On June 30, 2017, the balance in First National Bank exceeded the District's depository resolution	Corrected	



**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, 2018, 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 16, 2019.

Our report included an emphasis of matter paragraph for the implementation of Governmental Accounting Standards Board Statement No. 75.

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 the 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 have not been 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 certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2018-001 through 2018-003, that we consider to be significant deficiencies.

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, 2018 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 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 responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Bohnsack & Frommelt LLP

Moline, Illinois
January 16, 2019



Independent Auditor’s Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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 *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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bohnsack & Frommelt LLP

Moline, Illinois
January 16, 2019

Muscatine Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

I. Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency identified? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency identified? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title 1 Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

(Continued)

Muscatine Community School District

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Part II: Findings Related to the Basic Financial Statements

Instances of noncompliance:

No matters were reported.

Internal control deficiencies:

2018-001

Finding: The Foundation has insufficient segregation of duties over the cash receipt transaction cycle.

Condition: The same individual receives all cash and checks, posts the revenue to the excel ledgers, prepares and takes the deposits to the bank, reconciles the bank statements and reports to the board.

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

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

Cause: A limited number of personnel are involved in the cash receipt function. When the District Accountant position experienced turnover during the fiscal year, processes previously in place were not effectively transitioned.

Identification as a repeat finding: This is a repeat finding.

Recommendation: Access to cash and checks should be segregated from the position responsible for posting and reconciliation activities. We recommend the Foundation require receipts to be collected and deposited by someone other than the District's Accountant. The validated bank deposit slip and receipt remittances should be provided to the District's Accountant to post revenue activity and reconcile bank statements.

Response and Corrective Action Plan: The Foundation has transitioned all assets and operating activities to the Community Foundation of Greater Muscatine.

2018-002

Finding: The Foundation has insufficient reconciling and monitoring activities over financial transactions.

Condition: This significant deficiency is the result of the following:

- One of the key control points of the Foundation's internal control processes was the detailed review of Foundation financial transactions and bank statements by the Board on a quarterly basis. The Foundation's Board did not meet to review and approve Foundation transactions.
- One individual is responsible for all financial reporting aspects of the Foundation including collecting receipts, preparing disbursements, posting all financial transaction activity, reconciling financial activity, and preparing all financial reports.

Muscatine Community School District

Schedule of Findings and Questioned Costs Year Ended June 30, 2018

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

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

Cause: A limited number of personnel are involved in the accounting functions of the Foundation. When the District Accountant position experienced turnover during the fiscal year, processes previously in place were not effectively transitioned.

Identification as a repeat finding: This is a repeat finding.

Recommendation: We recommend the Foundation implement procedures to ensure financial transactions are properly recorded and reconciled.

Response and Corrective Action Plan: The Foundation has transitioned all assets and operating activities to the Community Foundation of Greater Muscatine.

2018-003

Finding: The District did not identify significant year-end adjustments for balance sheet accounts.

Criteria: A properly designed system of internal control over financial reporting allows entities to initiate, authorize, record, process and report financial data reliably in accordance with generally accepted accounting principles.

Condition: Adjustments to accounts receivable, inventory, capital assets, retainage payable, and investments were required to be posted to the trial balance provided for year-end audit.

Context: An adjustment of approximately \$83,000 was required to record a retainage payable in the Capital Projects Fund and to governmental activities capital assets. The School Nutrition Fund required entries of approximately \$36,000 due to an overstatement of year-end inventory and \$32,000 due to an understatement of year-end accounts receivable. In addition, the School Nutrition Fund required an adjustment of approximately \$96,000 for contributed capital assets and associated depreciation. The investments in the District's private purpose trust funds were overstated and required an adjustment of approximately \$28,000.

Effect: District transactions may not be properly posted to the general ledger and errors are not being timely identified.

Cause: The District has experienced turnover in the Finance Department. The District does not maintain capital assets within the District's financial software.

Recommendation: We recommend the District implement processes to ensure year-end balance sheet accounts are properly recorded.

Response and Corrective Action Plan: The District will systematically evaluate the process to identify and record accounts receivable, inventory, capital assets, retainage payable, and investments and determine system report options to provide timely subsidiary ledgers and reconciliations.

Muscatine Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

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-18

Certified Budget –

Finding: Expenditures for the year ended June 30, 2018 exceed the certified budget for the support services and noninstructional programs functions.

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

Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

IV-B-18

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-18

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-18

Business Transactions – No business transactions between the District and District officials or employees were noted.

IV-E-18

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-18

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

Muscatine Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

IV-G-18

Certified Enrollment-

Finding: There were variances to the October 2017 certified enrollment submitted to the Iowa Department of Education.

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

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

Conclusion: Response accepted.

IV-H-18

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

IV-I-18

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.

IV-J-18

Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely.

IV-K-18

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

Muscatine Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

IV-L-18

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, 2018, the District reported the following information regarding the statewide sales and services tax revenue in the District's CAR:

Beginning balance	\$ 6,761,917
Revenue / transfers in:	
Statewide sales and services tax revenue	4,736,863
Interest and other	57,190
Expenditures/transfers out:	
Administration services	1,249
Operation and maintenance of plant services	29,377
School infrastructure:	
Buildings	2,326,391
Ending balance	<u><u>\$ 9,198,953</u></u>

For the year ended June 30, 2018, 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	\$ 3.56000	\$ 4,736,863



Muscatine Community School District

**Corrective Action Plan
 Year Ended June 30, 2018**

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
Findings Related to the Basic Financial Statements:				
2018-001	The Foundation has insufficient segregation of duties over cash receipts.	See response and corrective action plan at 2018-001.	Fiscal Year 2019	Tom Anderson
2018-002	The Foundation has insufficient reconciling and monitoring activities over financial transactions.	See response and corrective action plan at 2018-002.	Fiscal Year 2019	Tom Anderson
2018-003	The District had significant adjustments to year-end trial balances presented for audit.	See response and corrective action plan at 2018-003.	Fiscal Year 2019	Tom Anderson
Other Findings Related to Required Statutory Reporting:				
IV-A-18	Expenditures exceeded the certified budget in the support services and noninstructional program functions.	See response and corrective action plan at IV-A-18	Fiscal Year 2019	Tom Anderson
IV-G-18	There were variances in certified enrollment.	See response and corrective action plan at IV-G-18	Fiscal Year 2019	Tom Anderson