

CHEROKEE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2015

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# Cherokee Community School District

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Jack Creel	President	2015
Jim Haselhoff	Vice President	2017
Laura Dawson	Board Member	2015
Deb Johnson	Board Member	2015
Calvin Carver	Board Member	2017
<b>School Officials</b>		
Dr. John Chalstrom	Superintendent	2015
Joyce Lundsgaard	District Secretary/Treasurer and Business Manager	2015
Cornwall, Avery, Bjornstad and Scott	Attorney	2015

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

**INDEPENDENT AUDITOR'S REPORT**

**To the Board of Education of Cherokee Community School District:**

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Cherokee Community School District, Cherokee, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Cherokee Community School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Emphasis of Matter**

As discussed in Note 14 to the financial statements, Cherokee Community School District adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cherokee Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of the report, the financial statements for the two years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 12, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 2016, on our consideration of Cherokee Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Cherokee Community School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

March 4, 2016  
Newton, Iowa

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Cherokee Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2015 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$10,102,601 in fiscal year 2014 to \$10,376,715 in fiscal year 2015, while General Fund expenditures increased from \$9,869,188 in fiscal year 2014 to \$10,305,146 in fiscal year 2015. This resulted in an increase in the District's General Fund balance from \$1,933,746 at June 30, 2014 to a balance of \$2,005,315 at June 30, 2015, a 3.70% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state source revenue received during fiscal year 2015. The increase in expenditures was due primarily to increases in expenditures in negotiated salaries and benefits paid to District employees.

### **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 Cherokee Community School District as a whole and present an overall view of the District's finances.

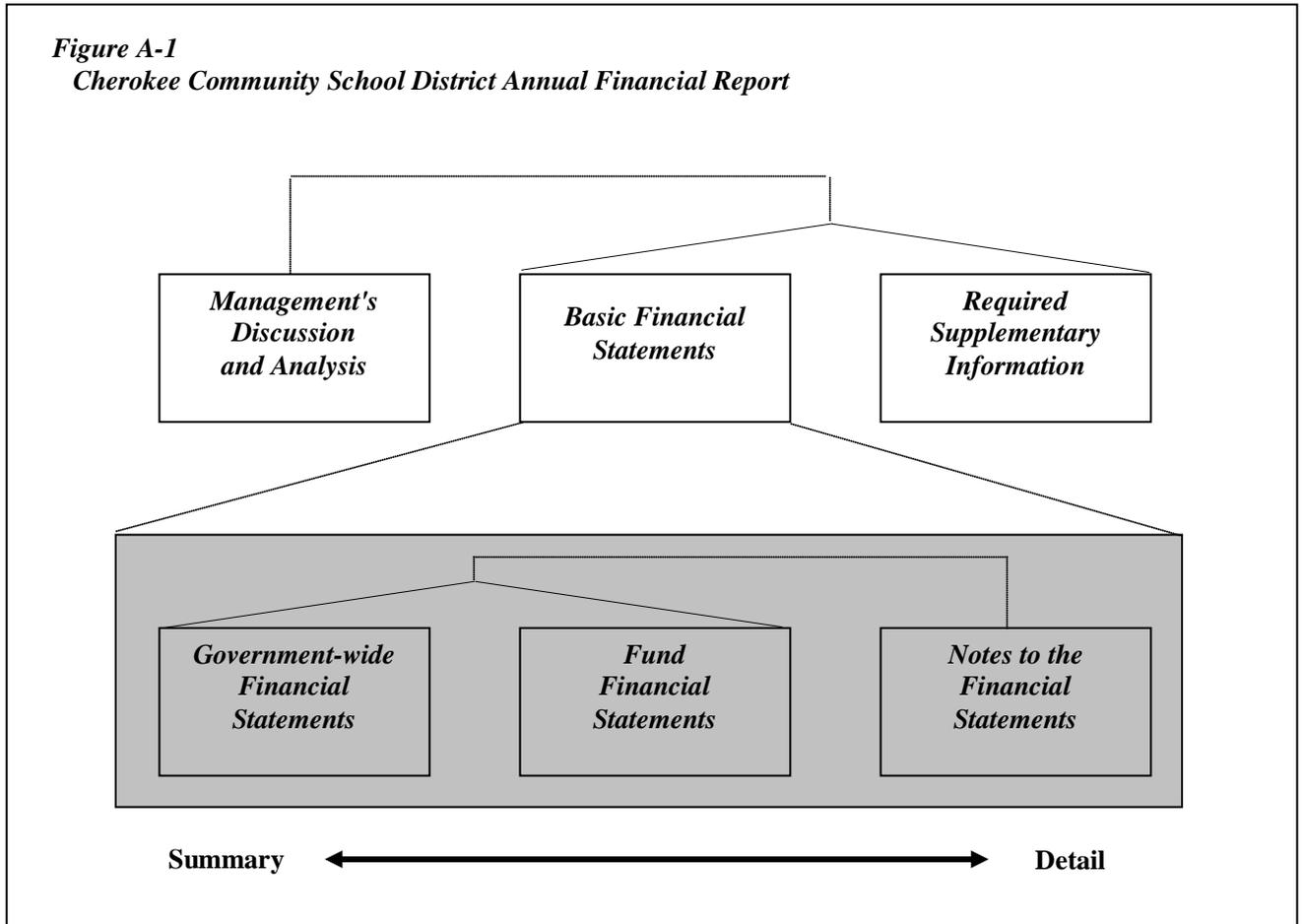
The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Cherokee Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Cherokee Community School District acts solely as an agent or custodial for the benefit of those outside of the School 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, the District's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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



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

<b>Figure A-2</b>				
<b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	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: food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
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 deferred outflow / inflow information	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of fund balance that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period.
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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The two government-wide financial statements report the District's net position and how it has changed. Net position is 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. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The District's Internal Service Funds, one type of proprietary fund, are the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has two Internal Service Fund accounts accounting for self-funded insurance and employee flex benefits.

The required financial statements for the proprietary funds include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private Purpose Trust.

- Private Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Position

	Governmental Activities		Business Type Activities		Total District	Total Change	
	June 30,		June 30,		June 30,	June 30,	
	2015	2014 (Not Restated)	2015	2014 (Not Restated)	2015	2014 (Not Restated)	2014-15
Current and other assets	\$ 8,488,526	9,003,412	93,120	119,073	8,581,646	9,122,485	-5.93%
Capital assets	7,477,297	7,474,872	91,858	73,852	7,569,155	7,548,724	0.27%
Total assets	15,965,823	16,478,284	184,978	192,925	16,150,801	16,671,209	-3.12%
Deferred outflows of resources	729,878	-	18,417	-	748,295	-	100.00%
Long-term liabilities	4,676,936	2,378,767	90,951	6,583	4,767,887	2,385,350	99.88%
Other liabilities	171,608	184,983	7,371	8,817	178,979	193,800	-7.65%
Total liabilities	4,848,544	2,563,750	98,322	15,400	4,946,866	2,579,150	91.80%
Deferred inflows of resources	4,784,999	3,540,631	31,962	-	4,816,961	3,540,631	36.05%
Net position:							
Net investment in capital assets	6,582,297	5,284,872	91,858	73,852	6,674,155	5,358,724	24.55%
Restricted	1,755,445	2,494,917	-	-	1,755,445	2,494,917	-29.64%
Unrestricted	(1,275,584)	2,594,114	(18,747)	103,673	(1,294,331)	2,697,787	-147.98%
Total net position	\$ 7,062,158	10,373,903	73,111	177,525	7,135,269	10,551,428	-32.38%

The District's combined net position decreased by 32.38%, or 3,416,159, from the prior year. The largest portion of the District's net position is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased \$739,472, or 29.64% from the prior year. The decrease in restricted net position is mainly attributable to the decrease in fund balance for the Capital Projects: Statewide Sales, Services and Use Tax Fund.

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 \$3,992,118, or 147.98%. This decrease in unrestricted net position was primarily a result of the District's net pension liability net pension expense recorded in the current year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business type activities were restated by \$4,443,105 and \$103,201 respectively, to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

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

Figure A-4  
Changes in Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	2014		2014		2014		2014-15
	2015	(Not Restated)	2015	(Not Restated)	2015	(Not Restated)	
Revenues:							
Program revenues:							
Charges for service	\$ 858,310	803,979	209,883	213,517	1,068,193	1,017,496	4.98%
Operating grants, contributions and restricted interest	900,089	939,597	268,703	255,488	1,168,792	1,195,085	-2.20%
Capital grants, contributions and restricted interest	25,000	-	-	-	25,000	-	100.00%
General revenues:							
Property taxes	3,482,449	3,633,675	-	-	3,482,449	3,633,675	-4.16%
Income surtax	323,460	302,370	-	-	323,460	302,370	6.97%
Statewide sales, services and use tax	925,826	841,522	-	-	925,826	841,522	10.02%
Unrestricted state grants	5,652,332	5,290,651	-	-	5,652,332	5,290,651	6.84%
Unrestricted investment earnings	9,621	11,822	34	32	9,655	11,854	-18.55%
Other	84,799	57,588	1,721	1,085	86,520	58,673	47.46%
Total revenues	12,261,886	11,881,204	480,341	470,122	12,742,227	12,351,326	3.16%
Program expenses:							
Instructional	7,173,873	6,762,628	-	-	7,173,873	6,762,628	6.08%
Support services	3,181,357	3,084,346	6,641	6,874	3,187,998	3,091,220	3.13%
Non-instructional programs	-	-	474,913	451,648	474,913	451,648	5.15%
Long-term debt interest	77,627	95,640	-	-	77,627	95,640	-18.83%
Other expenses	697,669	662,160	-	-	697,669	662,160	5.36%
Total expenses	11,130,526	10,604,774	481,554	458,522	11,612,080	11,063,296	4.96%
Change in net position	1,131,360	1,276,430	(1,213)	11,600	1,130,147	1,288,030	-12.26%
Net position beginning of year, as restated	5,930,798	9,097,473	74,324	165,925	6,005,122	9,263,398	-35.17%
Net position end of year	\$ 7,062,158	10,373,903	73,111	177,525	7,135,269	10,551,428	-32.38%

In fiscal year 2015, property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 84.69% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.63% of the revenue from business type activities.

The District's total revenues were approximately \$12.74 million of which approximately \$12.26 million was for governmental activities and approximately \$0.48 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.16% increase in revenues and a 4.96% increase in expenses. The increase in total District revenues can be attributed to the increase in unrestricted state grant revenues received by the District as compared to the previous year. The increase in total District expenses is primarily due to an increase in instruction expenses incurred compared to the previous year.

## Governmental Activities

Revenues for governmental activities were \$12,261,886 and expenses were \$11,130,526 for the year ended June 30, 2015.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, long-term debt interest and other expenses, for the year ended June 30, 2015 compared to the year ended June 30, 2014.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2015	2014 (Not Restated)	Change 2014-15	2015	2014 (Not Restated)	Change 2014-15
Instruction	\$ 7,173,873	6,762,628	6.08%	5,833,751	5,408,399	7.86%
Support services	3,181,357	3,084,346	3.15%	3,153,150	3,084,346	2.23%
Long-term debt interest	77,627	95,640	-18.83%	77,627	95,640	-18.83%
Other expenses	697,669	662,160	5.36%	282,599	272,813	3.59%
Totals	\$ 11,130,526	10,604,774	4.96%	9,347,127	8,861,198	5.48%

For the year ended June 30, 2015:

- The cost financed by users of the District's programs was \$858,310.
- Federal and state governments along with local sources subsidized certain programs with grants and contributions totaling \$925,089.
- The net cost of governmental activities was financed with \$3,482,449 in property tax, \$323,460 in income surtax, \$925,826 in statewide sales, services and use tax, \$5,652,332 in unrestricted state grants, \$9,621 in unrestricted investment earnings and \$84,799 in other general revenues.

## Business Type Activities

Revenues of the District's business type activities for the year ended June 30, 2015, were \$480,341 an increase of 2.17% from the prior year, and expenses were \$481,554, an increase of 5.02% from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income and other general revenues.

## INDIVIDUAL FUND ANALYSIS

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

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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 \$3,563,756, below last year's ending combined fund balances of \$4,207,619. The primary reason for the decrease in combined fund balances was due to the decrease in fund balances of the G Capital Projects: Statewide Sales, Services and Use Tax Fund due to the early call of \$775,000 of outstanding general obligation bond indebtedness during the year.

### **Governmental Fund Highlights**

- The District's General Fund financial position is the result of many factors. An increase in state source funding led to the increase in total revenues as compared to the previous year. The increase in total expenditures was primarily due to the increase in negotiated salaries and benefits paid to District employees. The increase in revenues more than outpaced the increase in expenditures ensuring the increase in ending fund balance. The General Fund balance increased from \$1,933,746 at June 30, 2014 to \$2,005,315 at June 30, 2015.
- The Capital Projects Fund balance decreased from \$1,739,680 at June 30, 2014 to \$966,794 at June 30, 2015. The decrease in balance can be attributed in part to the increase in principal paid on the District's general obligation bonds. During the year the District advance called \$775,000 in general obligation bond principal with statewide sales, services, and use tax funds.

### **Proprietary Fund Highlights**

The School Nutrition Fund net position decreased from a restated net position of \$74,324 at July 1, 2014 to a net position of \$73,111 at June 30, 2015, representing a decrease of 1.63%. The primary reason for this decrease in net position was due to an increase in salary expenses incurred as compared to the previous year.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Cherokee Community School District amended its budget one time to reflect additional expenditures associated with the District's 1:1 Chromebook initiative, and expenditures associated with the advance call of the District's general obligation debt and expenses associated with a high school roof project.

The District's revenues were \$13,909 less than budgeted revenues, a variance of 0.11%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

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

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2015, the District had invested \$7,569,155, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a 0.27% increase from the prior year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$496,866.

The original cost of the District's capital assets was \$17,235,774. Governmental activities accounted for \$17,000,610 with the remainder of \$235,164 accounted for in the Proprietary, School Nutrition Fund.

The largest dollar value change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$5,691,521 at June 30, 2014, compared to \$5,774,753 reported at June 30, 2015. The increase in buildings is primarily due to the expenses associated with the District's roof project which was completed during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014	2015	2014	2015	2014	2014-15
Land	\$ 709,934	709,934	-	-	709,934	709,934	0.00%
Buildings and improvements	5,774,753	5,691,521	-	-	5,774,753	5,691,521	1.46%
Land improvements	387,493	432,253	-	-	387,493	432,253	-10.36%
Machinery and equipment	605,117	641,164	91,858	73,852	696,975	715,016	-2.52%
Total	\$ 7,477,297	7,474,872	91,858	73,852	7,569,155	7,548,724	0.27%

### Long-Term Debt

At June 30, 2015, the District had \$4,767,887 in general obligation and other long-term debt outstanding. This represents an increase of 99.88% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonded indebtedness of \$895,000 at June 30, 2015. The District intends to use statewide sales, services and use tax revenues to make the remaining payments on these bonds.

The District had a net pension liability of \$3,596,878 at June 30, 2015. \$3,515,229 of this total is attributed to the District's governmental activities, while the remaining \$81,649 is attributed to the District's business type activities.

The District had a net other postemployment benefits liability of \$276,009 at June 30, 2015. \$266,707 of this total is attributed to the District's governmental activities, while the remaining \$9,302 is attributed to the District's business type activities.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014 (Not Restated)	2015	2014 (Not Restated)	2015	2014 (Not Restated)	2014-15
General obligation bonds	\$ 895,000	2,190,000	-	-	895,000	2,190,000	-59.13%
Net pension liability	3,515,229	-	81,649	-	3,596,878	-	100.00%
Net OPEB liability	266,707	188,767	9,302	6,583	276,009	195,350	41.29%
Totals	\$ 4,676,936	2,378,767	90,951	6,583	4,767,887	2,385,350	99.88%

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## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District initiated a 1:1 chrome books program at the middle school in FY15 and will expand the 1:1 program to the high school in FY16. This will be an ongoing expenditure for the District as the technology needs to be replaced over time.
- The SILO tax was passed in February 2004, and money received by the District beginning in September 2004. This was replaced in 2008 by the statewide sales, services and use tax. The District passed the Revenue Purpose Statement in December 2012 which will allow the District to receive SAVE dollars until 2029. These funds have been used for debt reduction resulting in property tax relief for the taxpayers. The District called \$775,000 of General Obligation Bonds May 1, 2015 and intends to call the remaining bonds in FY16, paying off the General Obligation Bonds two years early in order to realize interest savings of approximately \$98,000.
- The District continues to upgrade the transportation fleet and look at facility needs of the District. Inadequate PPEL funding puts a strain on the District's resources and limits the ability to make needed purchases and repairs.
- School financing is highly dependent upon school enrollment and adequate allowable growth. Declining enrollment and low supplemental state aid has impacted the District's resources. The state will need to provide adequate state supplemental aid in the future in order to address inflationary costs.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joyce Lundsgaard, District Secretary/Treasurer and Business Manager, Cherokee Community School District, 600 West Bluff St., Cherokee, Iowa, 51012.

**BASIC FINANCIAL STATEMENTS**

CHEROKEE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 4,393,386	74,639	4,468,025
Receivables:			
Property tax:			
Delinquent	39,354	-	39,354
Succeeding year	3,408,958	-	3,408,958
Income surtax	301,217	-	301,217
Accounts	23,009	5,458	28,467
Accrued interest	2,275	-	2,275
Due from other governments	320,327	-	320,327
Inventories	-	13,023	13,023
Capital assets, net of accumulated depreciation	7,477,297	91,858	7,569,155
<b>TOTAL ASSETS</b>	<b>15,965,823</b>	<b>184,978</b>	<b>16,150,801</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related deferred outflows	729,878	18,417	748,295
<b>LIABILITIES</b>			
Accounts payable	140,178	-	140,178
Salaries and benefits payable	21,128	-	21,128
Accrued interest payable	10,302	-	10,302
Unearned revenue	-	7,371	7,371
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	535,000	-	535,000
Portion due after one year:			
General obligation bonds payable	360,000	-	360,000
Net pension liability	3,515,229	81,649	3,596,878
Net OPEB liability	266,707	9,302	276,009
<b>TOTAL LIABILITIES</b>	<b>4,848,544</b>	<b>98,322</b>	<b>4,946,866</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable property tax revenue	3,408,958	-	3,408,958
Pension related deferred inflows	1,376,041	31,962	1,408,003
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>4,784,999</b>	<b>31,962</b>	<b>4,816,961</b>
<b>NET POSITION</b>			
Net investment in capital assets	6,582,297	91,858	6,674,155
Restricted for:			
Categorical funding	197,004	-	197,004
Management levy purposes	524,622	-	524,622
Student activities	66,285	-	66,285
Support trust purposes	740	-	740
School infrastructure	780,900	-	780,900
Physical plant and equipment	185,894	-	185,894
Unrestricted	(1,275,584)	(18,747)	(1,294,331)
<b>TOTAL NET POSITION</b>	<b>\$ 7,062,158</b>	<b>73,111</b>	<b>7,135,269</b>

SEE NOTES TO FINANCIAL STATEMENTS.

**CHEROKEE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges	Operating Grants,	Capital Grants,	Governmental Activities	Business	Total
		for Service	Contributions and Restricted Interest	Contributions and Restricted Interest		Type Activities	
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 4,285,650	457,041	89,378	-	(3,739,231)	-	(3,739,231)
Special	1,435,394	105,332	90,802	-	(1,239,260)	-	(1,239,260)
Other	1,452,829	295,937	301,632	-	(855,260)	-	(855,260)
	<u>7,173,873</u>	<u>858,310</u>	<u>481,812</u>	<u>-</u>	<u>(5,833,751)</u>	<u>-</u>	<u>(5,833,751)</u>
Support services:							
Student	255,791	-	-	-	(255,791)	-	(255,791)
Instructional staff	277,579	-	3,207	-	(274,372)	-	(274,372)
Adminstration	1,383,683	-	-	-	(1,383,683)	-	(1,383,683)
Operation and maintenance of plant	859,540	-	-	25,000	(834,540)	-	(834,540)
Transportation	404,764	-	-	-	(404,764)	-	(404,764)
	<u>3,181,357</u>	<u>-</u>	<u>3,207</u>	<u>25,000</u>	<u>(3,153,150)</u>	<u>-</u>	<u>(3,153,150)</u>
Long-term debt interest	77,627	-	-	-	(77,627)	-	(77,627)
Other expenses:							
AEA flowthrough	415,070	-	415,070	-	-	-	-
Depreciation(unallocated)*	282,599	-	-	-	(282,599)	-	(282,599)
	<u>697,669</u>	<u>-</u>	<u>415,070</u>	<u>-</u>	<u>(360,226)</u>	<u>-</u>	<u>(360,226)</u>
Total governmental activities	<u>11,130,526</u>	<u>858,310</u>	<u>900,089</u>	<u>25,000</u>	<u>(9,347,127)</u>	<u>-</u>	<u>(9,347,127)</u>
Business type activities:							
Support services:							
Administration	2,788	-	-	-	-	(2,788)	(2,788)
Operation and maintenance of plant	3,853	-	-	-	-	(3,853)	(3,853)
	<u>6,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,641)</u>	<u>(6,641)</u>
Non-instructional programs:							
Food service operations	474,913	209,883	268,703	-	-	3,673	3,673
	<u>481,554</u>	<u>209,883</u>	<u>268,703</u>	<u>-</u>	<u>-</u>	<u>(2,968)</u>	<u>(2,968)</u>
Total	<u>\$ 11,612,080</u>	<u>1,068,193</u>	<u>1,168,792</u>	<u>25,000</u>	<u>(9,347,127)</u>	<u>(2,968)</u>	<u>(9,350,095)</u>
<b>General Revenues:</b>							
Property tax levied for:							
General purposes				\$ 3,183,534	-		3,183,534
Capital outlay				298,915	-		298,915
Income surtax				323,460	-		323,460
Statewide sales, services and use tax				925,826	-		925,826
Unrestricted state grants				5,652,332	-		5,652,332
Unrestricted investment earnings				9,621	34		9,655
Other				84,799	1,721		86,520
Total general revenues				<u>10,478,487</u>	<u>1,755</u>		<u>10,480,242</u>
Changes in net position				1,131,360	(1,213)		1,130,147
Net position beginning of year, as restated				5,930,798	74,324		6,005,122
Net position end of year				<u>\$ 7,062,158</u>	<u>73,111</u>		<u>7,135,269</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General	Capital Projects	Nonmajor	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 1,951,993	801,088	587,307	3,340,388
Receivables:				
Property tax:				
Delinquent	32,645	3,374	3,335	39,354
Succeeding year	2,905,960	302,999	199,999	3,408,958
Income surtax	301,217	-	-	301,217
Accounts	2,473	18,000	2,536	23,009
Accrued interest	543	1,441	-	1,984
Due from other governments	173,937	146,390	-	320,327
<b>TOTAL ASSETS</b>	<b>\$ 5,368,768</b>	<b>1,273,292</b>	<b>793,177</b>	<b>7,435,237</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 135,148	3,499	1,531	140,178
Salaries and benefits payable	21,128	-	-	21,128
Total liabilities	156,276	3,499	1,531	161,306
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	2,905,960	302,999	199,999	3,408,958
Income surtax	301,217	-	-	301,217
Total deferred inflows of resources	3,207,177	302,999	199,999	3,710,175
Fund balances:				
Restricted for:				
Categorical funding	197,004	-	-	197,004
Management levy purposes	-	-	524,622	524,622
Student activities	-	-	66,285	66,285
Support trust purposes	-	-	740	740
School infrastructure	-	780,900	-	780,900
Physical plant and equipment	-	185,894	-	185,894
Unassigned	1,808,311	-	-	1,808,311
Total fund balances	2,005,315	966,794	591,647	3,563,756
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 5,368,768</b>	<b>1,273,292</b>	<b>793,177</b>	<b>7,435,237</b>

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2015

<b>Total fund balances of governmental funds(page 20)</b>	\$	3,563,756
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in the governmental funds.		7,477,297
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(10,302)
Income surtax receivable not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.		301,217
Blending of the internal service funds to be reflected on an entity-wide basis.		1,053,289
Pension related deferred outflows of resources and deferred inflows sof resources are not due and payable in the current year and, therefore, are not reported in the governmental funds as follows:		
Deferred outflows of resources	\$ 729,878	
Deferred inflows of resources	<u>(1,376,041)</u>	(646,163)
Long-term liabilities, including general obligation bonds payable ,other post employment benefits payable and the net pension liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(4,676,936)</u>
<b>Net position of governmental activities(page 18)</b>	<b>\$</b>	<b><u><u>7,062,158</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2015

	General	Capital Projects	Nonmajor	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 3,170,510	298,915	295,069	3,764,494
Tuition	550,174	-	-	550,174
Other	154,186	4,468	285,853	444,507
State sources	6,207,977	930,163	4,288	7,142,428
Federal sources	293,868	25,000	-	318,868
Total revenues	<u>10,376,715</u>	<u>1,258,546</u>	<u>585,210</u>	<u>12,220,471</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	4,211,866	82,196	115,662	4,409,724
Special	1,490,041	-	-	1,490,041
Other	1,146,378	-	292,344	1,438,722
	<u>6,848,285</u>	<u>82,196</u>	<u>408,006</u>	<u>7,338,487</u>
Support services:				
Student	229,626	-	-	229,626
Instructional staff	258,861	-	-	258,861
Administration	1,392,250	-	41,048	1,433,298
Operation and maintenance of plant	812,254	-	62,177	874,431
Transportation	348,800	27,405	17,125	393,330
	<u>3,041,791</u>	<u>27,405</u>	<u>120,350</u>	<u>3,189,546</u>
Capital outlay	-	574,028	-	574,028
Long-term debt:				
Principal	-	-	1,295,000	1,295,000
Interest and fiscal charges	-	-	80,790	80,790
	<u>-</u>	<u>-</u>	<u>1,375,790</u>	<u>1,375,790</u>
Other expenditures:				
AEA flowthrough	415,070	-	-	415,070
Total expenditures	<u>10,305,146</u>	<u>683,629</u>	<u>1,904,146</u>	<u>12,892,921</u>
Excess(Deficiency) of revenues over(under) expenditures	71,569	574,917	(1,318,936)	(672,450)
Other financing sources(uses):				
Transfer in	-	-	1,376,390	1,376,390
Transfer out	-	(1,376,390)	-	(1,376,390)
Insurance proceeds	-	28,587	-	28,587
Total other financing sources(uses)	<u>-</u>	<u>(1,347,803)</u>	<u>1,376,390</u>	<u>28,587</u>
Change in fund balances	71,569	(772,886)	57,454	(643,863)
Fund balances beginning of year	<u>1,933,746</u>	<u>1,739,680</u>	<u>534,193</u>	<u>4,207,619</u>
Fund balances end of year	<u>\$ 2,005,315</u>	<u>966,794</u>	<u>591,647</u>	<u>3,563,756</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2015

<b>Change in fund balances - total governmental funds(page 22)</b>	\$	(643,863)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlay to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlay	\$ 488,230	
Depreciation expense	<u>(485,805)</u>	2,425
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		1,295,000
Net change in internal service funds charged back against expenditures made for the self-funded insurance at an entity-wide basis.		229,447
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		3,163
Income surtax account receivable is not available to finance expenditures of the current year period and is recognized as deferred inflows of resources in the governmental funds.		41,415
The current year District share of the IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position.		536,539
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.		
Pension expense	\$ (254,826)	
Other postemployment benefits	<u>(77,940)</u>	<u>(332,766)</u>
<b>Change in net position of governmental activities(page 19)</b>	<b>\$</b>	<b><u><u>1,131,360</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2015

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service Funds
	School Nutrition	
<b>ASSETS</b>		
Current assets:		
Cash and pooled investments	\$ 74,639	1,052,998
Accounts receivable	5,458	-
Interest receivable	-	291
Inventories	13,023	-
Total current assets	<u>93,120</u>	<u>1,053,289</u>
Non-current assets:		
Capital assets, net of accumulated depreciation	91,858	-
<b>TOTAL ASSETS</b>	<u>184,978</u>	<u>1,053,289</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	18,417	-
<b>LIABILITIES</b>		
Current liabilities:		
Unearned revenue	7,371	-
Noncurrent liabilities:		
Net OPEB liability	9,302	-
Net pension liability	81,649	-
Total long-term liabilities	<u>90,951</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>98,322</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related deferred inflows	31,962	-
<b>NET POSITION</b>		
Net investment in capital assets	91,858	-
Unrestricted	(18,747)	1,053,289
<b>TOTAL NET POSITION</b>	<u>\$ 73,111</u>	<u>1,053,289</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2015

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service Funds
	School Nutrition	
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 209,883	-
Miscellaneous	1,721	470,123
TOTAL OPERATING REVENUES	<u>211,604</u>	<u>470,123</u>
OPERATING EXPENSES:		
Support services:		
Administration:		
Services	2,188	242,316
Other	600	-
	<u>2,788</u>	<u>242,316</u>
Operation and maintenance of plant:		
Services	3,853	-
Total support services	<u>6,641</u>	<u>242,316</u>
Non-instructional programs:		
Food service operations:		
Salaries	158,163	-
Benefits	67,581	-
Supplies	238,108	-
Depreciation	11,061	-
Total non-instructional programs	<u>474,913</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>481,554</u>	<u>242,316</u>
OPERATING INCOME(LOSS)	<u>(269,950)</u>	<u>227,807</u>
NON-OPERATING REVENUES:		
State sources	4,205	-
Federal sources	264,498	-
Interest income	34	1,640
TOTAL NON-OPERATING REVENUES	<u>268,737</u>	<u>1,640</u>
Change in net position	(1,213)	229,447
Net position beginning of year, as restated	<u>74,324</u>	<u>823,842</u>
Net position end of year	<u>\$ 73,111</u>	<u>1,053,289</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2015

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service
	School Nutrition	
Cash flows from operating activities:		
Cash received from operating activities	\$ 213,992	-
Cash received from miscellaneous operating activities	1,721	470,408
Cash payments to employees for services	(231,032)	(134,716)
Cash payments to suppliers for goods or services	(210,991)	(107,600)
Net cash provided by(used in) operating activities	(226,310)	228,092
Cash flows from non-capital financing activities:		
State grants received	4,205	-
Federal grants received	227,286	-
Net cash provided by non-capital financing activities	231,491	-
Cash flows from capital activities:		
Purchase of capital assets	(29,067)	-
Cash flows from investing activities:		
Interest on investment	34	1,640
Net increase(decrease) in cash and pooled investments	(23,852)	229,732
Cash and pooled investments beginning of year	98,491	823,266
Cash and pooled investments end of year	\$ 74,639	1,052,998
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (269,950)	227,807
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	37,212	-
Depreciation	11,061	-
Increase in inventories	(1,961)	-
Decrease in interest receivable	-	285
Decrease in accounts receivable	4,062	-
Decrease in accounts payable	(1,493)	-
Increase in unearned revenue	47	-
Decrease in net pension liability	(33,582)	-
Increase in deferred inflows	(6,387)	-
Increase in deferred outflows	31,962	-
Increase in other postemployment benefits	2,719	-
Net cash provided by(used in) operating activities	\$ (226,310)	228,092

## NON-CASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:

During the year ended June 30, 2015, the District received Federal commodities valued at \$37,212.

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2015

	<u>Private Purpose Trust</u>
	<u>Scholarship Fund</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 29,584
<b>LIABILITIES</b>	-
<b>NET POSITION</b>	
Held in trust for scholarships	\$ 29,584

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2015

	Private Purpose Trust
	Scholarship Fund
Additions:	
Local sources:	
Gifts and contributions	\$ 3,100
Interest	557
Total additions	3,657
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	3,300
Change in net position before other financing uses	357
Other financing uses:	
Unrealized loss on investments	(458)
Change in net position	(101)
Net position beginning of year	29,685
Net position end of year	\$ 29,584

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015

**Note 1. Summary of Significant Accounting Policies**

The Cherokee Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Cherokee and Larrabee, Iowa, and the predominantly agricultural territory in Cherokee County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Government Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Cherokee 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 Cherokee Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

***Jointly Governed Organizations*** - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cherokee Counties Assessors' Conference Board.

**B. Basis of Presentation**

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

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

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation plus unspent bond proceeds and reduced by outstanding principal balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position is often subject to constraints 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 segment is offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

***Fund Financial Statements*** - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating 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 and other capital assets.

The District also reports the following nonmajor proprietary fund:

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

The Internal Service Fund is used to account for the flexible health benefits program offered by the District and the District's partially self-funded health insurance. The Internal Service Fund is charged back to the Governmental funds and shown combined in the Statement of Net Position and the Statement of Activities.

The District also reports fiduciary funds which focus on net position and changes in net position. The District's fiduciary funds include the following:

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

### **C. Measurement Focus and Basis of Accounting**

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Funds 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 non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### **D. Assets, 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 balance of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purpose of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

**Property Taxes** - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax revenue receivable is recognized in these funds on the levy date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes 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. By statute, the Board of Education is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recorded as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2014.

**Due from Other Governments** - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

**Inventories** - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

**Capital Assets** - Capital assets, which include property, machinery and equipment, and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings and improvements	1,000
Land improvements	1,000
Intangibles	50,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings and improvements	50 years
Land improvements	20-50 years
Intangibles	5-10 years
Machinery and equipment	5-15 years

**Deferred Outflows of Resources** - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

**Salaries and Benefits Payable** - Payroll and related payroll taxes and benefits for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

**Unearned Revenues** - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Position in the Proprietary, School Nutrition Fund.

**Long-term Liabilities** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

**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.

**Deferred Inflows of Resources** - Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of succeeding year property tax receivable, and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivables that will not be recognized until the year for which it is levied and the unamortized portion of the net difference between projected an actual earning on pension plan investments.

**Fund Equity** - In the governmental fund financial statements, fund balances are classified as follows:

**Restricted** - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

**Unassigned** - All amounts not included in the preceding classifications.

## **E. Budgets and Budgetary Accounting**

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

### **Note 2. Cash, Deposits and Pooled Investments**

The District's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2015, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$64,526 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

Investments in common stock and mutual funds are stated at the approximate fair value based on the closing price for the stock on June 30, 2015. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. At June 30, 2015, the District's investment in common stock and mutual funds that were donated to the District for scholarship awards to students consisted of the following:

Stock/Mutual Fund	Number of Shares	Fair Value
Sempra Energy	200	\$ 20,220
Franklin Income Fund Class A	745	1,682
Total		<u>\$ 21,902</u>

### **Note 3. Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 709,934	-	-	709,934
Total capital assets not being depreciated	<u>709,934</u>	<u>-</u>	<u>-</u>	<u>709,934</u>
Capital assets being depreciated:				
Buildings and improvements	10,691,142	314,666	-	11,005,808
Land improvements	1,799,146	6,405	-	1,805,551
Machinery and equipment	3,365,635	167,159	53,477	3,479,317
Total capital assets being depreciated	<u>15,855,923</u>	<u>488,230</u>	<u>53,477</u>	<u>16,290,676</u>
Less accumulated depreciation for:				
Buildings and improvements	4,999,621	231,434	-	5,231,055
Land improvements	1,366,893	51,165	-	1,418,058
Machinery and equipment	2,724,471	203,206	53,477	2,874,200
Total accumulated depreciation	<u>9,090,985</u>	<u>485,805</u>	<u>53,477</u>	<u>9,523,313</u>
Total capital assets being depreciated, net	<u>6,764,938</u>	<u>2,425</u>	<u>-</u>	<u>6,767,363</u>
Governmental activities capital assets, net	<u>\$ 7,474,872</u>	<u>2,425</u>	<u>-</u>	<u>7,477,297</u>
<b>Business type activities:</b>				
Machinery and equipment	\$ 228,101	29,067	22,004	235,164
Less accumulated depreciation	154,249	11,061	22,004	143,306
Business type activities capital assets, net	<u>\$ 73,852</u>	<u>18,006</u>	<u>-</u>	<u>91,858</u>
Depreciation expense was charged by the District as follows:				
Governmental activities:				
Instruction:				
Regular			\$	57,220
Other				25,525
Support services:				
Administration				19,606
Operation and maintenance of plant				9,388
Transportation				91,467
				<u>203,206</u>
Unallocated depreciation				<u>282,599</u>
Total governmental activities depreciation expense			\$	<u>485,805</u>
Business type activities:				
Food service operations			\$	<u>11,061</u>

**Note 4. Interfund Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 1,376,390

\$601,290 of the transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for general obligation bond debt relief. \$775,100 was needed to advance call the fiscal year 2018 and part of the fiscal year 2017 bond principal.

**Note 5. Long-Term Liabilities**

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

	Balance			Balance End of Year	Due Within One Year
	Beginning of Year Restated	Additions	Deletions		
<b>Governmental Activities:</b>					
General obligation bonds	\$ 2,190,000	-	1,295,000	895,000	535,000
Net pension liability	4,961,043	-	1,445,814	3,515,229	-
Net OPEB liability	188,767	77,940	-	266,707	-
Total	\$ 7,339,810	77,940	2,740,814	4,676,936	535,000
<b>Business Type Activities:</b>					
Net pension liability	\$ 6,583	2,719	-	9,302	-
Net OPEB liability	115,231	-	33,582	81,649	-
Total	\$ 121,814	2,719	33,582	90,951	-

**General Obligation Bonds Payable**

During the year ended June 30, 2015, the District committed an additional \$775,000 in statewide sales, services and use tax to call \$775,000 in principal of the November 1, 2007 general obligation bond.

During fiscal year 2016, the District intends to commit an additional \$901,660 of statewide sales, services and use tax revenue to call the remaining \$895,000 in principal of the November 1, 2007 general obligation bond. The total savings to the District on the 2015 and 2016 advance refunding is \$99,468.

Details of the District's June 30, 2015 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of November 1, 2007				
	Interest Rate	Principal	Interest	Total	
2016	3.65 %	\$ 535,000	32,848	567,848	
2017	3.70	360,000	13,320	373,320	
Total		\$ 895,000	46,168	941,168	

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

**Plan Description** - The District operates a single-employer health plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 127 active and 19 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability. The valuation also includes an explicit subsidy for benefits paid to District retirees from previous years early retirement offerings.

**Funding Policy** - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

**Annual OPEB Cost and Net OPEB Obligation** - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	161,703
Interest on net OPEB obligation		4,884
Adjustment to annual required contribution		(13,153)
Annual OPEB cost (expense)		<u>153,434</u>
Contributions made		<u>(72,775)</u>
Increase in net OPEB obligation		80,659
Net OPEB obligation - beginning of year		<u>195,350</u>
Net OPEB obligation - end of year	\$	<u><u>276,009</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 164,893	53.7 %	\$ 119,701
2014	145,412	48.0	195,350
2015	153,434	47.4	276,009

**Funded Status and Funding Progress** - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$703,300, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$703,300. The covered payroll (annual payroll of active employees covered by the plan) was \$5,863,707 and the ratio of the UAAL to covered payroll was 12.0%. As of June 30, 2015, there were no trust fund assets.

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend.

Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6.0%.

Mortality rates are from the 94 Group Annuity Mortality Table projected to 2000, applied on a gender-specific basis. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

#### **Note 7. Pension Plan**

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](http://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 information 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, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

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

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

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

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

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

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent.

The District's contributions to IPERS for the year ended June 30, 2015 were \$550,466.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the District reported a liability of \$3,596,878 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's collective proportion was 0.088876 percent, which was a decrease of 0.000778 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$260,746. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 39,091	\$ -
Changes of assumptions	158,738	-
Net difference between projected and actual earnings on pension plan investments	-	1,371,746
Changes in proportion and differences between District contributions and proportionate share of contributions	-	36,257
District contributions subsequent to the measurement date	550,466	-
Total	<u>\$ 748,295</u>	<u>\$ 1,408,003</u>

\$550,466 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
June 30,	
2016	\$ (305,186)
2017	(305,186)
2018	(305,186)
2019	(305,186)
2020	10,570
	<u>\$ (1,210,174)</u>

There were no non-employer contributing entities at IPERS.

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

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

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

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

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

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

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 6,796,200	\$ 3,596,878	\$ 896,319

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](http://www.ipers.org).

Payables to the Pension Plan - At June 30, 2015, the District reported payables to the defined benefit pension plan of \$1,601 for legally required employer contributions and \$1,079 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**Note 8. Risk Management**

Cherokee 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. There have been no significant reductions in insurance coverage from coverage in the prior year.

**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 \$415,070 for the year ended June 30, 2015 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 10. Deficit Balances**

At June 30, 2015 the District had deficit unrestricted net position of \$18,747 in the Enterprise, School Nutrition Fund and deficit unrestricted net position of \$1,275,584 in its governmental activities on the Statement of Net Position.

**Note 11. Categorical Funding**

The District's ending balances for categorical funding at June 30, 2015 is comprised of the following programs:

Program	Amount
Limited english proficiency weighting	\$ 12,321
Gifted and talented	18,224
Returning dropout and dropout prevention	10,041
Market factor	3,999
Professional development	11,414
Professional development model core curriculum	23,219
Market factor incentives	7,551
Four-year-old preschool state aid	99,030
Empowerment professional development grant	239
Successful progression for early readers	6,263
Teacher leadership grants	4,703
Total	<u>\$ 197,004</u>

### **Note 12. Operating Lease Commitment**

The District entered into a five year contract to lease copiers during fiscal year 2012. The District will make annual lease payments of \$31,968 through fiscal year 2016 for the copiers. District expense for fiscal year 2015 totaled \$31,968.

### **Note 13. Reconciliation of Governmental Fund Balances to Net Position**

The following is reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position:

	<u>Net Investment in Capital Assets</u>	<u>Unassigned/ Restricted Balances</u>
<b>Fund Balance (Exhibit C)</b>	\$ -	1,808,311
Capital assets, net of accumulated depreciation	7,477,297	-
General obligation bond capitalized indebtedness	(895,000)	-
Internal service funds	-	1,053,289
Income surtax	-	301,217
Accrued interest payable	-	(10,302)
Pension related deferred outflows	-	729,878
Net pension liability	-	(3,515,229)
Pension related deferred inflows	-	(1,376,041)
Net OPEB liability	-	(266,707)
<b>Net position (Exhibit A)</b>	<u>\$ 6,582,297</u>	<u>(1,275,584)</u>

### **Note 14. Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Net position June 30, 2014, as previously reported	\$ 10,373,903	\$ 177,525
Net pension liability at June 30, 2014	(4,961,043)	(115,231)
Deferred outflows of resources related to the contributions made after the June 30, 2013 measurement date	517,938	12,030
Net position July 1, 2014, as restated	<u>\$ 5,930,798</u>	<u>\$ 74,324</u>

# Cherokee Community School District

**REQUIRED SUPPLEMENTARY INFORMATION**

**CHEROKEE COMMUNITY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES**  
**AND CHANGES IN BALANCES -**  
**BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2015**

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
<b>Revenues:</b>						
Local sources	\$ 4,759,175	211,638	4,970,813	5,881,184	5,881,184	(910,371)
Intermediate sources	-	-	-	6,000	6,000	(6,000)
State sources	7,142,428	4,205	7,146,633	6,282,537	6,282,537	864,096
Federal sources	318,868	264,498	583,366	545,000	545,000	38,366
Total revenues	<u>12,220,471</u>	<u>480,341</u>	<u>12,700,812</u>	<u>12,714,721</u>	<u>12,714,721</u>	<u>(13,909)</u>
<b>Expenditures/expenses:</b>						
Instruction	7,338,487	-	7,338,487	7,355,919	7,505,919	167,432
Support services	3,189,546	6,641	3,196,187	3,520,000	3,520,000	323,813
Non-instructional programs	-	474,913	474,913	625,000	625,000	150,087
Other expenditures	2,364,888	-	2,364,888	1,658,143	2,658,143	293,255
Total expenditures/expenses	<u>12,892,921</u>	<u>481,554</u>	<u>13,374,475</u>	<u>13,159,062</u>	<u>14,309,062</u>	<u>934,587</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	(672,450)	(1,213)	(673,663)	(444,341)	(1,594,341)	920,678
Other financing sources, net	28,587	-	28,587	-	-	28,587
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(643,863)	(1,213)	(645,076)	(444,341)	(1,594,341)	949,265
Balances beginning of year, as restated	4,207,619	74,324	4,281,943	3,253,720	3,253,720	1,028,223
Balances end of year	<u>\$ 3,563,756</u>	<u>73,111</u>	<u>3,636,867</u>	<u>2,809,379</u>	<u>1,659,379</u>	<u>1,977,488</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2015

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 function, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year the District adopted one budget amendment, increasing budgeted expenditures by \$1,150,000.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
 LAST FISCAL YEAR \*  
 REQUIRED SUPPLEMENTARY INFORMATION

	2015
District's proportion of the net pension liability	0.088876%
District's proportionate share of the net pension liability	\$ 3,596,878
District's covered-employee payroll	\$ 6,164,233
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	58.35%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

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

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**CHEROKEE COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS**  
**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**LAST TEN FISCAL YEARS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 550,466	529,968	502,736	462,748	395,680	387,527	367,535	341,930	316,472	312,546
Contributions in relation to the statutorily required contribution	<u>(550,466)</u>	<u>(529,968)</u>	<u>(502,736)</u>	<u>(462,748)</u>	<u>(395,680)</u>	<u>(387,527)</u>	<u>(367,535)</u>	<u>(341,930)</u>	<u>(316,472)</u>	<u>(312,546)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>								
District's covered-employee payroll	\$ 6,164,233	5,934,692	5,798,570	5,734,176	5,693,237	5,575,928	5,787,953	5,651,736	5,503,861	5,435,583
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%	5.75%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY  
YEAR ENDED JUNE 30, 2015

*Changes of benefit terms:*

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

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

*Changes of assumptions:*

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

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

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

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

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

CHEROKEE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 1,141,481	\$ 1,141,481	0.0%	\$ 5,956,000	19.2%
2011	July 1, 2009	-	1,054,573	1,054,573	0.0%	6,081,000	17.3%
2012	July 1, 2009	-	1,001,178	1,001,178	0.0%	5,552,000	18.0%
2013	July 1, 2012	-	870,315	870,315	0.0%	5,566,045	15.6%
2014	July 1, 2012	-	779,064	779,064	0.0%	5,603,379	13.9%
2015	July 1, 2012	-	703,300	703,300	0.0%	5,863,707	12.0%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# Cherokee Community School District

**SUPPLEMENTARY INFORMATION**

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2015

	Special Revenue			Total
	Management Levy	Student Activity	Support Trust	
<b>ASSETS</b>				
Cash and pooled investments	\$ 521,287	65,280	740	587,307
Receivables:				
Property tax:				
Delinquent	3,335	-	-	3,335
Succeeding year	199,999	-	-	199,999
Accounts	-	2,536	-	2,536
<b>TOTAL ASSETS</b>	<b>\$ 724,621</b>	<b>67,816</b>	<b>740</b>	<b>793,177</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ -	1,531	-	1,531
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	199,999	-	-	199,999
Fund balances:				
Restricted for:				
Management levy purposes	524,622	-	-	524,622
Student activities	-	66,285	-	66,285
Support trust purposes	-	-	740	740
Total fund balances	524,622	66,285	740	591,647
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 724,621</b>	<b>67,816</b>	<b>740</b>	<b>793,177</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2015

	Special Revenue				Debt Service	Total
	Management Levy	Student Activity	Support Trust	Total		
REVENUES:						
Local sources:						
Local tax	\$ 295,069	-	-	295,069	-	295,069
Other	11,966	273,417	470	285,853	-	285,853
State sources	4,288	-	-	4,288	-	4,288
Total revenues	311,323	273,417	470	585,210	-	585,210
EXPENDITURES:						
Current:						
Instruction:						
Regular	114,941	-	721	115,662	-	115,662
Other	-	292,344	-	292,344	-	292,344
Support services:						
Administration	40,448	-	-	40,448	600	41,048
Operation and maintenance of plant	62,177	-	-	62,177	-	62,177
Transportation	17,125	-	-	17,125	-	17,125
Long-term debt:						
Principal	-	-	-	-	1,295,000	1,295,000
Interest and fiscal charges	-	-	-	-	80,790	80,790
Total expenditures	234,691	292,344	721	527,756	1,376,390	1,904,146
Excess(Deficiency) of revenues over(under) expenditures	76,632	(18,927)	(251)	57,454	(1,376,390)	(1,318,936)
Other financing sources:						
Transfer in	-	-	-	-	1,376,390	1,376,390
Change in fund balances	76,632	(18,927)	(251)	57,454	-	57,454
Fund balances beginning of year	447,990	85,212	991	534,193	-	534,193
Fund balances end of year	\$ 524,622	66,285	740	591,647	-	591,647

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS ACCOUNTS  
 JUNE 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 621,527	179,561	801,088
Receivables:			
Property tax:			
Delinquent	-	3,374	3,374
Succeeding year	-	302,999	302,999
Accounts	18,000	-	18,000
Accrued interest	1,441	-	1,441
Due from other governments	143,431	2,959	146,390
<b>TOTAL ASSETS</b>	<b>\$ 784,399</b>	<b>488,893</b>	<b>1,273,292</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 3,499	-	3,499
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	302,999	302,999
Fund balances:			
Restricted for:			
School infrastructure	780,900	-	780,900
Physical plant and equipment levy	-	185,894	185,894
Total fund balances	780,900	185,894	966,794
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 784,399</b>	<b>488,893</b>	<b>1,273,292</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS ACCOUNTS  
 YEAR ENDED JUNE 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ -	298,915	298,915
Other	4,342	126	4,468
State sources	925,826	4,337	930,163
Federal sources	-	25,000	25,000
Total revenues	<u>930,168</u>	<u>328,378</u>	<u>1,258,546</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	82,196	-	82,196
Support services:			
Transportation	-	27,405	27,405
Capital outlay	318,098	255,930	574,028
Total expenditures	<u>400,294</u>	<u>283,335</u>	<u>683,629</u>
Excess of revenues over expenditures	529,874	45,043	574,917
Other financing sources(uses):			
Transfer out	(1,376,390)	-	(1,376,390)
Insurance proceeds	-	28,587	28,587
Total other financing sources(uses)	<u>(1,376,390)</u>	<u>28,587</u>	<u>(1,347,803)</u>
Change in fund balances	(846,516)	73,630	(772,886)
Fund balances beginning of year	<u>1,627,416</u>	<u>112,264</u>	<u>1,739,680</u>
Fund balances end of year	<u>\$ 780,900</u>	<u>185,894</u>	<u>966,794</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2015

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- Fund Transfers	Balance End of Year
Drama	\$ 395	1,323	2,625	907	-
Speech	503	4,330	6,093	1,260	-
WHS vocal	-	50	1,078	1,028	-
WHS vocal fundraising	22,397	24,074	46,324	372	519
WHS band	-	1,305	6,148	4,843	-
Cross country	-	1,760	2,110	350	-
WHS cheerleaders	4,385	3,657	5,819	-	2,223
Weightlifting	430	-	202	-	228
Boys basketball	-	-	4,003	4,003	-
Boys basketball fundraiser	1,272	1,839	1,080	-	2,031
Football	-	-	3,909	3,909	-
Football fundraiser	3,341	28,682	28,778	-	3,245
Baseball	-	-	6,666	6,666	-
Baseball fundraiser	3,377	16,231	15,769	640	4,479
Boys track	-	454	3,147	2,693	-
Boys tennis	-	90	371	281	-
Boys golf	-	1,070	2,602	1,532	-
Wrestling	-	725	3,859	3,134	-
Wrestling fundraiser	1,698	8,990	8,773	-	1,915
Girls basketball	-	3	3,270	3,267	-
Girls basketball fundraiser	1,420	4,173	4,407	-	1,186
Volleyball	-	560	4,396	3,836	-
Volleyball fundraiser	2,579	56	1,137	-	1,498
Girls softball	-	-	5,026	5,026	-
Softball fundraiser	2,472	8,308	7,433	240	3,587
Girls track	-	3,610	4,401	871	80
Girls tennis	-	1,299	1,577	278	-
Girls golf	-	290	1,728	1,438	-
Cherokee	6,810	11,190	8,442	480	10,038
National honor society	1,314	96	901	480	989
Drug free lifestyles	1,736	-	1,000	-	736
Art club	662	150	113	-	699
Student council	5,289	2,756	2,942	240	5,343
Concessions	1,787	43,102	31,731	(8,029)	5,129
FCCLA	698	-	-	-	698
German club	113	-	-	(113)	-
Spanish club	3,518	915	4,553	800	680
Culinary arts	2,790	4,579	4,597	680	3,452
Special athletes	-	50	645	595	-
School to work	33	-	-	-	33
WHS work study	2,119	-	-	-	2,119
Class of 2015	627	-	103	(524)	-
Class of 2016	395	-	-	120	515
Class of 2017	218	-	43	240	415
Class of 2018	-	-	-	240	240
Prom	1,156	10,197	10,896	480	937
Interest on investments	-	110	-	(110)	-
WHS athletics	-	70	14,675	14,605	-
WHS activities - ticket sales	186	70,048	4,224	(66,010)	-
Stoneking class	-	300	300	-	-
FTC	-	1,100	1,170	1,280	1,210
7th/8th student council	3,065	5,286	5,450	-	2,901
5th/6th student council	7	-	-	-	7
CMS athletics	-	165	6,681	6,516	-
CMS band	-	450	1,265	815	-
CMS vocal	-	-	566	566	-
CMS activity resale	486	1,689	1,707	-	468
CMS hoops festival	7,934	8,285	7,534	-	8,685
CMS hoops festival	-	-	75	75	-
TOTAL	\$ 85,212	273,417	292,344	-	66,285

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF NET POSITION  
 INTERNAL SERVICE FUNDS  
 JUNE 30, 2015

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Insurance	Flex Benefits	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 1,044,692	8,306	1,052,998
Interest receivable	291	-	291
<b>TOTAL ASSETS</b>	<b>1,044,983</b>	<b>8,306</b>	<b>1,053,289</b>
<b>LIABILITIES</b>	-	-	-
<b>NET POSITION</b>			
Unrestricted	\$ 1,044,983	8,306	1,053,289

SEE ACCOMPANYING INDEPENDENT AUDITOR’S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND NET POSITION  
 INTERNAL SERVICE FUNDS  
 YEAR ENDED JUNE 30, 2015

	Governmental Activities: Internal Service Funds		
	Self-funded Insurance	Flex Benefits	Total
OPERATING REVENUE:			
Local sources:			
Miscellaneous	\$ 335,362	134,761	470,123
OPERATING EXPENSES:			
Support services:			
Administration:			
Services	107,600	134,716	242,316
OPERATING INCOME	227,762	45	227,807
NON-OPERATING REVENUE			
Interest income	1,640	-	1,640
Change in net position	229,402	45	229,447
Net position beginning of year	815,581	8,261	823,842
Net position end of year	\$ 1,044,983	8,306	1,053,289

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF CASH FLOWS  
 INTERNAL SERVICE FUNDS  
 YEAR ENDED JUNE 30, 2015

	Governmental Activities: Internal Service Funds		
	Self-funded Insurance	Flex Benefits	Total
Cash flows from operating activities:			
Cash received from miscellaneous	\$ 335,647	134,761	470,408
Cash payments to employees for services	-	(134,716)	(134,716)
Cash payments to suppliers for goods or services	(107,600)	-	(107,600)
Net cash provided by operating activities	<u>228,047</u>	<u>45</u>	<u>228,092</u>
Cash flows from investing activities:			
Interest on investments	<u>1,640</u>	-	<u>1,640</u>
Net increase in cash and pooled investments	229,687	45	229,732
Cash and pooled investments beginning of year	<u>815,005</u>	<u>8,261</u>	<u>823,266</u>
Cash and pooled investments end of year	<u>\$ 1,044,692</u>	<u>8,306</u>	<u>1,052,998</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 227,762	45	227,807
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease in interest receivable	285	-	285
Net cash provided by operating activities	<u>\$ 228,047</u>	<u>45</u>	<u>228,092</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF FIDUCIARY NET POSITION  
 PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS  
 JUNE 30, 2015

	Private Purpose Trust - Scholarship				
	Coop Learning	Interest	Local Business Scholarships	Vera Pratt Memorial	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 112	3,367	3,850	22,255	29,584
<b>LIABILITIES</b>	-	-	-	-	-
<b>NET POSITION</b>					
Held in trust for scholarships	\$ 112	3,367	3,850	22,255	29,584

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS  
 YEAR ENDED JUNE 30, 2015

	Private Purpose Trust - Scholarship				Total
	Coop Learning	Interest	Local Business Scholarships	Vera Pratt Memorial	
Additions:					
Local sources:					
Gifts and contributions	\$ -	-	3,100	-	3,100
Interest income	-	4	-	553	557
Total additions	-	4	3,100	553	3,657
Deductions:					
Instruction:					
Regular:					
Scholarships awarded	-	-	3,100	200	3,300
Change in net position before other financing uses	-	4	-	353	357
Other financing uses:					
Unrealized loss on investments	-	-	-	(458)	(458)
Change in net position	-	4	-	(105)	(101)
Net position beginning of year	112	3,363	3,850	22,360	29,685
Net position end of year	\$ 112	3,367	3,850	22,255	29,584

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**CHEROKEE COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION**  
**ALL GOVERNMENTAL FUNDS**  
**FOR THE LAST TEN YEARS**

	Modified Accrual Basis									
	Years Ended June 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Revenues:</b>										
<b>Local sources:</b>										
Local tax	\$ 3,764,494	3,934,988	4,528,862	4,524,221	4,208,118	3,831,302	3,708,534	3,722,451	3,775,786	3,803,191
Tuition	550,174	533,512	557,902	483,781	419,892	391,288	320,420	294,704	430,518	412,713
Other	444,507	371,746	469,053	403,762	645,693	314,833	355,107	414,058	425,011	430,355
State sources	7,142,428	6,725,234	5,556,128	5,357,603	5,488,494	5,117,522	5,813,944	5,603,650	5,359,416	5,199,779
Federal sources	318,868	314,667	251,889	397,097	516,832	846,885	306,317	270,283	269,795	278,532
<b>Total</b>	<b>\$ 12,220,471</b>	<b>11,880,147</b>	<b>11,363,834</b>	<b>11,166,464</b>	<b>11,279,029</b>	<b>10,501,830</b>	<b>10,504,322</b>	<b>10,305,146</b>	<b>10,260,526</b>	<b>10,124,570</b>
<b>Expenditures:</b>										
<b>Instruction:</b>										
Regular	\$ 4,409,724	4,198,705	4,120,162	4,028,840	4,024,489	4,089,062	4,106,620	4,044,641	3,783,259	3,779,027
Special	1,490,041	1,459,136	1,509,673	1,441,646	1,420,475	1,276,205	1,330,350	1,265,819	1,322,796	1,215,146
Other	1,438,722	1,300,700	1,275,064	1,234,797	1,349,984	1,364,636	1,269,163	1,155,147	1,160,229	1,219,738
<b>Support services:</b>										
Student	229,626	188,739	215,489	180,398	190,942	148,928	116,916	283,762	297,875	279,333
Instructional staff	258,861	261,221	250,374	223,896	224,051	211,953	174,892	190,845	196,262	208,404
Administration	1,433,298	1,285,862	1,272,154	1,310,862	1,183,250	1,113,835	1,096,043	1,065,286	1,135,445	1,039,176
Operation and maintenance of plant	874,431	820,808	752,086	738,022	730,548	747,469	787,118	786,353	764,119	766,771
Transportation	393,330	544,802	462,415	323,038	300,558	391,752	292,430	309,272	355,558	275,838
Capital outlay	574,028	260,597	244,425	272,899	445,751	81,107	193,563	159,078	146,842	143,756
<b>Long-term debt:</b>										
Principal	1,295,000	495,000	480,000	465,000	450,000	430,000	415,000	380,000	365,000	350,000
Interest and other charges	80,790	98,610	115,650	132,425	150,375	167,525	184,125	234,623	251,668	268,467
<b>Other expenditures:</b>										
AEA flow-through	415,070	389,347	369,342	367,805	413,858	411,845	366,161	352,720	346,427	326,372
<b>Total</b>	<b>\$ 12,892,921</b>	<b>11,303,527</b>	<b>11,066,834</b>	<b>10,719,628</b>	<b>10,884,281</b>	<b>10,434,317</b>	<b>10,332,381</b>	<b>10,227,546</b>	<b>10,125,480</b>	<b>9,872,028</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2015

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 15	28,626
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 15	235,872 *
			<u>264,498</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 15	155,732
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 15	25,000
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 15	30,606
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 15	5,121
NORTHWEST AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES	84.027	FY 15	46,110
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 15	9,778
ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 15	1,829
TOTAL			<u>\$ 538,674</u>

\* Includes \$37,212 of non-cash awards

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

**To the Board of Education of Cherokee Community School District:**

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Cherokee Community School District as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 4, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Cherokee Community School District's internal control over financial reporting to determine the audit procedures 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 Cherokee Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings and Questioned Costs as item I-A-15 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Cherokee Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Cherokee Community School District's Responses to Findings**

Cherokee Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Cherokee Community School 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 result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cherokee Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORMAN & JOHNSON, P.C.

March 4, 2016  
Newton, Iowa

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

**Independent Auditor's Report on Compliance**  
**for Each Major Federal Program and on Internal Control over Compliance**  
**Required by OMB Circular A-133**

**To the Board of Education of Cherokee Community School District:**

**Report on Compliance for Each Major Federal Program**

We have audited Cherokee Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. Cherokee Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Cherokee Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cherokee Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

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

**Report on Internal Control Over Compliance**

The management of Cherokee Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cherokee Community School District's internal control over compliance with requirements with the type of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures

appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of Cherokee Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-15 to be a material weakness.

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.

Cherokee Community School District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Cherokee Community School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 4, 2016  
Newton, Iowa

CHEROKEE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustered Programs:
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
  - Individual Programs:
    - CFDA Number 84.010 - Title I - Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Cherokee Community School District did not qualify as a low-risk auditee.

CHEROKEE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-15 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over one or more of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash, bank reconciliations.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Payroll - recording approved pay rates and deductions for certified staff, recordkeeping, preparation, posting and distribution.
- 5) Financial reporting - preparing, reconciling and approving.
- 6) Journal entries - writing, posting and approving.
- 7) Computer systems - performing all general accounting functions and controlling all data input and output.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances utilizing current personnel, including elected officials.

Response - The District will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 10.553: School Breakfast Program  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2015  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I - Grants to Local Educational Agencies  
Federal Award Year: 2015  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-A-15 Segregation of Duties - One important aspect of internal accounting control is the (2015-001) segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over one or more of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash, bank reconciliations.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Payroll - recording approved pay rates and deductions for certified staff, recordkeeping, preparation, posting and distribution.
- 5) Financial reporting - preparing, reconciling and approving.
- 6) Journal entries - writing, posting and approving.
- 7) Computer systems - performing all general accounting functions and controlling all data input and output.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances utilizing current personnel, including elected officials.

Response and Corrective Action Plan - The District will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-15 Certified Budget - District expenditures for the year ended June 30, 2015, did not exceed the certified amounts budgeted.

IV-B-15 Questionable Disbursements - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion date April 25, 1979 were noted.

IV-C-15 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-15 Business Transactions - Business transactions between the District and District officials, and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jim Haselhoff, Board Member Owner of Haselhoff Construction	Purchased services	\$ 1,488

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

IV-E-15 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-15 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-15 Certified Enrollment - We noted variances in the basic enrollment data certified to the Department of Education. The number of students certified was overstated by 1.44.

Recommendation - The Iowa Department of Education and the Department of Management should be contacted to resolve this matter.

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

IV-H-14 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-15 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-15 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-15 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-15 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2015, the District reported the following information regarding the statewide sales, services, and use tax revenue in the District's CAR:

Beginning balance		\$	1,627,416
Revenues:			
Sales tax revenues	\$	925,826	
Other local revenue		<u>4,342</u>	<u>930,168</u>
			2,557,584
Expenditures/transfer out:			
School infrastructure construction		318,098	
Equipment		82,196	
Transfer to another fund:			
Debt service fund		<u>1,376,390</u>	<u>1,776,684</u>
Ending balance			<u>\$ 780,900</u>

For the year ended June 30, 2015, the District reduced the following levies for fiscal year 2015 as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	<u>Rate of Levy Reduction Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars Reduced</u>
Debt service levy	<u>\$ 2.33471</u>	<u>\$ 601,290</u>

IV-M-15 Financial Condition - At June 30, 2015, the District had deficit unrestricted net position of \$18,747 in the Enterprise, School Nutrition Fund. The District also had deficit unrestricted net position of \$1,275,584 in its governmental activities. The primary reason for the deficit net positions in the School Nutrition Fund and the District's governmental activities is due to the implementation of GASB Statements No. 68 and No. 71 during the year.

Recommendation - The District should take steps to ensure the District's administration and Board of Education understand this accounting change/restatement and how GASB Statements No. 68 and No. 71 will affect the District's financials moving forward. The District should also monitor the General Fund and ensure this fund operates at positive balances each year.

Response - The District recognizes the deficiencies were caused by GASB Statements No. 68 and No. 71. The District has not direct control over the liabilities and will continue to monitor the financials going forward.

Conclusion - Response accepted.