

**HOWARD-WINNESHIEK
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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Introductory Section

Board of Education and School District Officials

As of June 30, 2015

Name	Title	Term Expires
Board of Education		
(Before September, 2015 Election)		
Scott Fortune	President	September, 2015
Duane Bodermann	Vice President	September, 2017
Douglas Berg	Member	September, 2015
James Kitchen	Member	September, 2015
Karlos McClure	Member	September, 2017
(After September, 2015 Election)		
Duane Bodermann	President	September, 2017
Karlos McClure	Vice President	September, 2017
Casey Vobr	Member	September, 2019
Todd Hill	Member	September, 2019
Toni Johnson	Member	September, 2019
School Officials		
John Carver	Superintendent	Indefinite
Clint Farlinger	Business Manager and District Secretary/Treasurer	Indefinite
Elwood, O'Donohoe, Braun and White, LLP	Attorney	Indefinite

Financial Section

Independent Auditor's Report

Board of Education
Howard-Winneshiek Community School District
Cresco, Iowa

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 Howard-Winneshiek Community School District, Cresco, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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 Howard-Winneshiek Community School District as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, Howard-Winneshiek Community School District adopted new accounting guidance related to Governmental 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the schedule of proportionate share of the net pension liability, the schedule of contributions and the schedule of funding progress for the retiree health plan on pages 4 through 13 and 43 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Howard-Winneshiek Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2014 (which are not presented herein) and expressed an unmodified opinion on those financial statements. The financial statements for the eight years ended June 30, 2013 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the third paragraph of this report who expressed unmodified opinions on those financial statements. The supplementary information on pages 50 through 58, 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. Such 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. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information 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 a report dated February 12, 2016 on our consideration of Howard-Winneshiek Community School District's internal control over financial reporting and 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 Howard-Winneshiek Community School District's internal control over financial reporting and compliance.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
February 12, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Howard-Winneshiek 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.

FINANCIAL HIGHLIGHTS

- General Fund revenue decreased from \$14,838,813 in fiscal year 2014 to \$13,936,632 in fiscal year 2015, while General Fund expenditures increased from \$14,349,184 in fiscal year 2014 to \$14,455,351 in fiscal year 2015. The District's General Fund balance decreased from \$3,603,265 at the end of fiscal year 2014 to \$3,084,546 at the end of fiscal year 2015, a 14.0% decrease.
- The fiscal year 2015 decrease in General Fund revenue was primarily attributable to decreased local tax and state funding sources received in fiscal year 2015.
- The increase in expenditures was due primarily to increased salaries and benefits and staff training costs and additional building maintenance supplies, computers and furniture and fixtures purchased in fiscal year 2015. The increased purchase of maintenance supplies, furniture and fixtures is expected to return to normal levels beginning in fiscal year 2016. These purchases are a result of needed updates.

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 Howard-Winneshiek 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 Howard-Winneshiek Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining financial statements provide financial information about activities for which Howard-Winneshiek Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year, the District's 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 nonmajor 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-1
HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT

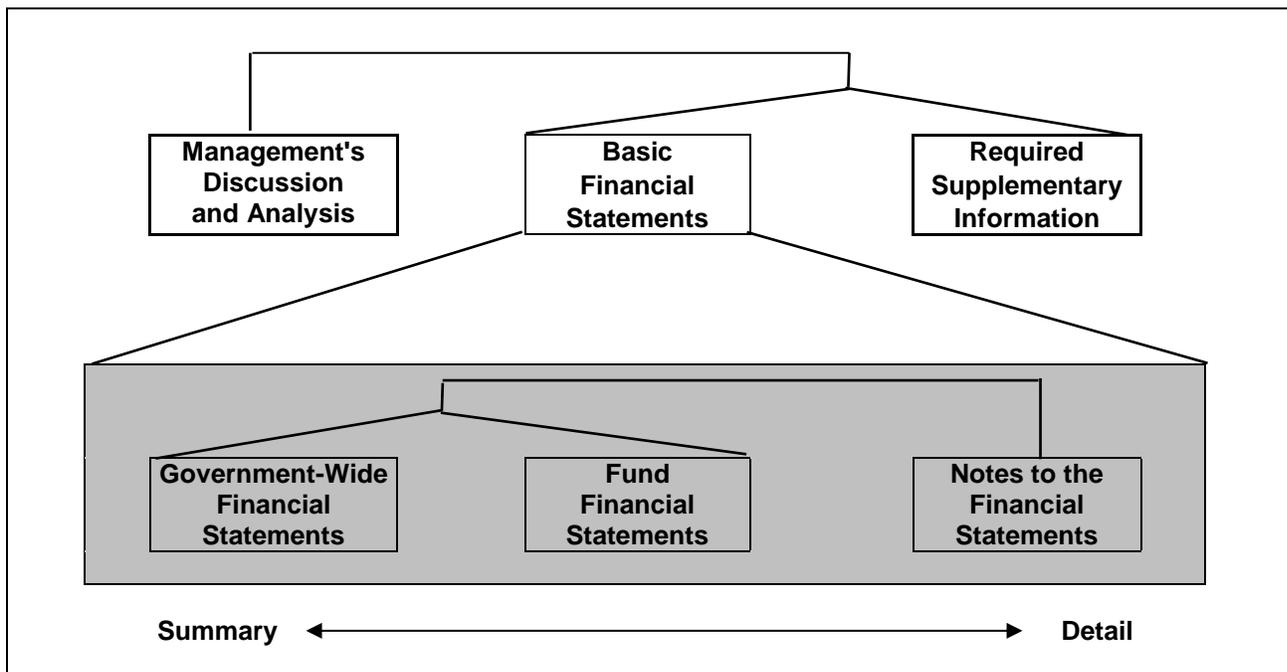


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2				
Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Fund
Scope	Entire District (except fiduciary fund)	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 services and internal services	Instances in which the District administers resources on behalf of someone else, such as donations and other miscellaneous funding
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statements of revenue, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenue, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary assets and liabilities • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; fund does not currently contain capital assets, although it 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 revenue and expenses during year, regardless of when cash is received or paid	Revenue 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 revenue 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 revenue and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how 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 nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into 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 various student activity funds or to show it is properly using certain revenue, such as federal grants.

The District has three kinds of funds:

- **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, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

- **Proprietary Funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The District's enterprise fund is the School Nutrition Fund. Internal service funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District's Internal Service Fund is used to account for flexible benefits.

The required financial statements for proprietary funds include a statement of net position, a statement of revenue, expenses and changes in net position and a statement of cash flows.

- *Fiduciary Fund*: The District serves as the trustee, or fiduciary, for assets that belong to others. The District's fiduciary fund includes the following:
 - Agency Fund - This is a fund through which the District administers and accounts for certain revenue as a fiscal agent.

The District is responsible for ensuring the assets reported in the fiduciary fund 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 statement for the fiduciary fund includes a statement of fiduciary assets and liabilities.

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 as of June 30, 2015 compared to June 30, 2014.

FIGURE A-3
CONDENSED STATEMENT OF NET POSITION

	Governmental Activities June 30,		Business- Type Activities June 30,		Total District June 30,		Total Percentage Change June 30, 2014-2015
	2015	2014 (Not Restated)	2015	2014 (Not Restated)	2015	2014 (Not Restated)	
Current and other assets	\$ 15,177,974	\$ 15,739,467	\$ 457,915	\$ 420,174	\$ 15,635,889	\$ 16,159,641	(3.2)%
Capital assets	12,745,210	12,315,253	134,003	104,132	12,879,213	12,419,385	3.7
Total Assets	27,923,184	28,054,720	591,918	524,306	28,515,102	28,579,026	(0.2)
Deferred Outflows of Resources	1,099,625	—	33,659	—	1,133,284	—	0.0
Total Assets and Deferred Outflows of Resources	\$ 29,022,809	\$ 28,054,720	\$ 625,577	\$ 524,306	\$ 29,648,386	\$ 28,579,026	3.7
Long-term liabilities	\$ 8,459,391	\$ 4,072,522	\$ 141,599	\$ —	\$ 8,600,990	\$ 4,072,522	111.2
Other liabilities	1,722,453	1,561,722	111,752	63,016	1,834,205	1,624,738	12.9
Total Liabilities	10,181,844	5,634,244	253,351	63,016	10,435,195	5,697,260	83.2
Deferred Inflows of Resources	7,858,859	5,821,023	54,002	—	7,912,861	5,821,023	35.9
Net Position							
Net investment in capital assets	10,783,210	10,353,253	134,003	104,132	10,917,213	10,457,385	4.4
Restricted	3,725,803	3,685,164	—	—	3,725,803	3,685,164	1.1
Unrestricted	(3,526,907)	2,561,036	184,221	357,158	(3,342,686)	2,918,194	(214.5)
Total Net Position	10,982,106	16,599,453	318,224	461,290	11,300,330	17,060,743	(33.8)
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 29,022,809	\$ 28,054,720	\$ 625,577	\$ 524,306	\$ 29,648,386	\$ 28,579,026	3.7

The District's total net position decreased 33.8%, or approximately \$5.8 million, from the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased approximately \$41,000, or 1.1%, over the prior year. The increase was primarily a result of a net increase due to increases in restricted funds held for categorical funding, debt service and physical plant and equipment offset by a decrease in restricted funds held for school infrastructure and student activities.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements decreased by approximately \$6.3 million, or 214.5%. This decrease in unrestricted net position was primarily a result of recording the liability related to GASB Statement No. 68 for pension plans.

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 beginning net position as of July 1, 2014 for governmental activities and business-type activities were restated by \$5,617,920 and \$171,959, 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 the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Additionally for the governmental activities, there was a restatement of \$251,000 for the net OPEB liability.

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**

	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total District</u>		<u>Total Percentage Change 2014-2015</u>
	<u>2015</u>	<u>2014 (Not Restated)</u>	<u>2015</u>	<u>2014 (Not Restated)</u>	<u>2015</u>	<u>2014 (Not Restated)</u>	
Revenue							
Program Revenue							
Charges for service	\$ 829,069	\$ 1,029,430	\$ 355,320	\$ 372,036	\$ 1,184,389	\$ 1,401,466	(15.5)%
Operating grants and contributions	2,599,562	2,831,578	515,105	497,798	3,114,667	3,329,376	(6.4)
Capital grants and contributions	49,178	31,503	—	—	49,178	31,503	56.1
General Revenue							
Property tax	5,830,259	6,241,740	—	—	5,830,259	6,241,740	(6.6)
Income surtax	433,457	1,013,949	—	—	433,457	1,013,949	(57.3)
Statewide sales, services and use tax	1,233,793	1,128,655	—	—	1,233,793	1,128,655	9.3
Unrestricted state grants	5,409,342	5,380,785	—	—	5,409,342	5,380,785	0.5
Unrestricted invest- ment earnings	14,843	9,776	28	26	14,871	9,802	51.7
Gain on sale of capital assets	20,799	15,450	—	—	20,799	15,450	34.6
Total Revenue	<u>16,420,302</u>	<u>17,682,866</u>	<u>870,453</u>	<u>869,860</u>	<u>17,290,755</u>	<u>18,552,726</u>	<u>(6.8)</u>

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total District</u>		<u>Percentage Change 2014-2015</u>
	<u>2015</u>	<u>2014</u> (Not Restated)	<u>2015</u>	<u>2014</u> (Not Restated)	<u>2015</u>	<u>2014</u> (Not Restated)	
Program Expenses							
Instruction	\$ 9,829,594	\$ 10,441,122	\$ —	\$ —	\$ 9,829,594	\$ 10,441,122	(5.9)
Support services	5,064,235	5,541,923	—	—	5,064,235	5,541,923	(8.6)
Noninstructional programs	—	6,869	841,560	803,389	841,560	810,258	3.9
Other expenses	<u>1,274,900</u>	<u>1,153,896</u>	<u>—</u>	<u>—</u>	<u>1,274,900</u>	<u>1,153,896</u>	<u>10.5</u>
Total Program Expenses	<u>16,168,729</u>	<u>17,143,810</u>	<u>841,560</u>	<u>803,389</u>	<u>17,010,289</u>	<u>17,947,199</u>	<u>(5.2)</u>
Excess Before Transfers	251,573	539,056	28,893	66,471	280,466	605,527	(53.7)
Transfers	<u>—</u>	<u>6,079</u>	<u>—</u>	<u>(6,079)</u>	<u>—</u>	<u>—</u>	<u>0.0</u>
Change in Net Position	251,573	545,135	28,893	60,392	280,466	605,527	(53.7)
Net Position - Beginning of Year, as restated (Note 15)	<u>10,730,533</u>	<u>16,054,318</u>	<u>289,331</u>	<u>400,898</u>	<u>11,019,864</u>	<u>16,455,216</u>	<u>(33.0)</u>
Net Position - End of Year	<u>\$ 10,982,106</u>	<u>\$ 16,599,453</u>	<u>\$ 318,224</u>	<u>\$ 461,290</u>	<u>\$ 11,300,330</u>	<u>\$ 17,060,743</u>	<u>(33.8)%</u>

In fiscal year 2015, property tax and unrestricted state grants accounted for 68.4% of governmental activities revenue while charges for service and operating grants and contributions accounted for almost 100% of business-type activities revenue. The District's total revenue was approximately \$17.3 million of which approximately \$16.4 million was for governmental activities and \$0.9 million was for business-type activities.

As shown on Figure A-4, the District as a whole experienced a 6.8% decrease in revenue and a 5.2% decrease in expenses. The decrease in revenue was primarily due to less income surtax and property tax received. The decrease in expenses was primarily due to decreased pension expense associated with GASB Statement No. 68 netted with a decrease in expenses due to differences in reporting Internal Service Fund activity on the statement of activities.

Governmental Activities

Revenue for governmental activities was \$16,420,302 and expenses were \$16,168,729 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, noninstructional programs 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**

	<u>Total Cost of Services</u>		<u>Percentage Change 2014-2015</u>	<u>Net Cost of Services</u>		<u>Percentage Change 2014-2015</u>
	<u>2015</u>	<u>2014</u> (Not Restated)		<u>2015</u>	<u>2014</u> (Not Restated)	
Instruction	\$ 9,829,594	\$ 10,441,122	(5.8)%	\$ 7,191,565	\$ 7,424,828	(3.1)%
Support services	5,064,235	5,541,923	(8.6)	4,838,920	5,239,817	(7.6)
Noninstructional programs	—	6,869	(100.0)	—	6,869	(100.0)
Other	<u>1,274,900</u>	<u>1,153,896</u>	10.4	<u>660,435</u>	<u>579,785</u>	13.9
Total	<u>\$ 16,168,729</u>	<u>\$ 17,143,810</u>	(5.6)%	<u>\$ 12,690,920</u>	<u>\$ 13,251,299</u>	(4.2)

For the year ended June 30, 2015:

- The cost financed by users of the District's programs was \$829,069.
- Federal and state governments and local entities subsidized certain programs with grants and contributions totaling \$2,599,562.
- The net cost of governmental activities was financed with \$7,497,509 in property and other taxes and \$5,409,342 in unrestricted state grants.

Business-Type Activities

Revenue for business-type activities during the year ended June 30, 2015 was \$870,453, representing a 0.1% increase over the prior year, while expenses totaled \$841,560, a 4.8% increase from the prior year. The District's business-type activities include the School Nutrition Fund. Revenue from these activities was comprised of charges for service, federal and state reimbursements and investment income.

The increase in revenue was primarily the result of increased federal meal reimbursements received. The increase in expenses was primarily the result of increased food costs.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$7,025,699, a decrease over last year's ending fund balances of \$7,593,782. The primary reason for the decrease in combined fund balances in fiscal year 2015 is due to a decrease in local sources of revenue.

Governmental Fund Highlights

- The General Fund balance decreased from \$3,603,265 as of the end of fiscal year 2014 to \$3,084,546 as of the end of fiscal year 2015 due, in part, to a decrease in local sources of revenue received in the current year.
- The Management Levy Fund balance decreased from \$816,894 as of the end of fiscal year 2014 to \$679,459 as of the end of fiscal year 2015. The decrease was primarily due to an increase in early retirement benefits.
- The Capital Projects Fund balance increased from \$2,755,709 as of the end of fiscal year 2014 to \$2,819,958 as of the end of fiscal year 2015. This increase was primarily due to an increase in local tax received. The District is in the process of building a reserve in this Fund to help fund anticipated future building updates.

Proprietary Fund Highlights

School Nutrition Fund net position increased from \$289,331 (restated) as of June 30, 2014 to \$318,224 as of June 30, 2015, representing an increase of 10.0%. The net increase is primarily due to decreased adjustments in pension expense related to GASB No. 68.

The Flexible Benefits Fund net position increased from \$644 as of June 30, 2014 to \$4,544 as of June 30, 2015.

BUDGETARY HIGHLIGHTS

Over the course of the year, Howard-Winneshiek Community School District amended its budget one time to reflect an under estimated cost for repairs to its facilities.

The District's total revenue was \$625,328 more than total budgeted revenue.

Total expenditures were \$2,152,658 less than budgeted, due primarily to overbudgeting General Fund instruction and support services expenditures. The District's practice is to budget expenditures conservatively.

Expenditures did not exceed the amounts budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2015, the District had invested \$12,879,213, 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 net increase of 3.7% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$833,114.

The original cost of the District's capital assets was \$23,640,661. Governmental funds account for \$23,255,197 with the remainder of \$385,464 accounted for in the Proprietary, School Nutrition Fund.

**FIGURE A-6
CAPITAL ASSETS, NET OF DEPRECIATION**

	Governmental Activities June 30,		Business- Type Activities June 30,		Total District June 30,		Total Percentage Change June 30, 2014-2015
	2015	2014	2015	2014	2015	2014	
Land	\$ 755,054	\$ 720,404	\$ —	\$ —	\$ 755,054	\$ 720,404	4.8%
Buildings	10,126,126	10,202,383	—	—	10,126,126	10,202,383	(0.7)
Improvements other than buildings	505,587	450,244	—	—	505,587	450,244	12.3
Equipment	1,358,443	942,222	134,003	104,132	1,492,446	1,046,354	42.6
Total	<u>\$ 12,745,210</u>	<u>\$ 12,315,253</u>	<u>\$ 134,003</u>	<u>\$ 104,132</u>	<u>\$ 12,879,213</u>	<u>\$ 12,419,385</u>	<u>3.7%</u>

Long-Term Debt

As of June 30, 2015, the District had \$2,428,436 of long-term debt outstanding. This represents a decrease of 9.1% from last year. (See Figure A-7.) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5% of the assessed value of all taxable property within the District. The District's outstanding debt subject to this limit is significantly below its constitutional debt limit of approximately \$39 million.

In November, 2009, the District issued \$2,180,000 of statewide sales, services and use tax revenue bonds to finance various facilities acquisition and construction projects.

The District also had outstanding liabilities under a capital lease of \$248,436 for the purchase of computers and computer equipment. The lease is payable from the Capital Projects, Statewide Sales, Services and Use Tax Fund.

**Figure A-7
Outstanding Long-Term Obligations**

	Total District June 30,		Total Percentage Change June 30, 2014-15
	2015	2014	
Revenue bonds	\$ 2,180,000	\$ 2,180,000	0.0%
Capital lease	248,436	491,523	(49.5)
	<u>\$ 2,428,436</u>	<u>\$ 2,671,523</u>	<u>(9.1)%</u>

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 which could significantly affect its financial health in the future:

- **Challenge:** Declining enrollment **Background:** Approximately 60% of the school districts in Iowa are facing flat or declining enrollment with a disproportionately large number of these districts in rural communities. The District's certified enrollment declined by 47 (3.8%) on the count in October, 2015 compared to October, 2014. **Action:** The District encourages innovation in the classroom and has seen student academic achievement rise. Based on National Standard Score (NSS) on the Iowa Assessments, the District saw an increase of 17.5% in student proficiency in reading in grades 3-6, which was sufficient to meet NCLB requirements. The Iowa Department of Education released the first Iowa School Report Card in early 2016 and rated Crestwood High School, the high school of the District, in the top 13% of all high schools in Iowa. The District was selected as an Apple Distinguished Program for 2015-2017, which recognizes an exemplary learning environment for innovation, leadership and education excellence. The District is also one of eight districts in the nation to be recognized and featured in the Office of Education Technology at the White House Future Ready Initiative. We believe these positive changes and recognition will help reverse the downward enrollment trends. Additionally, the District has partnered with Northeast Iowa Community College, giving students the opportunity to receive college credit while in high school. Most students graduate from high school with college credits, many students earning more than a year of college credits. The College estimates the value of these credits to students and their families at more than \$860,000 annually. At the same time, the local chapter of Dollars for Scholars awards approximately \$250,000 in scholarships each year. Finally, the District is actively involved with community partners, including Howard County Economic Development, to find ways to attract families to the District. Local communities have numerous job openings but a shortage of affordable housing has prevented these openings from being filled.
- **Challenge:** Financial impact of declining enrollment **Background:** The District has historically operated autonomous elementary schools in four communities. **Action:** The District has consolidated all elementary operations into one facility beginning in the 2015-2016 school year. The expected ongoing savings of this consolidation is in excess of \$275,000 annually, with the savings being realized beginning in fiscal year 2016.
- **Challenge:** Delay of State Legislature setting school funding levels **Background:** Funding for fiscal year 2015 was set by the Legislature after Iowa districts' deadline for filing annual budgets **Action:** The District created the fiscal year 2015 budget using conservative figures.

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 Clint Farlinger, Business Manager and District Secretary/Treasurer, Howard-Winneshiek Community School District, 1000 Schroder Drive, Cresco, IA 52136.

Basic Financial Statements

Statement of Net Position

As of June 30, 2015

	Governmental Activities	Business- Type Activities	Total
Assets and Deferred Outflows of Resources			
Assets			
Cash, cash equivalents and investments	\$ 8,159,775	\$ 381,901	\$ 8,541,676
Receivables			
Property Tax, Net of Allowance			
Current year delinquent.....	88,119	—	88,119
Succeeding year	6,070,733	—	6,070,733
Accrued interest.....	440	—	440
Other.....	21,827	2,759	24,586
Internal balances	(3,144)	3,144	—
Due from other governments.....	840,224	41,002	881,226
Inventories.....	—	29,109	29,109
Capital assets, net of accumulated depreciation	12,745,210	134,003	12,879,213
Total Assets	<u>27,923,184</u>	<u>591,918</u>	<u>28,515,102</u>
Deferred Outflows of Resources			
Pension-related deferred outflows	<u>1,099,625</u>	<u>33,659</u>	<u>1,133,284</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 29,022,809</u>	<u>\$ 625,577</u>	<u>\$ 29,648,386</u>
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Accounts payable	\$ 150,200	\$ 55,920	\$ 206,120
Salaries and benefits payable	1,338,062	51,295	1,389,357
Due to other governments.....	191,092	—	191,092
Accrued interest payable.....	43,099	—	43,099
Unearned revenue.....	—	4,537	4,537
Long-Term Liabilities			
Portion Due Within One Year			
Revenue bonds.....	180,000	—	180,000
Capital lease	248,436	—	248,436
Early retirement.....	322,193	—	322,193
Portion Due After One Year			
Revenue bonds.....	2,000,000	—	2,000,000
Early retirement.....	390,709	—	390,709
Net pension liability.....	4,626,053	141,599	4,767,652
Net OPEB liability.....	692,000	—	692,000
Total Liabilities	<u>10,181,844</u>	<u>253,351</u>	<u>10,435,195</u>
Deferred Inflows of Resources			
Unavailable property tax revenue	6,070,733	—	6,070,733
Pension-related deferred inflows	1,764,243	54,002	1,818,245
Other	23,883	—	23,883
Total Deferred Inflows of Resources	<u>7,858,859</u>	<u>54,002</u>	<u>7,912,861</u>
Net Position			
Net investment in capital assets	10,783,210	134,003	10,917,213
Restricted for			
Categorical funding.....	599,883	—	599,883
School infrastructure.....	1,888,134	—	1,888,134
Debt service.....	90,542	—	90,542
Physical plant and equipment.....	838,607	—	838,607
Student activities.....	288,637	—	288,637
Entrepreneurial education activity.....	20,000	—	20,000
Unrestricted	(3,526,907)	184,221	(3,342,686)
Total Net Position	<u>10,982,106</u>	<u>318,224</u>	<u>11,300,330</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 29,022,809</u>	<u>\$ 625,577</u>	<u>\$ 29,648,386</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenue		Net (Expenses), Revenue and Changes in Net Position			
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction							
Regular	\$ 6,233,927	\$ 335,647	\$ 1,779,528	\$ —	\$ (4,118,752)	\$ —	\$ (4,118,752)
Special	1,786,290	92,402	68,773	—	(1,625,115)	—	(1,625,115)
Other	1,809,377	303,504	58,175	—	(1,447,698)	—	(1,447,698)
Total Instruction.....	<u>9,829,594</u>	<u>731,553</u>	<u>1,906,476</u>	<u>—</u>	<u>(7,191,565)</u>	<u>—</u>	<u>(7,191,565)</u>
Support Services							
Student	428,347	—	—	—	(428,347)	—	(428,347)
Instructional staff.....	411,325	—	25,702	—	(385,623)	—	(385,623)
Administration	1,465,071	—	—	—	(1,465,071)	—	(1,465,071)
Operation and maintenance of plant	1,527,484	89,740	—	—	(1,437,744)	—	(1,437,744)
Transportation.....	1,232,008	7,776	102,097	—	(1,122,135)	—	(1,122,135)
Total Support Services	<u>5,064,235</u>	<u>97,516</u>	<u>127,799</u>	<u>—</u>	<u>(4,838,920)</u>	<u>—</u>	<u>(4,838,920)</u>
Other Expenses							
Facilities acquisition	49,178	—	—	49,178	—	—	—
Long-term debt interest and fiscal charges.....	99,070	—	—	—	(99,070)	—	(99,070)
AEA flowthrough	565,287	—	565,287	—	—	—	—
Depreciation (unallocated)*	561,365	—	—	—	(561,365)	—	(561,365)
Total Other Expenses.....	<u>1,274,900</u>	<u>—</u>	<u>565,287</u>	<u>49,178</u>	<u>(660,435)</u>	<u>—</u>	<u>(660,435)</u>
Total Governmental Activities	<u>16,168,729</u>	<u>829,069</u>	<u>2,599,562</u>	<u>49,178</u>	<u>(12,690,920)</u>	<u>—</u>	<u>(12,690,920)</u>
Business-Type Activities							
Noninstructional Programs							
Food service operations.....	<u>841,560</u>	<u>355,320</u>	<u>515,105</u>	<u>—</u>	<u>—</u>	<u>28,865</u>	<u>28,865</u>
Total	<u>\$ 17,010,289</u>	<u>\$ 1,184,389</u>	<u>\$ 3,114,667</u>	<u>\$ 49,178</u>	<u>(12,690,920)</u>	<u>28,865</u>	<u>(12,662,055)</u>
General Revenue							
Property Tax Levied for							
General purposes.....					4,886,357	—	4,886,357
Management levy.....					600,599	—	600,599
Capital outlay					343,303	—	343,303
Income surtax.....					433,457	—	433,457
Statewide sales, services and use tax					1,233,793	—	1,233,793
Unrestricted state grants					5,409,342	—	5,409,342
Unrestricted investment earnings					14,843	28	14,871
Gain on sale of capital assets.....					20,799	—	20,799
Total General Revenue					<u>12,942,493</u>	<u>28</u>	<u>12,942,521</u>
Change in Net Position					251,573	28,893	280,466
Net Position - Beginning of Year, as restated (Note 14).....					10,730,533	289,331	11,019,864
Net Position - End of Year.....					<u>\$ 10,982,106</u>	<u>\$ 318,224</u>	<u>\$ 11,300,330</u>

* This amount excludes the depreciation included in the direct expenses of the various programs.

Balance Sheet - Governmental Funds

As of June 30, 2015

	General	Management Levy	Capital Projects	Nonmajor	Total
Assets					
Cash, cash equivalents and investments.....	\$ 4,294,101	\$ 651,207	\$ 2,758,967	\$ 450,956	\$ 8,155,231
Receivables					
Property Tax, Net of Allowance					
Current year delinquent	73,895	9,100	5,124	—	88,119
Succeeding year	5,133,022	649,999	287,712	—	6,070,733
Accrued interest	—	—	—	440	440
Other	11,852	604	5,931	3,440	21,827
Due from other funds	57,673	19,999	—	—	77,672
Due from other governments	499,900	16	340,308	—	840,224
Total Assets	<u>\$ 10,070,443</u>	<u>\$ 1,330,925</u>	<u>\$ 3,398,042</u>	<u>\$ 454,836</u>	<u>\$ 15,254,246</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts payable.....	\$ 53,905	\$ —	\$ 83,195	\$ 13,100	\$ 150,200
Salaries and benefits payable	1,338,062	—	—	—	1,338,062
Due to other funds.....	23,143	—	57,673	—	80,816
Due to other governments ..	189,625	1,467	—	—	191,092
Total Liabilities	<u>1,604,735</u>	<u>1,467</u>	<u>140,868</u>	<u>13,100</u>	<u>1,760,170</u>
Deferred Inflows of Resources					
Unavailable Revenue					
Succeeding year property tax.....	5,133,022	649,999	287,712	—	6,070,733
Income surtax	224,257	—	149,504	—	373,761
Other	23,883	—	—	—	23,883
Total Deferred Inflows of Resources	<u>5,381,162</u>	<u>649,999</u>	<u>437,216</u>	<u>—</u>	<u>6,468,377</u>
Fund Balances					
Restricted for					
Categorical funding	599,883	—	—	—	599,883
School infrastructure	—	—	1,762,809	—	1,762,809
Debt service	—	—	218,542	133,099	351,641
Physical plant and equipment.....	—	—	838,607	—	838,607
Student activities.....	—	—	—	288,637	288,637
Management levy purposes	—	679,459	—	—	679,459
Entrepreneurial education activity	—	—	—	20,000	20,000
Unassigned	2,484,663	—	—	—	2,484,663
Total Fund Balances	<u>3,084,546</u>	<u>679,459</u>	<u>2,819,958</u>	<u>441,736</u>	<u>7,025,699</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 10,070,443</u>	<u>\$ 1,330,925</u>	<u>\$ 3,398,042</u>	<u>\$ 454,836</u>	<u>\$ 15,254,246</u>

See accompanying notes to the financial statements.

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position

As of June 30, 2015

Total Fund Balances for Governmental Funds (Page 16).... **\$ 7,025,699**

***Amounts reported for governmental activities in the
statement of net position are different because:***

An internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position..... 4,544

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds..... 12,745,210

Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds..... (43,099)

Pension-related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources	\$ 1,099,625	
Deferred inflows of resources	(1,764,243)	(664,618)

Long-term liabilities, including revenue bonds, a capital lease, early retirement and other post-employment benefits are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.

Revenue bonds	\$ (2,180,000)	
Capital lease	(248,436)	
Early retirement.....	(712,902)	
Net pension liability	(4,626,053)	
Net OPEB liability.....	<u>(692,000)</u>	(8,459,391)

Income surtax receivable is not available to pay current year expenditures and, therefore, is deferred in the governmental funds..... 373,761

Net Position of Governmental Activities (Page 14)..... **\$ 10,982,106**

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2015

	General	Management Levy	Capital Projects	Nonmajor	Total
Revenue					
Local Sources					
Local tax.....	\$ 5,463,084	\$ 600,599	\$ 631,667	\$ —	\$ 6,695,350
Tuition	342,392	—	—	—	342,392
Other	219,710	24,071	57,745	346,211	647,737
State sources	7,318,011	268	1,233,944	—	8,552,223
Federal sources	593,435	—	—	—	593,435
Total Revenue	<u>13,936,632</u>	<u>624,938</u>	<u>1,923,356</u>	<u>346,211</u>	<u>16,831,137</u>
Expenditures					
Current					
Instruction					
Regular.....	5,968,877	509,430	46,176	—	6,524,483
Special.....	1,816,409	—	—	—	1,816,409
Other	1,443,809	—	—	412,389	1,856,198
Total Instruction	<u>9,229,095</u>	<u>509,430</u>	<u>46,176</u>	<u>412,389</u>	<u>10,197,090</u>
Support Services					
Student.....	456,869	—	—	—	456,869
Instructional staff	402,408	—	37,814	—	440,222
Administration	1,489,347	72,660	150	—	1,562,157
Operation and maintenance of plant	1,309,096	110,317	52,852	—	1,472,265
Transportation	1,003,249	49,898	234,135	—	1,287,282
Total Support Services	<u>4,660,969</u>	<u>232,875</u>	<u>324,951</u>	<u>—</u>	<u>5,218,795</u>
Noninstructional programs					
	—	20,068	—	—	20,068
Other Expenditures					
Facilities acquisition....	—	—	1,081,443	—	1,081,443
Long-Term Debt Principal.....	—	—	—	243,088	243,088
Interest and fiscal charges	—	—	—	99,069	99,069
AEA flowthrough	565,287	—	—	—	565,287
Total Other Expenditures	<u>565,287</u>	<u>—</u>	<u>1,081,443</u>	<u>342,157</u>	<u>1,988,887</u>
Total Expenditures	<u>14,455,351</u>	<u>762,373</u>	<u>1,452,570</u>	<u>754,546</u>	<u>17,424,840</u>
Revenue Over (Under) Expenditures	<u>(518,719)</u>	<u>(137,435)</u>	<u>470,786</u>	<u>(408,335)</u>	<u>(593,703)</u>
Other Financing Sources (Uses)					
Proceeds from the sale of capital assets					
	—	—	25,620	—	25,620
Operating transfers in.....	—	—	—	432,157	432,157
Operating transfers out ..	—	—	(432,157)	—	(432,157)
Total Other Financing Sources (Uses)...	<u>—</u>	<u>—</u>	<u>(406,537)</u>	<u>432,157</u>	<u>25,620</u>
Change in Fund Balances	(518,719)	(137,435)	64,249	23,822	(568,083)
Fund Balances - Beginning of Year					
	3,603,265	816,894	2,755,709	417,914	7,593,782
Fund Balances - End of Year	<u>\$ 3,084,546</u>	<u>\$ 679,459</u>	<u>\$ 2,819,958</u>	<u>\$ 441,736</u>	<u>\$ 7,025,699</u>

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities

Year Ended June 30, 2015

Change in Fund Balances - Total Governmental Funds (Page 18) \$ (568,083)

Amounts reported for governmental activities in the statement of activities are different because:

An internal service fund is used by management to charge the costs of health insurance to individual funds. The change in net position in the internal service fund is reported with governmental activities in the statement of activities. 3,900

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the statement of activities and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense for the year are as follows:

Capital outlays.....	\$ 1,243,449	
Depreciation expense.....	(808,671)	
Net book value of assets disposed.....	<u>(4,821)</u>	429,957

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position..... 243,087

The current year District employer share of IPERS contributions is reported as expenditures in the governmental funds, but is reported as a deferred outflow of resources in the statement of net position..... 327,249

Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement.....	\$ 326,097	
Net OPEB liability.....	<u>(79,000)</u>	247,097

Income surtax not collected for several months after year end is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds..... (431,634)

Change in Net Position of Governmental Activities (Page 15) \$ 251,573

Statement of Net Position - Proprietary Funds

As of June 30, 2015

	<u>Enterprise School Nutrition</u>	<u>Internal Service Flexible Benefits</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash, cash equivalents and investments.....	\$ 381,901	\$ 4,544
Receivables		
Other.....	2,759	—
Due from other funds.....	3,144	—
Due from other governments.....	41,002	—
Inventories.....	29,109	—
Total Current Assets	<u>457,915</u>	<u>4,544</u>
Capital assets, net of accumulated depreciation	<u>134,003</u>	<u>—</u>
Total Assets	<u>591,918</u>	<u>4,544</u>
Deferred Outflows of Resources		
Pension-related deferred outflows.....	<u>33,659</u>	<u>—</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 625,577</u>	<u>\$ 4,544</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable.....	\$ 55,920	\$ —
Salaries and benefits payable.....	51,295	—
Unearned revenue.....	4,537	—
Total Current Liabilities	<u>111,752</u>	<u>—</u>
Net Pension Liability	<u>141,599</u>	<u>—</u>
Total Liabilities	<u>253,351</u>	<u>—</u>
Deferred Inflows of Resources		
Pension-related deferred inflows.....	<u>54,002</u>	<u>—</u>
Net Position		
Net investment in capital assets.....	134,003	—
Unrestricted.....	184,221	4,544
Total Net Position	<u>318,224</u>	<u>4,544</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 625,577</u>	<u>\$ 4,544</u>

See accompanying notes to the financial statements.

Statement of Revenue, Expenses and Changes in Net Position - Proprietary Funds

Year Ended June 30, 2015

	<u>Enterprise School Nutrition</u>	<u>Internal Service Flexible Benefits</u>
Operating Revenue		
Local Sources		
Charges for service	\$ 304,451	\$ —
Other receipts	50,869	—
Flexible benefits contributions	<u>—</u>	<u>24,464</u>
Total Operating Revenue	<u>355,320</u>	<u>24,464</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries	248,896	—
Benefits	48,558	—
Purchased services	4,726	—
Supplies	513,864	—
Other	1,073	—
Depreciation	24,443	—
Flexible benefits claims and fees	<u>—</u>	<u>20,564</u>
Total Operating Expenses	<u>841,560</u>	<u>20,564</u>
Income (Loss) From Operations	<u>(486,240)</u>	<u>3,900</u>
Nonoperating Revenue		
State sources	6,061	—
Federal sources	509,044	—
Interest on investments	<u>28</u>	<u>—</u>
Total Nonoperating Revenue	<u>515,133</u>	<u>—</u>
Change in Net Position	28,893	3,900
Net Position - Beginning of Year, as restated (Note 14)	<u>289,331</u>	<u>644</u>
Net Position - End of Year	<u>\$ 318,224</u>	<u>\$ 4,544</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2015

	<u>Enterprise School Nutrition</u>	<u>Internal Service Flexible Benefits</u>
Cash Flows From Operating Activities		
Cash received from sale of lunches and breakfasts.....	\$ 302,672	\$ —
Cash received from other	49,702	—
Cash received from assessments made to other funds	—	24,464
Cash payments to employees for services	(309,174)	—
Cash payments to suppliers for goods or services.....	(431,920)	—
Cash payments for flexible benefits claims and fees.....	—	(20,564)
Net Cash Used in Operating Activities.....	<u>(388,720)</u>	<u>3,900</u>
Cash Flows From Noncapital Financing Activities		
State grants received.....	6,061	—
Federal grants received.....	410,808	—
Loans to other funds.....	(3,144)	—
Loan payments from other funds	2,932	—
Net Cash Provided by Noncapital Financing Activities	<u>416,657</u>	<u>—</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets.....	<u>(3,220)</u>	<u>—</u>
Cash Flows From Investing Activities		
Interest on investments	<u>28</u>	<u>—</u>
Net Increase in Cash, Cash Equivalents and Investments.....	24,745	3,900
Cash, Cash Equivalents and Investments - Beginning of Year	<u>357,156</u>	<u>644</u>
Cash, Cash Equivalents and Investments - End of Year	<u>\$ 381,901</u>	<u>\$ 4,544</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities		
Gain (loss) from operations	\$ (486,240)	\$ 3,900
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities		
Commodities used.....	87,850	—
Depreciation	24,443	—
Changes in Assets and Liabilities		
Increase in receivables	(258)	—
Increase in due from other funds	(212)	—
Increase in inventories.....	(2,149)	—
Increase in pension-related deferred outflows	(12,795)	—
Increase in accounts payable	1,087	—
Decrease in salaries and benefits payable	(1,703)	—
Decrease in unearned revenue	(1,521)	—
Decrease in net pension liability	(51,224)	—
Increase in pension-related deferred inflows	54,002	—
Net Cash Used in Operating Activities.....	<u>\$ (388,720)</u>	<u>\$ 3,900</u>

Noncash Investing, Capital and Related Financing Activities

During the year ended June 30, 2015, the District received \$89,950 of federal commodities.

See accompanying notes to the financial statements.

Statement of Fiduciary Assets and Liabilities - Agency Fund ---

As of June 30, 2015

Assets

Cash, cash equivalents and investments.....	<u>\$ 9,246</u>
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Liabilities

Accounts payable	<u>\$ 9,246</u>
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Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Howard-Winneshiek Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and prekindergarten. The geographic area served includes the Cities of Cresco, Ridgeway, Lime Springs and Elma, Iowa, and the predominate agricultural territory in Howard and Winneshiek Counties. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

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

Reporting Entity

For financial reporting purposes, Howard-Winneshiek 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 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 does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Howard and Winneshiek County Assessor's Conference Boards.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities report information on all 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 revenue, 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 the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Unrestricted net position consists of net position not meeting the definition of the 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 are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 revenue are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. 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 revenue and other revenue 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 *Management Levy Fund* is used to account for management levy tax received and the expenditures for insurance premiums, unemployment compensation insurance claims and early retirement.

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's proprietary funds are the School Nutrition Fund, a nonmajor enterprise fund, used to account for the food service operations of the District and the Flexible Benefits Fund, an internal service fund, used to account for the District's flexible benefits plans.

The District's fiduciary fund includes the following:

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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. Revenue is 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days after year end.

Property tax, intergovernmental revenue (shared revenue, 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 revenue. 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 revenue.

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 revenue and expenses from nonoperating items. Operating revenue 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 revenue 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 revenue and expenses not meeting this definition are reported as nonoperating revenue 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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, Cash Equivalents and Investments

The cash balances of most District funds are invested. Investments are stated at fair value except for the investment in nonnegotiable certificates of deposit and the Entrepreneurial Education Fund's investment in Lime Springs Beef, LLC which are stated at cost.

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

Property Tax Receivable

Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% monthly 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 revenue, grants and reimbursements from other governments.

Inventories

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Capital Assets

Capital assets, which include property, furniture 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 value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. The District did not have any intangible assets as of June 30, 2015. 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.

Land.....	\$	—
Buildings		25,000
Improvements other than buildings		25,000
Intangibles.....		200,000
Furniture and Equipment		
School Nutrition Fund equipment		500
Other furniture and equipment.....		5,000

Capital assets are depreciated/amortized using the straight-line method over the following estimated useful lives:

Buildings	5 - 50 Years
Improvements other than buildings	5 - 20 Years
Intangibles.....	5 - 10 Years
Furniture and equipment	3 - 20 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 expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

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.

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation and sick leave. The District's policy is not to reimburse for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District had no compensated absences liability as of June 30, 2015.

(1) Summary of Significant Accounting Policies

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Although certain revenue is measurable, it is 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within 60 days after year end.

Deferred inflows of resources in the statement of net position consist of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings 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 are imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in the preceding classification.

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2015, expenditures exceeded the amounts budgeted in the other expenditures function prior to amending the budget and the District did not exceed its final budget or the General Fund unspent authorized budget.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through February 12, 2016, the date which the financial statements were available to be issued.

Notes to the Financial Statements

(2) Cash, Cash Equivalents and Investments

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

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

In addition, the District's Entrepreneurial Education Fund is authorized by statute to invest moneys of a student organization or club in entrepreneurial activities. The investment into Lime Springs Beef, LLC is unrated and the fair market value of the investment cannot be determined.

(3) Due From and Due To Other Funds

The detail of interfund receivables and payables as of June 30, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	\$ 57,673
Management Levy	General	19,999
Enterprise		
School Nutrition	General	3,144
		<u>\$ 80,816</u>

The General Fund is repaying the Capital Projects Fund for income surtax incorrectly recorded in the current year. The General Fund is repaying the Enterprise, School Nutrition Fund for various reimbursements incorrectly recorded in the current year. The balances are to be repaid by June 30, 2015.

(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	Management Levy	<u>\$ 432,157</u>

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

Notes to the Financial Statements

(5) Capital Assets

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

	Balance - Beginning of Year	Increases	Intra Category Transfers	Decreases	Balance - End of Year
Governmental Activities					
Capital Assets Not Being Depreciated					
Land.....	\$ 720,404	\$ 34,650	\$ —	\$ —	\$ 755,054
Capital Assets Being Depreciated					
Buildings	17,511,799	422,023	(28,767)	—	17,905,055
Improvements other than buildings.....	1,122,296	93,614	46,967	7,725	1,255,152
Furniture and equipment ..	3,317,235	693,162	(18,200)	652,261	3,339,936
Total Capital Assets Being Depreciated.....	21,951,330	1,208,799	—	659,986	22,500,143
Less Accumulated Depreciation for					
Buildings	7,309,416	469,513	—	—	7,778,929
Improvements other than buildings.....	672,052	85,238	—	7,725	749,565
Furniture and equipment ..	2,375,013	253,920	—	647,440	1,981,493
Total Accumulated Depreciation	10,356,481	808,671	—	655,165	10,509,987
Total Capital Assets Being Depreciated, Net	11,594,849	400,128	—	4,821	11,990,156
Governmental Activities					
Capital Assets, Net.....	\$ 12,315,253	\$ 434,778	\$ —	\$ 4,821	\$ 12,745,210
Business-Type Activities					
Furniture and equipment	\$ 430,224	\$ 55,260	\$ —	\$ 100,020	\$ 385,464
Less accumulated depreciation	326,092	24,443	—	99,074	251,461
Business-Type Activities					
Capital Assets, Net.....	\$ 104,132	\$ 30,817	\$ —	\$ 946	\$ 134,003
Depreciation expense was charged to the following functions:					
Governmental Activities					
Instruction					
Regular					\$ 4,881
Other.....					12,248
Support Services					
Administration					28,968
Operation and maintenance of plant					8,983
Transportation.....					192,226
					247,306
Unallocated depreciation					561,365
Total Depreciation Expense - Governmental Activities					\$ 808,671
Business-Type Activities					
Food service operations					\$ 24,443

Notes to the Financial Statements

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2015 are summarized as follows:

	Balance - Beginning of Year (Restated)	Additions	Reductions	Balance - End of Year	Due Within One Year
Governmental Activities					
Revenue bonds	\$ 2,180,000	\$ —	\$ —	\$ 2,180,000	\$ 180,000
Capital lease.....	491,523	—	243,087	248,436	248,436
Early retirement	1,038,999	205,547	531,644	712,902	322,193
Net pension liability.....	6,299,528	—	1,673,475	4,626,053	—
Net OPEB liability	613,000	79,000	—	692,000	—
Total	\$ 10,623,050	\$ 284,547	\$ 2,448,206	\$ 8,459,391	\$ 750,629
Business-Type Activities					
Net pension liability.....	\$ 192,823	\$ —	\$ 51,224	\$ 141,599	\$ —

Revenue Bonds

Details of the District's June 30, 2015 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bonds Issued November 1, 2009		
	Interest Rates	Principal	Interest
2016	3.125%	\$ 180,000	\$ 86,197
2017	3.375	190,000	80,572
2018	4.000	195,000	74,160
2019	4.000	205,000	66,360
2020	4.000	210,000	58,160
2021-2025	4.000 - 4.300	1,200,000	155,340
Total		\$ 2,180,000	\$ 520,789

The District has pledged future statewide sales, services and use tax revenue to repay the \$2,180,000 of bonds issued in November, 2009. The bonds were issued for the purpose of financing school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District and are payable through 2025. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require 21% of the statewide sales, services and use tax revenue. The total principal and interest remaining to be paid on the bonds is \$2,700,789. For the current year, principal of \$0 and interest of \$86,755 was paid on the bonds and total statewide sales, services and use tax revenue was \$1,233,793.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- (a) \$218,000 of the proceeds from the issuance of revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- (b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.

Notes to the Financial Statements

(6) Long-Term Liabilities

- (c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- (d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all the revenue bond provisions during the year ended June 30, 2015.

Capital Lease

During the year ended June 30, 2013, the District entered into a lease purchase agreement for computers and computer equipment totaling \$983,279. The cost of the individual computers and computer equipment was below the District’s capitalization policy and has not been recorded as capital assets. The agreement provides for an initial down payment and three additional annual payments of \$253,901, payable from the Capital Projects Fund and includes interest at 2.2%. Details of the District’s indebtedness under the agreement in effect as of June 30, 2015 is as follows:

Year Ending June 30,	Principal	Interest	Total
2016	<u>\$ 248,436</u>	<u>\$ 5,466</u>	<u>\$ 253,902</u>

(7) Operating Leases

The District leases copier equipment under leases expiring in October, 2014 and October, 2019. The agreements provide for monthly lease payments of \$5,446, through October, 2014 and \$3,068 starting in October, 2014 through October, 2019.

The following is a schedule by years of future minimum lease payments required under these operating leases:

Year Ending June 30,	
2016	\$ 36,816
2017	36,816
2018	36,816
2019	36,816
2020	<u>9,204</u>
Total Minimum Lease Payments	<u>\$ 156,468</u>

Rental expense for the lease agreements was \$47,184 for the year ended June 30, 2015.

In July, 2012, the District entered into a lease with the local community college for space in the Cresco Center building. The lease requires semi-annual payments of \$15,000 through June, 2017. In accordance with generally accepted accounting principles, rent income is being recognized on a straight-line basis over the actual period of occupancy.

Notes to the Financial Statements

(7) Operating Leases

The following is a schedule by years of future minimum lease payments to be received under this operating lease:

Year Ending June 30,	
2016	\$ 30,000
2017	<u>30,000</u>
Total Minimum Lease Payments To Be Received	<u>\$ 60,000</u>

(8) Pension and Retirement Benefits

Plan Description

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

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

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, 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% 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% for each month that the member receives benefits before age 65.

(8) Pension and Retirement Benefits

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 one 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% of pay and the District contributed 8.93% for a total rate of 14.88%.

The District's contributions to IPERS for the year ended June 30, 2015 were \$719,630.

Net Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported a liability of \$4,767,652 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. As of June 30, 2014, the District's proportion was 0.117805% which was an increase of 0.00314 from its proportion measured as of June 30, 2013.

Notes to the Financial Statements

(8) Pension and Retirement Benefits

For the year ended June 30, 2015, the District recognized pension expense of \$390,343. As of 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	\$ 51,815	\$ —
Changes of assumptions	210,407	—
Net difference between projected and actual earnings on pension plan investments	—	1,818,245
Changes in proportion and differences between District contributions and proportionate share of contributions	143,452	—
District contributions subsequent to the measurement date	<u>727,610</u>	<u>—</u>
Total	<u>\$ 1,133,284</u>	<u>\$ 1,818,245</u>

\$727,610 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending 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 Ending June 30,

2016	\$ (359,778)
2017	(359,778)
2018	(359,778)
2019	(359,778)
2020	<u>26,539</u>
Total	<u>\$ (1,412,573)</u>

Actuarial Assumptions

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

Rate of inflation (effective June 30, 2014)	3%
Salary increases (effective June 30, 2014)	4-17%, average, including inflation. Rates vary by membership group
Investment rate of return (effective June 30, 1996)	7.5% per annum, compounded annually, net of pension plan investment expense, including inflation

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

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

Notes to the Financial Statements

(8) Pension and Retirement Benefits

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:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. 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%, 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 one percentage point lower (6.5%) or one percentage point higher (8.5%) 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	\$9,008,344	\$4,767,652	\$1,188,068

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.

Notes to the Financial Statements

(8) Pension and Retirement Benefits

Payables to the Pension Plan

As of June 30, 2015, the District reported payables to the defined benefit pension plan of \$58,853 for legally required employer contributions and \$39,219 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(9) Other Postemployment Benefits (OPEB)

Plan Description

The District participates in the Northeast Iowa Schools Insurance Trust (Trust), which is a cost-sharing, multi-employer plan, as authorized by Chapter 28E of the Code of Iowa. The Trust provides medical, prescription drug and dental insurance benefits for employees, retirees and their spouses. There are 1,120 active and 105 retired members in the Trust. The District has 146 active and 16 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy

The 28E agreement provides that contribution requirements of plan members and the participating employees are established and may be amended by the officials of the Trust. Plan members or beneficiaries receiving benefits contribute differing amounts per month depending on 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 which, 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 for June 30, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 144,000
Interest on net OPEB obligation.....	15,000
Adjustment to annual required contribution.....	<u>(51,000)</u>
Annual OPEB Cost	108,000
Contributions made	<u>(29,000)</u>
Increase in Net OPEB Obligation	79,000
Net OPEB Obligation - Beginning of Year, as restated (Note 15).....	<u>613,000</u>
Net OPEB Obligation - End of Year	<u>\$ 692,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. 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, 2015.

Notes to the Financial Statements

(9) Other Postemployment Benefits (OPEB)

For the year ended 2015, the District contributed \$29,000 to the medical plan. Plan members eligible for benefits contributed \$2,732, or 8.61%, of the premium costs.

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	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 106,000	35.8%	\$ 294,000
June 30, 2014	94,000	27.7	613,000
June 30, 2015	108,000	26.9	692,000

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date for the period of July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$846,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$846,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$7,981,000 and the ratio of the UAAL to the covered payroll was 10.6%. 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 healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress 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, 2014 actuarial valuation date, the frozen 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%. An inflation rate of 0% is assumed for the purpose of this calculation.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a 2/3 female to 1/3 male basis. Annual retirement probabilities were developed from the retirement probabilities from the 2006 Society of Actuaries Study. The UAAL is being amortized as a level dollar cost over service of the group on a closed basis over 30 years.

Notes to the Financial Statements

(10) Risk Management

The 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.

Northeast Iowa Schools Insurance Trust

Health - Effective September 1, 1998, four school districts adopted a resolution to establish a 28E organization to provide an insurance plan for employee medical coverage. Since inception, eight new school districts have been added to and two school districts have left the trust for a total of ten districts currently participating in the plan. Effective July 1, 2009, the Trust switched to a fully insured health insurance plan with self-funding of the difference between the employee deductible and the deductible on the policy purchased.

Dental - The District has dental coverage insurance under this 28E organization for employee dental coverage. The District contributes to the self-insurance. Professional services through the plan for the participants are limited to a combined maximum payment of \$1,000 per member per calendar year.

The District's contributions to the Trust for the years ended June 30, 2015, 2014 and 2013 were \$1,763,706, \$1,774,752 and \$1,752,208, respectively, equal to the required contributions for each year. The total premiums paid into the Trust by all member districts and retirees from July 1, 2013 and June 30, 2014 (the latest available audited financial statements) were \$11,571,037.

(11) 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 \$565,287 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.

(12) Early Retirement

The District offered a voluntary early retirement plan to employees only for the years ended June 30, 2010, 2014 and 2015. Eligible employees must have completed at least ten years of service to the District and had to be at least age 55 by June 30 in the year of retirement. The application for early retirement under both plans was subject to approval by the Board of Education.

2010 Early Retirement Plan

The early retirement benefit for each participating licensed teacher or administrator is equal to 50% of the employee's base salary for the final year of employment plus \$3,000 for each year of employment with the District up to a maximum of 25 years. The base salary does not include teacher quality, Phase II or extra-curricular salary. The early retirement benefit for each participating noncertified employee is equal to 50% of the employee's base salary for the final year of employment plus \$1,500 for each year of employment with the District up to a maximum of 25 years. The base salary does not include extra-curricular salary, overtime or additional hours worked. Early retirement benefits will be paid into a tax-deferred benefit plan in five equal annual payments with the last payment due in August, 2014.

Notes to the Financial Statements

(12) Early Retirement

2014 Early Retirement Plan

Early retirement benefits equal the employee's calendar year 2013 gross wages, less any lawful deductions. In addition, the retiring employee shall be entitled to payment for any accrued sick leave at the rate of \$90 per unused day for licensed employees or \$65 per unused day for nonlicensed employees.

The policy requires early retirement benefits be paid in three equal installments beginning in August, 2014. The second and third payments will be paid in August, 2015 and August, 2016, respectively.

2015 Early Retirement Plan

Early retirement benefits equal the employee's calendar year 2014 gross wages, less any lawful deductions. In addition, the retiring employee shall be entitled to payment for any accrued sick leave at the rate of \$90 per unused day for licensed employees or \$65 per unused day for nonlicensed employees.

The policy requires early retirement benefits be paid in three equal installments beginning in August, 2015. The second and third payments will be paid in August, 2016 and August, 2017, respectively.

As of June 30, 2015, the District had obligations to 36 participants with a total liability of \$712,902. Actual early retirement expenditures for the year ended June 30, 2015 totaled \$531,645.

(13) Categorical Funding

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

Program	Amount
Competency-based instruction program grants	\$ 1,786
Educator quality, professional development	27,655
Empowerment professional development grant	1,999
Health care trust fund	126
Iowa early intervention block grant	77,621
Limited English proficiency weighting	3,759
Market factor	6,413
Market factor incentives.....	2,671
Technology and software.....	7,071
Nonpublic textbook services	5,192
Professional development for model core curriculum.....	137,596
Returning dropout and dropout prevention program	279,007
STEM grant	5
Successful progression for early readers.....	40,790
Teacher leadership grants	8,192
Total	<u>\$ 599,883</u>

Notes to the Financial Statements

(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 for 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:

Management determined in the current year that the net OPEB obligation as of June 30, 2014 had been understated by \$251,000.

Net OPEB obligation, beginning of year.....	\$ 362,000
Amounts understated	<u>251,000</u>
Net OPEB liability, as Restated	<u>\$ 613,000</u>

	Governmental Activities	Business-Type Activities
Net position - June 30, 2014, as previously reported	\$ 16,599,453	\$ 461,290
Net pension liability as of June 30, 2014.....	(6,299,528)	(192,823)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date.....	681,608	20,864
Net OPEB liability as of June 30, 2014	<u>(251,000)</u>	<u>—</u>
Net Position - July 1, 2014, as Restated.....	<u>\$ 10,730,533</u>	<u>\$ 289,331</u>

Required Supplementary Information

Schedule of Budgetary Comparison of Revenue, Expenditures/Expenses and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2015

	Govern- mental Fund Type	Proprietary Fund Type	Total	Budgeted Amounts		Over (Under) Budget
				Original	Final	
Revenue						
Local sources	\$ 7,685,479	\$ 355,348	\$ 8,040,827	\$ 7,559,296	\$ 7,559,296	\$ 481,531
State sources	8,552,223	6,061	8,558,284	8,510,938	8,510,938	47,346
Federal sources	593,435	509,044	1,102,479	1,006,000	1,006,000	96,479
Total Revenue.....	16,831,137	870,453	17,701,590	17,076,234	17,076,234	625,356
Expenditures/Expenses						
Instruction.....	10,197,090	—	10,197,090	11,376,500	11,376,500	(1,179,410)
Support services	5,218,795	—	5,218,795	6,071,700	6,071,700	(852,905)
Noninstructional programs	20,068	841,560	861,628	900,000	900,000	(38,372)
Other expenditures.....	1,988,887	—	1,988,887	976,058	2,070,858	(81,971)
Total Expenditures/ Expenses	17,424,840	841,560	18,266,400	19,324,258	20,419,058	(2,152,658)
Revenue Over (Under) Expenditures/Expenses....	(593,703)	28,893	(564,810)	(2,248,024)	(3,342,824)	2,778,014
Other Financing Sources (Uses), Net.....	25,620	—	25,620	—	—	25,620
Revenue and Other Financing Sources Over (Under) Expenditures/ Expenses and Other Financing Uses.....	(568,083)	28,893	(539,190)	(2,248,024)	(3,342,824)	2,803,634
Balance - Beginning of Year ...	7,593,782	289,331	7,883,113	8,430,996	8,430,996	(547,883)
Balance - End of Year	\$ 7,025,699	\$ 318,224	\$ 7,343,923	\$ 6,182,972	\$ 5,088,172	\$ 2,255,751

Notes to Required Supplementary Information - Budgetary Reporting ---

Year Ended June 30, 2015

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

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

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

During the year ended June 30, 2015, expenditures did not exceed the amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

Schedule of Proportionate Share of the Net Pension Liability ————— Iowa Public Employees' Retirement System

Last Fiscal Year*

	2015
District's proportion of the net pension liability	0.117805%
District's proportionate share of the net pension liability	\$4,767,652
District's covered-employee payroll (approximate)	\$7,862,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.64%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts 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 ten-year trend is compiled, the District will present information for those years for which information is available.

Schedule of Contributions
Iowa Public Employees' Retirement System

Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 727,610	\$ 702,089	\$ 643,009	\$ 582,841	\$ 509,928	\$ 528,290	\$ 494,952	\$ 463,617	\$ 415,197	\$ 403,761
Contributions in relation to the statutorily required contributions.....	<u>(727,610)</u>	<u>(702,089)</u>	<u>(643,009)</u>	<u>(582,841)</u>	<u>(509,928)</u>	<u>(528,290)</u>	<u>(494,952)</u>	<u>(463,617)</u>	<u>(415,197)</u>	<u>(403,761)</u>
Contribution Deficiency (Excess)	<u>\$ —</u>									
District's covered-employee payroll	\$ 8,148,000	\$ 7,862,000	\$ 7,416,000	\$ 7,231,000	\$ 7,337,000	\$ 7,944,000	\$ 7,795,000	\$ 7,663,000	\$ 7,221,000	\$ 7,022,000
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.06%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

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% per year measured from the member's first unreduced retirement age to a 6% 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% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% 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.

Notes to Required Supplementary Information - Pension Liability ---

Year Ended June 30, 2015

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% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Schedule of Funding Progress for the Retiree Health Plan ---

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	\$ —	\$ 1,045,000	\$ 1,045,000	0%	\$ 7,795,000	13.4%
2010	7-1-08	—	1,022,000	1,022,000	0	7,944,000	12.9
2011	7-1-10	—	880,000	880,000	0	7,169,000	12.3
2012	7-1-10	—	880,000	880,000	0	7,140,000	12.3
2013	7-1-12	—	765,000	765,000	0	7,354,000	10.4
2014	7-1-12	—	765,000	765,000	0	7,627,000	10.0
2015	7-1-14	—	846,000	846,000	0	7,981,000	9.3

See Note 9 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

As of June 30, 2015

	<u>Special Revenue</u>			Total
	Student Activity	Entrepre- neurial Education	Debt Service	
Assets				
Cash, cash equivalents and investments	\$ 297,857	\$ 20,000	\$ 133,099	\$ 450,956
Receivables				
Accrued interest.....	440	—	—	440
Other.....	3,440	—	—	3,440
Total Assets.....	<u>\$ 301,737</u>	<u>\$ 20,000</u>	<u>\$ 133,099</u>	<u>\$ 454,836</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable.....	<u>\$ 13,100</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,100</u>
Fund Balances				
Restricted for				
Student activities	288,637	—	—	288,637
Entrepreneurial education activity	—	20,000	—	20,000
Debt service.....	—	—	133,099	133,099
Total Fund Balances	<u>288,637</u>	<u>20,000</u>	<u>133,099</u>	<u>441,736</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances.....	<u>\$ 301,737</u>	<u>\$ 20,000</u>	<u>\$ 133,099</u>	<u>\$ 454,836</u>

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

Year Ended June 30, 2015

	Special Revenue			Total
	Student Activity	Entrepreneurial Education	Debt Service	
Revenue				
Local Sources				
Other.....	<u>\$ 346,211</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 346,211</u>
Expenditures				
Current				
Instruction				
Other	<u>412,389</u>	<u>—</u>	<u>—</u>	<u>412,389</u>
Other Expenditures				
Long-Term Debt				
Principal.....	<u>—</u>	<u>—</u>	<u>243,088</u>	<u>243,088</u>
Interest and fiscal charges	<u>—</u>	<u>—</u>	<u>99,069</u>	<u>99,069</u>
Total Other Expenditures	<u>—</u>	<u>—</u>	<u>342,157</u>	<u>342,157</u>
Total Expenditures	<u>412,389</u>	<u>—</u>	<u>342,157</u>	<u>754,546</u>
Revenue Under Expenditures	<u>(66,178)</u>	<u>—</u>	<u>(342,157)</u>	<u>(408,335)</u>
Other Financing Sources				
Operating transfers in.....	<u>—</u>	<u>—</u>	<u>432,157</u>	<u>432,157</u>
Change in Fund Balances	<u>(66,178)</u>	<u>—</u>	<u>90,000</u>	<u>23,822</u>
Fund Balances - Beginning of Year	<u>354,815</u>	<u>20,000</u>	<u>43,099</u>	<u>417,914</u>
Fund Balances - End of Year	<u>\$ 288,637</u>	<u>\$ 20,000</u>	<u>\$ 133,099</u>	<u>\$ 441,736</u>

Schedule of Changes in Special Revenue Fund, Student Activity Accounts —

Year Ended June 30, 2015

	Balance - Beginning of Year	Revenue	Expendi- tures	Intrafund Transfers	Balance - End of Year
Athletics.....	\$ 83,229	\$ 137,197	\$ 172,783	\$ (1,517)	\$ 46,126
Business Club	244	—	—	—	244
Class of 2017	—	609	—	—	609
Class of 2015	1,776	—	—	—	1,776
Class of 2016	1,240	—	1,257	17	—
Cresco Elementary.....	23,499	49,108	50,584	—	22,023
Crest Newspaper.....	931	—	—	—	931
Elma Elementary	9,041	—	28	—	9,013
FFA	87,771	80,101	81,755	—	86,117
High School Cheerleaders.....	3,063	22,651	26,589	1,500	625
High School Concessions.....	2,469	—	—	—	2,469
High School Drama	6,874	3,058	1,934	—	7,998
High School General Activity	982	1,020	1,489	—	513
High School Instrumental Music	9,162	3,976	3,679	—	9,459
High School Speech.....	750	749	1,456	—	43
High School Student Clubs.....	43	—	—	—	43
High School Student Council	4,159	6,057	5,200	—	5,016
High School Trapshooting	17	—	—	—	17
High School Vocal Music.....	30,828	18,746	18,391	—	31,183
High School Winter Drumline.....	489	715	1,039	—	165
High School Yearbook.....	2,510	1,845	23,135	—	(18,780)
Honor Roll	3,224	—	—	—	3,224
Horticulture Club.....	4,195	1,458	1,642	—	4,011
Junior High Cheerleaders.....	2,697	433	459	—	2,671
Junior High Drama.....	6,704	1,116	1,314	—	6,506
Junior High Magazine Sales	9,429	3,139	5,470	—	7,098
Junior High Music.....	30,509	4,727	3,478	—	31,758
Junior High Student Council	5,246	2,973	264	—	7,955
Junior High Yearbook.....	775	1,410	1,527	—	658
Language Club	278	—	—	—	278
Lime Springs Elementary.....	18,732	65	3,615	—	15,182
Lime Springs Garden.....	385	—	—	—	385
National Honor Society.....	92	1,185	1,152	—	125
Picture Fund.....	1,895	—	21	—	1,874
Robe Fund	886	—	255	—	631
SADD	101	—	—	—	101
Unallocated interest income	—	3,873	3,873	—	—
Wellness Fair - Luther	590	—	—	—	590
	<u>\$ 354,815</u>	<u>\$ 346,211</u>	<u>\$ 412,389</u>	<u>\$ —</u>	<u>\$ 288,637</u>

Combining Balance Sheet - Capital Projects Accounts

As of June 30, 2015

	<u>Capital Projects</u>		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Assets			
Cash, cash equivalents and investments.....	\$ 1,802,814	\$ 956,153	\$ 2,758,967
Receivables			
Property Tax, Net of Allowance			
Current year delinquent.....	—	5,124	5,124
Succeeding year	—	287,712	287,712
Other.....	5,931	—	5,931
Due from other governments	<u>190,795</u>	<u>149,513</u>	<u>340,308</u>
Total Assets	<u>\$ 1,999,540</u>	<u>\$ 1,398,502</u>	<u>\$ 3,398,042</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable	\$ 18,189	\$ 65,006	\$ 83,195
Due to other funds.....	<u>—</u>	<u>57,673</u>	<u>57,673</u>
Total Liabilities	<u>18,189</u>	<u>122,679</u>	<u>140,868</u>
Deferred Inflows of Resources			
Unearned Revenue			
Succeeding year property tax.....	—	287,712	287,712
Income surtax	<u>—</u>	<u>149,504</u>	<u>149,504</u>
Total Deferred Inflows of Resources	<u>—</u>	<u>437,216</u>	<u>437,216</u>
Fund Balances			
Restricted			
School infrastructure	1,762,809	—	1,762,809
Debt service	218,542	—	218,542
Physical plant and equipment	<u>—</u>	<u>838,607</u>	<u>838,607</u>
Total Fund Balances	<u>1,981,351</u>	<u>838,607</u>	<u>2,819,958</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,999,540</u>	<u>\$ 1,398,502</u>	<u>\$ 3,398,042</u>

Combining Schedule of Revenue, 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
Revenue			
Local Sources			
Local tax	\$ —	\$ 631,667	\$ 631,667
Other.....	53,022	4,723	57,745
State sources	<u>1,233,793</u>	<u>151</u>	<u>1,233,944</u>
Total Revenue	<u>1,286,815</u>	<u>636,541</u>	<u>1,923,356</u>
Expenditures			
Current			
Instruction			
Regular	<u>1,568</u>	<u>44,608</u>	<u>46,176</u>
Support Services			
Instructional staff	—	37,814	37,814
Administration	150	—	150
Operation and maintenance of plant.....	—	52,852	52,852
Transportation	<u>234,135</u>	<u>—</u>	<u>234,135</u>
Total Support Services	<u>234,285</u>	<u>90,666</u>	<u>324,951</u>
Other Expenditures			
Facilities acquisition	<u>697,057</u>	<u>384,386</u>	<u>1,081,443</u>
Total Expenditures	<u>932,910</u>	<u>519,660</u>	<u>1,452,570</u>
Revenue Over Expenditures	<u>353,905</u>	<u>116,881</u>	<u>470,786</u>
Other Financing Sources (Uses)			
Proceeds from the sale of capital assets	19,000	6,620	25,620
Operating transfers out.....	<u>(432,157)</u>	<u>—</u>	<u>(432,157)</u>
Total Other Financing Sources (Uses)	<u>(413,157)</u>	<u>6,620</u>	<u>(406,537)</u>
Change in Fund Balances	(59,252)	123,501	64,249
Fund Balances - Beginning of Year	<u>2,040,603</u>	<u>715,106</u>	<u>2,755,709</u>
Fund Balances - End of Year	<u>\$ 1,981,351</u>	<u>\$ 838,607</u>	<u>\$ 2,819,958</u>

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund ■

Year Ended June 30, 2015

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash, cash equivalents and investments.....	<u>\$ 8,384</u>	<u>\$ 9,246</u>	<u>\$ 8,384</u>	<u>\$ 9,246</u>
Liabilities				
Accounts payable	<u>\$ 8,384</u>	<u>\$ 9,246</u>	<u>\$ 8,384</u>	<u>\$ 9,246</u>

**Schedule of Revenue by Source and Expenditures by Function -
All Governmental Fund Types (Modified Accrual Basis)**

For the Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenue										
Local Sources										
Local tax	\$ 6,695,350	\$ 7,138,428	\$ 8,096,621	\$ 7,671,340	\$ 7,209,612	\$ 6,577,455	\$ 6,821,984	\$ 6,812,672	\$ 6,378,914	\$ 6,087,320
Tuition	342,392	414,707	373,108	280,217	215,829	319,924	227,553	204,089	247,706	184,356
Other	647,737	821,750	602,319	724,921	730,909	699,332	838,776	729,046	759,814	700,910
State sources	8,552,223	8,591,488	7,436,402	7,584,557	7,126,600	6,289,365	7,522,536	7,066,374	6,681,279	6,544,167
Federal sources.....	<u>593,435</u>	<u>583,782</u>	<u>1,362,133</u>	<u>897,573</u>	<u>948,442</u>	<u>1,423,069</u>	<u>562,688</u>	<u>984,220</u>	<u>798,154</u>	<u>627,384</u>
Total	<u>\$ 16,831,137</u>	<u>\$ 17,550,155</u>	<u>\$ 17,870,583</u>	<u>\$ 17,158,608</u>	<u>\$ 16,231,392</u>	<u>\$ 15,309,145</u>	<u>\$ 15,973,537</u>	<u>\$ 15,796,401</u>	<u>\$ 14,865,867</u>	<u>\$ 14,144,137</u>
Expenditures										
Instruction.....	\$ 10,197,090	\$ 9,799,360	\$ 10,321,887	\$ 9,585,827	\$ 9,203,216	\$ 9,438,459	\$ 9,446,490	\$ 8,546,096	\$ 8,247,963	\$ 8,031,145
Support Services										
Student	456,869	390,141	397,838	346,167	308,468	381,992	445,080	522,259	484,839	467,585
Instructional staff.....	440,222	528,603	370,300	652,069	498,324	747,430	565,222	452,757	604,306	503,050
Administration	1,562,157	1,502,743	1,412,033	1,295,175	1,304,088	1,339,120	1,370,113	1,407,458	1,290,720	1,191,906
Operations and maintenance of plant.....	1,472,265	1,748,137	1,382,162	1,094,810	1,189,005	1,229,526	1,333,747	1,258,183	1,170,965	1,142,621
Transportation.....	1,287,282	1,165,476	1,095,210	1,091,216	994,951	1,225,877	1,083,458	973,684	783,180	781,515
Noninstructional programs.....	20,068	19,246	25,252	24,253	25,141	32,461	25,615	9,324	25,399	16,509
Other Expenditures										
Facilities acquisition	1,081,443	731,901	1,238,707	631,166	158,279	906,176	1,001,601	2,446,356	812,778	235,986
Long-Term Debt										
Principal	243,088	657,855	420,000	600,000	645,000	995,000	996,364	923,636	737,457	625,472
Interest and fiscal charges.....	99,069	123,304	125,108	151,307	194,239	185,572	167,855	191,055	155,746	180,759
AEA flowthrough	<u>565,287</u>	<u>561,136</u>	<u>544,490</u>	<u>545,142</u>	<u>594,473</u>	<u>578,150</u>	<u>534,196</u>	<u>515,279</u>	<u>485,091</u>	<u>467,927</u>
Total	<u>\$ 17,424,840</u>	<u>\$ 17,227,902</u>	<u>\$ 17,332,987</u>	<u>\$ 16,017,132</u>	<u>\$ 15,115,184</u>	<u>\$ 17,059,763</u>	<u>\$ 16,969,741</u>	<u>\$ 17,246,087</u>	<u>\$ 14,798,444</u>	<u>\$ 13,644,475</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Grant Number	Expenditures
U.S. Department of Agriculture - Indirect			
Pass-Through From Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program.....	10.553	FY 15	\$ 68,481
National School Lunch Program	10.555	FY 15	279,017
National School Lunch Program - Food Donation (noncash).....	10.555	FY 15	89,950
Summer Food Service Program for Children	10.559	FY 15	<u>71,096</u>
Total Child Nutrition Cluster.....			<u>508,544</u>
Team Nutrition Grants.....	10.574	FY 15	<u>500</u>
Total U.S. Department of Agriculture			<u>509,044</u>
U.S. Department of Education - Indirect			
Pass-Through From Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY 15	<u>270,292</u>
Safe and Drug-Free Schools and Communities National Programs.....	84.184	FY 15	<u>9,896</u>
Advanced Placement Program - Advanced Placement Test Fee - Advanced Placement Incentive Program Grants.....	84.330	FY 15	<u>116</u>
Improving Teacher Quality State Grants	84.367	FY 15	<u>59,640</u>
Grants for State Assessments and Related Activities Total Pass-Through From Iowa Department of Education	84.369	FY 15	<u>6,125</u>
			<u>346,069</u>
Pass-Through From Keystone Area Education Agency			
Special Education - Grants to States.....	84.027	FY 14	<u>68,592</u>
Career and Technical Education - Basic Grants to States	84.048	FY 15	<u>1,369</u>
Total Pass-Through From Keystone Area Education Agency.....			<u>69,961</u>
Total U.S. Department of Education.....			<u>416,030</u>
Total			<u>\$ 925,074</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Howard-Winneshiek Community School District and is presented on the accrual or modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Subrecipients

Howard-Winneshiek Community School District provided no federal awards to subrecipients.

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

Board of Education
Howard-Winneshiek Community School District
Cresco, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Howard-Winneshiek Community School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated February 12, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying schedule of findings and questioned costs as items 15-II-R-1 and 15-II-R-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Howard-Winneshiek 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying schedule of findings and questioned costs.

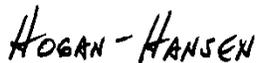
Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not 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.

Howard-Winneshiek Community School District's Responses to Findings

Howard-Winneshiek Community School District's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Howard-Winneshiek 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 results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HOGAN - HANSEN

Waterloo, Iowa
February 12, 2016

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Certified Public Accountants and Consultants

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

Board of Education
Howard-Winneshiek Community School District
Cresco, Iowa

Report on Compliance for the Major Federal Program

We have audited Howard-Winneshiek Community School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on Howard-Winneshiek Community School District's major federal program for the year ended June 30, 2015. Howard-Winneshiek Community School District's major federal program is 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 grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Howard-Winneshiek Community School District's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Howard-Winneshiek 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 the major federal program. However, our audit does not provide a legal determination on Howard-Winneshiek Community School District's compliance with those requirements.

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

The management of Howard-Winneshiek 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 Howard-Winneshiek Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Howard-Winneshiek 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 we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 15-III-R-1 to be a material weakness.

Howard-Winneshiek 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. Howard-Winneshiek 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 control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
February 12, 2016

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness identified?

yes no

Significant deficiency identified not considered to be material weaknesses?

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major program:

Material weakness identified?

yes no

Significant deficiency identified not considered to be material weakness?

yes none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?

yes no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

Child Nutrition Cluster

10.553

10.555

10.559

School Breakfast Program

National School Lunch Program

Summer Food Service Program
for Children

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

15-II-R-1 Segregation of Duties

Prior Year Finding and Recommendation - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of accounting personnel employed by the District makes it difficult to achieve adequate control procedures through segregation of duties. The concentration of closely related duties and responsibilities, such as recording and preparing cash receipts, preparing and recording checks and preparation of journals and general financial information for posting makes it difficult to establish an adequate system of automatic internal checks on accounting record accuracy and reliability. The potential effect of this material weakness is an error or fraud occurring and not being detected in a timely manner.

We realize that with a limited number of accounting employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Current Year Finding - We found that the same condition still exists.

Auditor's Recommendation - We reiterate the prior year recommendation.

District's Response - We will review procedures and will implement additional controls where possible.

Auditor's Conclusion - Response accepted.

15-II-R-2 Free and Reduced Meals - During our audit, we found one student that was approved for free meals when, based on current income guidelines, they should have been approved for reduced-price meals. An independent person does not recalculate the income used to determine the student's approved status. The potential effect of this control weakness is that fraud or errors could occur and not be detected by management resulting in the improper receipt of federal and state funding.

Auditor's Recommendation - We recommend that the District require the person who reviews the approval of free and reduced-price meal applications to recalculate the income reported on the applications used to make this determination, rather than rely on the initial calculation used to determine each student's status.

District's Response - The District will make the necessary changes to ensure that all applications are approved for the proper status.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Part III: Findings and Questioned Costs For Federal Awards

Instances of Noncompliance

15-III-C-1 Free and Reduced Meals - We noted a student was approved for free meals when, (2015-002) based on the current income guidelines, they should have been approved for reduced-price meals. See finding 15-II-R-2 for additional information.

Internal Control Deficiencies

All Programs Displayed on the Schedule of Expenditures of Federal Awards

15-III-R-1 Segregation of Duties - Adequate control procedures through the segregation of (2015-001) employee duties is difficult to achieve due to the limited number of staff administering grants and performing accounting functions. See finding 15-II-R-1 for additional information.

Part IV: Other Findings Related to Statutory Reporting

15-IV-A Certified Budget - Expenditures for the year ended June 30, 2015 exceeded the certified budget amount prior to the budget amendment in the facilities acquisition, construction and debt service functions.

Auditor's Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa prior to expenditures exceeding the budgeted amounts.

District's Response - Future budgets will be amended in a timely manner with sufficient amounts to ensure that the certified budget is not exceeded.

Auditor's Conclusion - Response accepted.

15-IV-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

15-IV-C 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.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

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

Name, Title and Business Connection	Transaction Description	Amount
Rachelle McAllister, daughter of Board Member Karlos McClure	Teacher wages	\$60,137.00*
Kelly Bodermann, spouse of Board Member Duane Bodermann	Teacher associate wages	15,385.00*
Scott Fortune, Board President, owner of Upper Iowa Tool and Die	Vehicle repairs	3,271.50*
James Kitchen, Board Member, owner of Kitchen Construction, LLC	Solar project - \$92,907 total project	46,454.00**
Stephanie Scholbrock, Teacher, spouse is the owner of Scholbrock Masonry	Sidewalk	3,885.00***

* In accordance with an Attorney General's Opinion dated November 9, 1976 and Chapter 279.7A of the Code of Iowa, these transactions do not appear to represent any conflict of interest.

** The transaction does not appear to represent a conflict of interest since it was entered into through a competitive bidding process in accordance with Chapters 279.7A and 26.2 through 26.13 of the Code of Iowa.

*** In accordance with Chapter 279.7A of the Code of Iowa, the above transaction may represent a conflict of interest since a competitive bidding process was not utilized and transactions were in excess of \$2,500.

Auditor's Recommendation - The District should continue to use a competitive bidding process when practicable.

District's Response - We will use a competitive bidding process when possible.

Auditor's Conclusion - Response accepted.

15-IV-E 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.

15-IV-F Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

15-IV-G Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

- 15-IV-I Deposits and Investments** - No instances of noncompliance with the deposit and investment provisions of Chapter 12B or Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- 15-IV-J Certified Annual Report** - The Certified Annual Report (CAR) was certified timely to the Iowa Department of Education.
- 15-IV-K Categorical Funding** - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- 15-IV-L Statewide Sales, Services and Use Tax** - No instances of noncompliance with the allowable uses of the statewide sales, services and use tax revenue provided in 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 revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2015, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2015 audit:

Beginning balance.....		\$ 2,040,603
Revenue		
Sales tax revenue	\$ 1,233,793	
Interest	3,844	
Contributions and donations from private sources	49,178	
Proceeds from the disposal of capital assets	<u>19,000</u>	<u>1,305,815</u>
		3,346,418
Expenditures/Transfers Out		
School infrastructure construction.....	\$ 697,057	
Equipment	235,853	
Transfer to Other Funds		
Debt Service Fund	<u>432,157</u>	<u>1,365,067</u>
Ending Balance		<u>\$ 1,981,351</u>

For the year ended June 30, 2015, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.