

MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT
MELCHER-DALLAS, IOWA

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

Year Ended June 30, 2015

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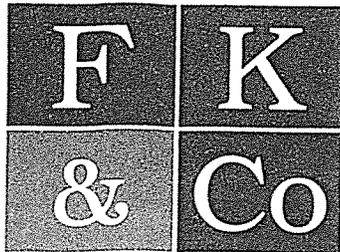
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Melcher-Dallas Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Board of Education		
Robert Lepley	President	2015
Shane Ripperger	Vice-President	2017
Miki Alexander	Board Member	2015
Travis Hansaker	Board Member	2017
Jake Mathes	Board Member	2015
School Officials		
Delane Galvin	Superintendent	2015
Nathan Spiegel	District Secretary/Treasurer and Business Manager	2015
Ahlers Law Firm	Attorney	Indefinite

Melcher-Dallas Community School District



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Board of Education of
Melcher-Dallas Community School District:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

As discussed in Note 17 to the financial statements, the 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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 two years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 29, 2016, on our consideration of the 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 the District's internal control over financial reporting and compliance.


Faller, Kincheloe & Co., PLC

Des Moines, Iowa
June 29, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2015 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,598,949 in fiscal year 2014 to \$3,450,125 in fiscal year 2015, and General Fund expenditures increased from \$3,475,744 in fiscal year 2014 to \$3,544,809 in fiscal year 2015. The District's General Fund balance decreased from \$326,764 at the end of fiscal year 2014 to \$232,080 at the end of fiscal year 2015, a decrease of approximately 29%.
- The decrease in General Fund revenues was attributable to a decrease in property taxes, as well as less money received from the State of Iowa due to decreasing enrollment the past year. The increase in expenditures was primarily due to increased personnel salary and benefit costs.

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, the District's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the non-major governmental funds.

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

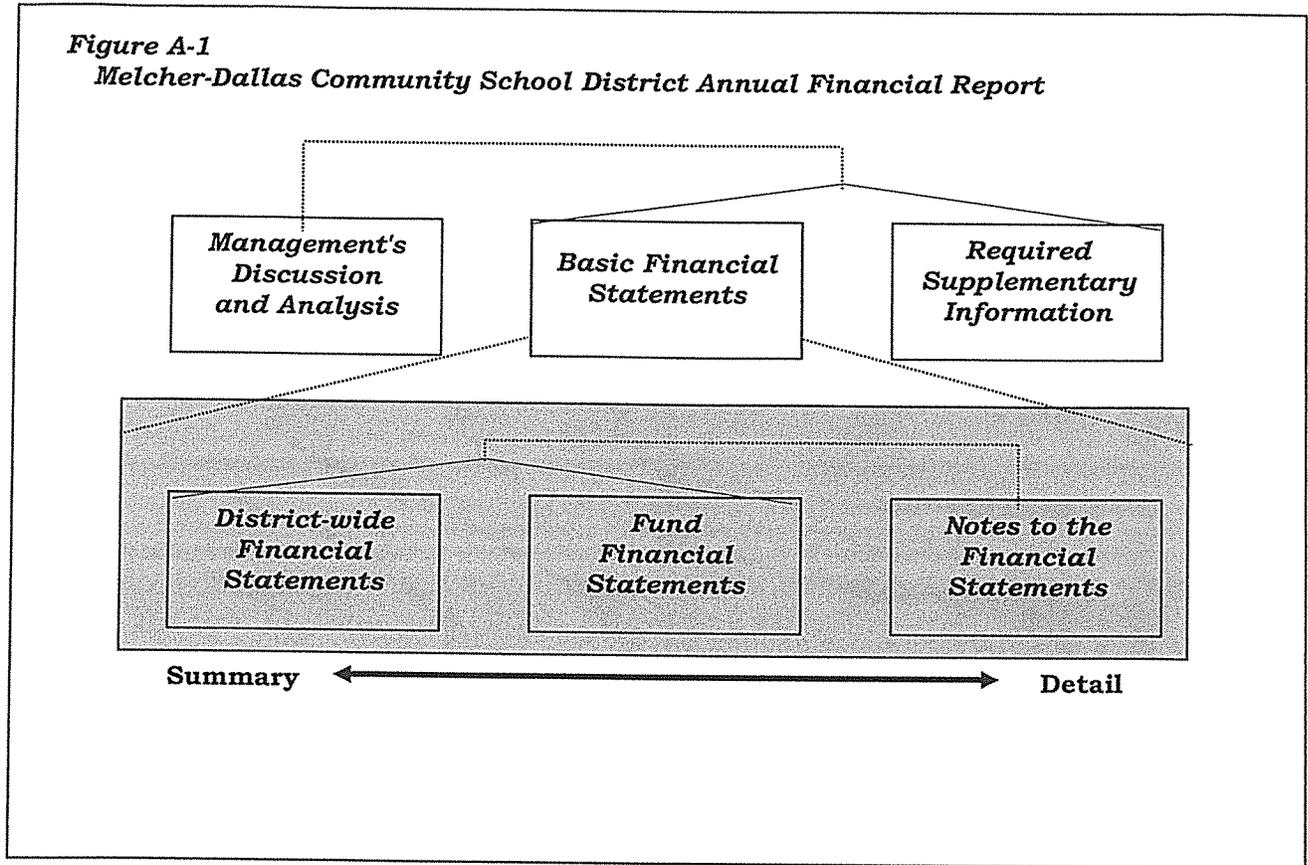


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2**Major Features of the Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES*Government-wide Financial Statements*

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2014 (Not restated)		June 30, 2014 (Not restated)		June 30, 2014 (Not restated)		June 30, 2014-2015
	2015	restated)	2015	restated)	2015	restated)	2014-2015
Current and other assets	\$ 2,643	2,535	38	43	2,681	2,578	4.0%
Capital assets	3,178	3,208	16	14	3,194	3,222	-0.9%
Total assets	5,821	5,743	54	57	5,875	5,800	1.3%
Deferred outflows of resources	242	-	6	-	248	-	100.0%
Long-term liabilities	2,121	1,064	33	5	2,154	1,069	101.5%
Other liabilities	489	468	15	12	504	480	5.0%
Total liabilities	2,610	1,532	48	17	2,658	1,549	71.6%
Deferred inflows of resources	1,809	1,241	13	-	1,822	1,241	46.8%
Net position:							
Net investment in							
capital assets	2,342	2,248	16	14	2,358	2,262	4.2%
Restricted	705	646	-	-	705	646	9.1%
Unrestricted	(1,403)	76	(17)	26	(1,420)	102	-1492.2%
Total net position	\$ 1,644	2,970	(1)	40	1,643	3,010	-45.4%

The District's combined net position decreased by 45.4%, or approximately \$1,367,000, from the prior year. The largest portion of the District's net assets 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 sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased approximately \$59,000, or 9.1% over the prior year. The increase was primarily a result of increased restricted balance in the General Fund.

Unrestricted net position – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$1,522,000, or 1492.2%. The reduction in unrestricted net position was primarily a result of the District's net pension liability net pension expense recorded in the current year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business type activities were restated by \$1,576,613 and \$37,114, 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

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							
(Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2014 (Not restated)	2015 restated)	2014 (Not restated)	2015 restated)	2014 (Not restated)	2015 restated)	2014-2015
Revenues:							
Program revenues:							
Charges for service	\$ 302	317	70	68	372	385	-3.4%
Operating grants, contributions and restricted interest	568	573	108	109	676	682	-0.9%
General revenues:							
Property tax	1,222	1,255	-	-	1,222	1,255	-2.6%
Income surtax	10	11	-	-	10	11	-9.1%
Statewide sales, services and use tax	299	274	-	-	299	274	9.1%
Unrestricted state grants	1,638	1,690	-	-	1,638	1,690	-3.1%
Unrestricted investment earnings	2	-	-	-	2	-	100.0%
Other	39	122	-	-	39	122	-68.0%
Total revenues	<u>4,080</u>	<u>4,242</u>	<u>178</u>	<u>177</u>	<u>4,258</u>	<u>4,419</u>	<u>-3.6%</u>
Program expenses:							
Instruction	2,539	2,433	-	-	2,539	2,433	4.4%
Support services	1,037	1,224	-	-	1,037	1,224	-15.3%
Non-instructional programs	10	11	182	166	192	177	8.5%
Other expenses	244	298	-	-	244	298	-18.1%
Total expenses	<u>3,830</u>	<u>3,966</u>	<u>182</u>	<u>166</u>	<u>4,012</u>	<u>4,132</u>	<u>-2.9%</u>
Increase (decrease) in net position	250	276	(4)	11	246	287	-14.3%
Net position beginning of year, as restated	<u>1,394</u>	<u>2,694</u>	<u>3</u>	<u>29</u>	<u>1,397</u>	<u>2,723</u>	<u>-48.7%</u>
Net position end of year	<u>\$ 1,644</u>	<u>2,970</u>	<u>(1)</u>	<u>40</u>	<u>1,643</u>	<u>3,010</u>	<u>-45.4%</u>

In fiscal year 2015, property tax and unrestricted state grants accounted for 70.1% of governmental activities revenue while charges for service and operating grants, contributions and restricted interest accounted for 100.0% of business type activities revenue.

The District's total revenues were approximately \$4.3 million, of which approximately \$4.1 million was for governmental activities and approximately \$178,000 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.6% decrease in revenues and a 2.9% decrease in expenses.

Governmental Activities

Revenues for governmental activities were \$4,080,955 and expenses were \$3,829,984 for the year ended June 30, 2015. In another difficult budget year, the District was able to balance the budget using available reserves to pay for current year expenses.

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

	Total Cost of Services			Net Cost of Services		
	2014		Change 2014-2015	2014		Change 2014-2015
	2015	(Not restated)		2015	(Not restated)	
Instruction	\$ 2,539	2,433	4.4%	1,803	1,680	7.3%
Support services	1,037	1,224	-15.3%	1,035	1,218	-15.0%
Non-instructional programs	10	11	-9.1%	10	11	-9.1%
Other expenses	244	298	-18.1%	112	168	-33.3%
Total	\$ 3,830	3,966	-3.4%	2,960	3,077	-3.8%

For the year ended June 30, 2015:

- The cost financed by users of the District's programs was \$301,610.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$568,249.
- The net cost of governmental activities was financed with \$1,531,402 in property and other taxes and \$1,638,614 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$178,112 representing a .7% increase over the prior year while expenses totaled \$182,033 a 9.9% increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the 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 \$793,936, an increase from last year's ending fund balances of \$751,120.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the result of many factors. A decrease in state and local revenues without a corresponding decrease in expenditures were major causes of this decrease. The District saw a decrease in solvency ratio and unspent balance budget.
- The General Fund balance decreased from \$326,764 to \$232,080. This represents a \$94,684 decrease from the previous year. This decrease is a result of decreasing revenue.
- The Debt Service Fund balance increased by \$8,223 from fiscal year 2014 to fiscal year 2015. The District continues to assess more in property taxes than the related disbursements form this fund.
- The Capital Projects Fund balance increased by \$121,967 from fiscal year 2014 to fiscal year 2015. Expenditures decreased approximately \$117,000 from fiscal year 2014 to fiscal year 2015. This decrease in expenditures was the reason for the increase in the fund balance.

Proprietary Fund Highlights

School Nutrition Fund net position decreased for the 2015 school year. Revenues for business type activities during the year ended June 30, 2015 were \$178,112, while expenses totaled \$182,033, representing a \$3,921 decrease for the year. In relation to the school nutrition program, the District continues working with Knoxville Community School District to provide the District with assistance. The goal of this arrangement was to monitor inventory, supervise health and safety standards, and to provide guidance with food purchases, menus, and staffing hours. The District recognizes the need to make significant changes in the food program. The District also realizes the need to make continuous changes for several reasons as dictated at the local, state, and federal levels. The District's business type activities include the School Nutrition Fund. The Nutrition Fund owes the General Fund \$15,058.

Meal prices were raised again for the fourth year in a row for the 2014-15 school year. The high school closed their campus to students in grades 6-11 leaving it open for lunches only for the seniors, and eliminated the ala carte. The district continued an agreement with Knoxville Community School District for Food Service Management and Food Purchasing.

BUDGETARY HIGHLIGHTS

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs and other expenditures functional areas. District personnel were unable to explain why the budget was not amended.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had invested approximately \$3.2 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6). This represents a net decrease of 0.9% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$189,995.

The original cost of the District's capital assets was approximately \$5.9 million. Governmental funds account for approximately \$5.8 million, with the remaining approximate \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014	2015	2014	2015	2014	2014-2015
Land	\$ 14	14	-	-	14	14	0.0%
Buildings	2,454	2,535	-	-	2,454	2,535	-3.2%
Improvements other than buildings	331	304	-	-	331	304	8.9%
Furniture and equipment	379	355	16	14	395	369	7.0%
Total assets	\$ 3,178	3,208	16	14	3,194	3,222	-0.9%

Long-Term Debt

At June 30, 2015, the District had \$835,000 in general obligation debt outstanding. This represents a decrease of approximately 13.0% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations
(Expressed in Thousands)

	Total District		Total Change
	June 30,		June 30,
	2015	2014	2014-2015
General obligation bonds	\$ 835	960	-13.0%
Total	\$ 835	960	-13.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District will need to continue to look for ways to cut costs in the coming years to address increases in enrollment and expenses.
- Having a better inventory of equipment and establishing tighter internal regulations on purchases will help prevent unnecessary expenditures.
- The District will negotiate a new agreement with the Melcher-Dallas Education Association during fiscal 2016, effective with the 2016-17 school year. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

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 Randy Alger, Superintendent, Melcher-Dallas Community School District, 214 S. Main Street, Melcher-Dallas, Iowa, 50062.

Basic Financial Statements

Melcher-Dallas Community School District

Exhibit A

Statement of Net Position

June 30, 2015

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,127,682	35,983	1,163,665
Receivables:			
Property tax:			
Delinquent	26,013	-	26,013
Succeeding year	1,272,713	-	1,272,713
Accounts	61	-	61
Due from other funds	15,058	-	15,058
Due from other governments	140,009	-	140,009
Prepaid expenses	61,962	-	61,962
Inventories	-	1,976	1,976
Capital assets, net of accumulated depreciation	3,177,595	15,829	3,193,424
Total assets	5,821,093	53,788	5,874,881
Deferred Outflows of Resources			
Pension related deferred outflows	242,839	5,643	248,482
Liabilities			
Accounts payable	43,165	-	43,165
Salaries and benefits payable	383,033	-	383,033
Due to other governments	59,023	-	59,023
Due to other funds	-	15,058	15,058
Accrued interest payable	3,997	-	3,997
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	130,000	-	130,000
Compensated absences	4,042	-	4,042
Portion due after one year:			
General obligation bonds	705,000	-	705,000
Net pension liability	1,171,050	27,567	1,198,617
Net OPEB liability	110,765	5,539	116,304
Total liabilities	2,610,075	48,164	2,658,239
Deferred Inflows of Resources			
Unavailable property tax revenue	1,272,713	-	1,272,713
Pension related deferred inflows	536,587	12,632	549,219
Total deferred inflows of resources	1,809,300	12,632	1,821,932
Net Position			
Net investment in capital assets	2,342,595	15,829	2,358,424
Restricted for:			
Categorical funding	143,303	-	143,303
Debt service	20,329	-	20,329
Management levy purposes	123,050	-	123,050
Student activities	35,357	-	35,357
School infrastructure	318,750	-	318,750
Physical plant and equipment	64,370	-	64,370
Unrestricted	(1,403,197)	(17,194)	(1,420,391)
Total net position	\$ 1,644,557	(1,365)	1,643,192

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit B

Statement of Activities

Year ended June 30, 2015

Functions / Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,555,805	223,257	351,077	-	(981,471)	-	(981,471)
Special instruction	435,614	13,823	82,413	-	(339,378)	-	(339,378)
Other instruction	547,463	62,966	2,500	-	(481,997)	-	(481,997)
	<u>2,538,882</u>	<u>300,046</u>	<u>435,990</u>	<u>-</u>	<u>(1,802,846)</u>	<u>-</u>	<u>(1,802,846)</u>
Support services:							
Student	104,718	-	-	-	(104,718)	-	(104,718)
Instructional staff	39,396	-	-	-	(39,396)	-	(39,396)
Administration	419,003	-	-	-	(419,003)	-	(419,003)
Operation and maintenance of plant	285,522	526	-	-	(284,996)	-	(284,996)
Transportation	188,143	1,038	-	-	(187,105)	-	(187,105)
	<u>1,036,782</u>	<u>1,564</u>	<u>-</u>	<u>-</u>	<u>(1,035,218)</u>	<u>-</u>	<u>(1,035,218)</u>
Non-instructional programs	<u>10,058</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,058)</u>	<u>-</u>	<u>(10,058)</u>
Other expenditures:							
Facilities acquisition	1,790	-	-	-	(1,790)	-	(1,790)
Long-term debt interest	28,869	-	36	-	(28,833)	-	(28,833)
AEA flowthrough	132,223	-	132,223	-	-	-	-
Depreciation (unallocated)*	81,380	-	-	-	(81,380)	-	(81,380)
	<u>244,262</u>	<u>-</u>	<u>132,259</u>	<u>-</u>	<u>(112,003)</u>	<u>-</u>	<u>(112,003)</u>
Total governmental activities	<u>3,829,984</u>	<u>301,610</u>	<u>568,249</u>	<u>-</u>	<u>(2,960,125)</u>	<u>-</u>	<u>(2,960,125)</u>
Business type activities:							
Non-instructional programs:							
Food service operations	182,033	69,970	108,123	-	-	(3,940)	(3,940)
Total	<u>\$ 4,012,017</u>	<u>371,580</u>	<u>676,372</u>	<u>-</u>	<u>(2,960,125)</u>	<u>(3,940)</u>	<u>(2,964,065)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 1,038,772	-	1,038,772
Debt service					162,332	-	162,332
Capital outlay					20,979	-	20,979
Statewide sales, services and use tax					298,624	-	298,624
Income surtax					10,695	-	10,695
Unrestricted state grants					1,638,614	-	1,638,614
Gain on sale of capital assets					2,125	-	2,125
Unrestricted investment earnings					184	19	203
Other					38,771	-	38,771
Total general revenues					<u>3,211,096</u>	<u>19</u>	<u>3,211,115</u>
Change in net position					250,971	(3,921)	247,050
Net position beginning of year, as restated					<u>1,393,586</u>	<u>2,556</u>	<u>1,396,142</u>
Net position end of year					<u>\$ 1,644,557</u>	<u>(1,365)</u>	<u>1,643,192</u>

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

See notes to financial statements.

Balance Sheet
Governmental Funds

June 30, 2015

	General	Debt Service	Capital Projects	Nonmajor	Total
Assets					
Cash and cash equivalents	\$ 590,440	35,925	338,424	97,319	1,062,108
Receivables:					
Property tax:					
Delinquent	20,492	3,404	440	1,677	26,013
Succeeding year	1,018,713	162,590	21,410	70,000	1,272,713
Accounts	-	-	-	61	61
Due from other funds	15,058	-	19,000	-	34,058
Due from other governments	93,822	-	46,187	-	140,009
Prepaid expenses	-	-	-	61,962	61,962
Total assets	\$ 1,738,525	201,919	425,461	231,019	2,596,924
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable	\$ 19,622	-	20,931	2,612	43,165
Salaries and benefits payable	383,033	-	-	-	383,033
Due to other governments	59,023	-	-	-	59,023
Due to other funds	-	19,000	-	-	19,000
Total liabilities	461,678	19,000	20,931	2,612	504,221
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	1,018,713	162,590	21,410	70,000	1,272,713
Other	26,054	-	-	-	26,054
Total deferred inflows of resources	1,044,767	162,590	21,410	70,000	1,298,767
Fund balances:					
Nonspendable:					
Prepaid expenses	-	-	-	61,962	61,962
Restricted for:					
Categorical funding	143,303	-	-	-	143,303
Debt service	-	20,329	-	-	20,329
Management levy purposes	-	-	-	61,088	61,088
Student activities	-	-	-	35,357	35,357
School infrastructure	-	-	318,750	-	318,750
Physical plant and equipment	-	-	64,370	-	64,370
Unassigned	88,777	-	-	-	88,777
Total fund balances	232,080	20,329	383,120	158,407	793,936
Total liabilities, deferred inflows of resources and fund balances	\$ 1,738,525	201,919	425,461	231,019	2,596,924

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit D

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

June 30, 2015

Total fund balances of governmental funds (page 20) \$ 793,936

*Amounts reported for governmental activities in the
Statement of Net Position are different because:*

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 3,177,595

The Internal Service Fund is used by management to charge the costs of funding the District's HRA benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Position. 65,574

Other long-term assets are not available to pay current period expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds. 26,054

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (3,997)

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 outflow of resources	\$ 242,839	
Deferred inflow of resources	<u>(536,587)</u>	(293,748)

Long-term liabilities, including bonds payable, compensated absences payable, other post employment benefits payable and net pension liability, are not due and payable in the current period and, therefore are not reported in the governmental funds. (2,120,857)

Net position of governmental activities (page 18) \$ 1,644,557

See notes to financial statements.

Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2015

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 969,271	162,332	20,979	79,962	1,232,544
Tuition	225,292	-	-	-	225,292
Other	35,055	36	139	63,011	98,241
Intermediate sources	10,756	-	-	-	10,756
State sources	2,122,713	481	298,686	237	2,422,117
Federal sources	84,913	-	-	-	84,913
Total revenues	<u>3,448,000</u>	<u>162,849</u>	<u>319,804</u>	<u>143,210</u>	<u>4,073,863</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,587,166	-	17,418	11,483	1,616,067
Special	444,522	-	-	2,834	447,356
Other	484,931	-	-	74,482	559,413
	<u>2,516,619</u>	<u>-</u>	<u>17,418</u>	<u>88,799</u>	<u>2,622,836</u>
Support services:					
Student	80,086	-	-	543	80,629
Instructional staff	43,022	-	-	276	43,298
Administration	397,192	-	37,396	11,134	445,722
Operation and maintenance of plant	232,928	-	11,295	25,651	269,874
Transportation	133,129	-	80,940	8,779	222,848
	<u>886,357</u>	<u>-</u>	<u>129,631</u>	<u>46,383</u>	<u>1,062,371</u>
Non-instructional programs	9,610	-	-	448	10,058
Other expenditures:					
Facilities acquisition	-	-	51,058	-	51,058
Long-term debt:					
Principal	-	125,000	-	-	125,000
Interest and fiscal charges	-	29,626	-	-	29,626
AEA flowthrough	132,223	-	-	-	132,223
	<u>132,223</u>	<u>154,626</u>	<u>51,058</u>	<u>-</u>	<u>337,907</u>
Total expenditures	<u>3,544,809</u>	<u>154,626</u>	<u>198,107</u>	<u>135,630</u>	<u>4,033,172</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(96,809)</u>	<u>8,223</u>	<u>121,697</u>	<u>7,580</u>	<u>40,691</u>
Other financing sources:					
Sale of capital assets	2,125	-	-	-	2,125
Total other financing sources	<u>2,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,125</u>
Change in fund balances	(94,684)	8,223	121,697	7,580	42,816
Fund balances beginning of year	<u>326,764</u>	<u>12,106</u>	<u>261,423</u>	<u>150,827</u>	<u>751,120</u>
Fund balances end of year	<u>\$ 232,080</u>	<u>20,329</u>	<u>383,120</u>	<u>158,407</u>	<u>793,936</u>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit F

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

Year ended June 30, 2015

Net change in fund balances - total governmental funds (page 22) \$ 42,816

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures were less than depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 156,813	
Depreciation expense	<u>(187,224)</u>	(30,411)

Certain revenues not collected until several months after year end are not considered available revenue and are deferred in the governmental funds. 4,967

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 125,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 757

The current year District employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position. 178,431

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

Compensated absences	(1,302)	
Pension expense	(66,616)	
Other postemployment benefits	<u>(9,552)</u>	(77,470)

The Internal Service Fund is used by management to charge the costs of funding the District's HRA benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported in governmental activities. 6,881

Change in net position of governmental activities (page 19) \$ 250,971

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit G

Statement of Net Position
Proprietary Funds

June 30, 2015

	Business Type Activities	Governmental Activities
	Nonmajor Enterprise Fund - School Nutrition	Internal Service - HRA
Assets		
Current assets:		
Cash and cash equivalents	\$ 35,983	65,574
Inventories	1,976	-
Total current assets	<u>37,959</u>	<u>65,574</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	15,829	
Total noncurrent assets	<u>15,829</u>	-
Total assets	<u>53,788</u>	<u>65,574</u>
Deferred Outflows of Resources		
Pension related deferred outflows	<u>5,643</u>	-
Liabilities		
Current liabilities:		
Due to other funds	<u>15,058</u>	-
Total current liabilities	<u>15,058</u>	-
Noncurrent liabilities:		
Net pension liability	27,567	-
Net OPEB liability	5,539	-
Total noncurrent liabilities	<u>33,106</u>	-
Total liabilities	<u>48,164</u>	-
Deferred Inflows of Resources		
Pension related deferred inflows	<u>12,632</u>	-
Net Position		
Net investment in capital assets	15,829	-
Unrestricted	<u>(17,194)</u>	<u>65,574</u>
Total net position	<u>\$ (1,365)</u>	<u>65,574</u>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit H

Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds

Year ended June 30, 2015

	Business Type Activities	Governmental Activities
	Nonmajor Enterprise Fund - School Nutrition	Internal Service - HRA
Operating revenues:		
Local sources:		
Charges for service	\$ 69,970	-
Employer contributions	-	7,049
Total operating revenue	<u>69,970</u>	<u>7,049</u>
Operating expenses:		
Non-instructional programs:		
Salaries	36,412	-
Benefits	26,356	-
Purchased services	11,575	-
Supplies	104,919	-
Other	-	168
Depreciation	2,771	-
Total operating expenses	<u>182,033</u>	<u>168</u>
Operating income (loss)	<u>(112,063)</u>	<u>6,881</u>
Non-operating revenues:		
State sources	1,593	-
Federal sources	106,530	-
Interest income	19	-
Total non-operating revenues	<u>108,142</u>	<u>-</u>
Change in net position	(3,921)	6,881
Net position beginning of year, as restated	<u>2,556</u>	<u>58,693</u>
Net position end of year	<u>\$ (1,365)</u>	<u>65,574</u>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit I

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2015

	Business Type Activities	Governmental Activities
	Nonmajor Enterprise Fund - School Nutrition	Internal Service - HRA
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 68,790	-
Cash received from miscellaneous operating activities	-	7,049
Cash paid to employees for services	(70,842)	-
Cash paid to suppliers for goods and services	(97,359)	(168)
Net cash provided (used) by operating activities	<u>(99,411)</u>	<u>6,881</u>
Cash flows from non-capital financing activities:		
State grants received	1,593	-
Federal grants received	93,478	-
Increase in interfund loan	10,281	-
Net cash provided by non-capital financing activities	<u>105,352</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(4,523)	-
Net cash (used) by capital and related financing activities	<u>(4,523)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	19	-
Net increase in cash and cash equivalents	1,437	6,881
Cash and cash equivalents beginning of year	<u>34,546</u>	<u>58,693</u>
Cash and cash equivalents end of year	<u>\$ 35,983</u>	<u>65,574</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (112,063)	6,881
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Commodities used	13,053	-
Depreciation	2,771	-
Decrease in inventories	6,082	-
Decrease in salaries and benefits payable	(6,118)	-
Decrease in unearned revenue	(1,180)	-
Decrease in net pension liability	(13,609)	-
Decrease in deferred outflows of resources	537	-
Increase in deferred inflows of resources	10,514	-
Increase in other postemployment benefits	602	-
Net cash provided (used) by operating activities	<u>\$ (99,411)</u>	<u>6,881</u>

Non-cash investing, capital and financing activities:

. During the year ended June 30, 2015, the District received \$13,053 of federal commodities.

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit J

Statement of Fiduciary Net Position
Fiduciary Funds

June 30, 2015

	<u>Private Purpose Trust Scholarship</u>
Assets	
Cash and cash equivalents	\$ 10,611
Total assets	<u>10,611</u>
Liabilities	<u>-</u>
Net position	
Reserved for scholarships	<u>\$ 10,611</u>

See notes to financial statements.

Melcher-Dallas Community School District
Statement of Changes in Fiduciary Net Position
Fiduciary Funds

Exhibit K

Year ended June 30, 2015

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest income	\$ 12
Total additions	<u>12</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>400</u>
Change in net position	(388)
Net position beginning of year	<u>10,999</u>
Net position end of year	<u><u>\$ 10,611</u></u>

See notes to financial statements.

Melcher-Dallas Community School District

Notes to Financial Statements

June 30, 2015

(1) **Summary of Significant Accounting Policies**

Melcher-Dallas Community School District (District) is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Melcher-Dallas, Iowa, and the predominate agricultural territory in Marion County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, the 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 do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

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

The District reports the following major governmental funds:

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

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

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 reports the following non-major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The Enterprise, School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the health reimbursement account (HRA) monies. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Position and the Statement of Activities.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

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

Cash and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For the 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 are accounted for using the modified accrual basis of accounting.

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2014.

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

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

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

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Intangibles:	
School Nutrition Fund	500
Other	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Intangibles	5-10 years
Furniture and equipment	5-15 years

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

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

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or

retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2015. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

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

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

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

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

(2) Cash and Cash Equivalents

The District's deposits in banks at June 30, 2015 were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. However, because the Board minutes did not document the maximum amount which may be kept on deposit in each depository until December, 2014, it is unclear if the District's deposits in bank until December, 2014, were 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.

(3) **Due From and Due to Other Funds**

The details of interfund receivables and payables at June 30, 2015 are as follows:

Receivable Fund	Payable Fund	Amount
General	Proprietary: School Nutrition	\$ 15,058
Capital Projects	Debt Service	<u>19,000</u>
Total		<u>\$ 34,058</u>

The above due from/to amounts represents loans between funds, and to correct improper recording of transactions.

(4) **Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 13,925	-	-	13,925
Total capital assets not being depreciated	<u>13,925</u>	<u>-</u>	<u>-</u>	<u>13,925</u>
Capital assets being depreciated:				
Buildings	4,063,749	-	-	4,063,749
Improvements other than buildings	488,168	41,403	-	529,571
Furniture and equipment	1,103,934	115,410	32,395	1,186,949
Total capital assets being depreciated	<u>5,655,851</u>	<u>156,813</u>	<u>32,395</u>	<u>5,780,269</u>
Less accumulated depreciation for:				
Buildings	1,528,451	81,380	-	1,609,831
Improvements other than buildings	184,128	15,075	-	199,203
Furniture and equipment	749,191	90,769	32,395	807,565
Total accumulated depreciation	<u>2,461,770</u>	<u>187,224</u>	<u>32,395</u>	<u>2,616,599</u>
Total capital assets being depreciated, net	<u>3,194,081</u>	<u>(30,411)</u>	<u>-</u>	<u>3,163,670</u>
Governmental activities capital assets, net	<u>\$ 3,208,006</u>	<u>(30,411)</u>	<u>-</u>	<u>3,177,595</u>
Business type activities:				
Furniture and equipment	\$ 63,970	4,523	-	68,493
Less accumulated depreciation	<u>49,893</u>	<u>2,771</u>	<u>-</u>	<u>52,664</u>
Business type activities capital assets, net	<u>\$ 14,077</u>	<u>1,752</u>	<u>-</u>	<u>15,829</u>

Depreciation expense was charged to the following functions:

Governmental activities:		
Instruction:		
Regular		\$ 2,871
Special		17,264
Other		9,218
Support services:		
Administration		3,462
Operation and maintenance of plant		23,936
Transportation		49,093
		<u>105,844</u>
Unallocated		<u>81,380</u>
		<u>\$ 187,224</u>
Business type activities:		
Food service operations		<u>\$ 2,771</u>

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 960,000	-	125,000	835,000	130,000
Compensated absences	2,740	4,042	2,740	4,042	4,042
Net pension liability	1,749,156	-	578,106	1,171,050	-
Net OPEB liability	101,213	9,552	-	110,765	-
Total	<u>\$ 2,813,109</u>	<u>13,594</u>	<u>705,846</u>	<u>2,120,857</u>	<u>134,042</u>
	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Net pension liability	\$ 41,176	-	13,609	27,567	-
Net OPEB liability	4,937	602	-	5,539	-
Total	<u>\$ 46,113</u>	<u>602</u>	<u>13,609</u>	<u>33,106</u>	<u>-</u>

General Obligation Bonds

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

Year Ending June 30,	Bond Issue of April 29, 2008			Bond Issue of June 24, 2013			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2016	3.96%	\$ 110,000	18,612	1.25%	\$ 20,000	5,370	130,000	23,982	153,982
2017	3.96%	115,000	14,256	1.25%	20,000	5,120	135,000	19,376	154,376
2018	3.96%	120,000	9,702	1.25%	15,000	4,870	135,000	14,572	149,572
2019	3.96%	125,000	4,950	1.25%	15,000	4,682	140,000	9,632	149,632
2020	-	-	-	1.45%	150,000	4,495	150,000	4,495	154,495
2021	-	-	-	1.60%	145,000	2,320	145,000	2,320	147,320
Total		\$ 470,000	47,520		\$ 365,000	26,857	835,000	74,377	909,377

(6) Operating Lease

The District entered into a lease on October 31, 2013 to lease copier equipment for \$1,050 per month. The lease has been classified as an operating lease and, accordingly, all rents are charged to expense as incurred.

The following is a schedule of future payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2015:

Year Ended June 30,	Amount
2016	\$ 12,600
2017	12,600
2018	12,600
2019	4,200
Total	\$ 42,000

During the fiscal year, payments made under these lease agreements were \$12,600.

(7) Pension Plan

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

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 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

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

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

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

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

The District's contributions to IPERS for the year ended June 30, 2015 were \$182,557.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the District reported a liability of \$1,198,617 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's collective proportion was 0.030223 percent, which was a decrease of 0.000958 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the District recognized pension expense of \$68,184. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,027	-
Changes of assumptions	52,898	-
Net difference between projected and actual earnings on pension plan investments	-	457,118
Changes in proportion and differences between District contributions and proportionate share of contributions	-	92,101
District contributions subsequent to the measurement date	182,557	-
Total	<u>\$ 248,482</u>	<u>549,219</u>

\$182,557 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (120,395)
2017	(120,395)
2018	(120,395)
2019	(120,395)
2020	(1,714)
	<u>\$ (483,294)</u>

There were no non-employer contributing entities at IPERS.

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

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

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

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

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

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

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

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

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
District's proportionate share of the net pension liability	\$2,264,753	1,198,617	298,688

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

Payables to the Pension Plan - At June 30, 2015, the District reported payables to the defined benefit pension plan of \$0 for legally required employer contributions and \$0 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for employees and retirees and their spouses. There are 40 active and 2 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 United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

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

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding 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 June 30, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 10,519
Interest on net OPEB obligation	4,778
Adjustment to annual required contribution	<u>(5,143)</u>
Annual OPEB cost	10,154
Contributions made	<u>-</u>
Increase in net OPEB obligation	10,154
Net OPEB obligation beginning of year	<u>106,150</u>
 Net OPEB obligation end of year	 <u><u>\$ 116,304</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2015.

For the year ended June 30, 2015, the District contributed \$0 to the medical plan. Plan members eligible for benefits contributed \$61,046 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 June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 10,321	166.7%	\$ 95,962
2014	10,188	0.0%	106,150
2015	10,153	0.0%	116,303

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2015, the actuarial accrued liability was \$76,117, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$76,117. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,241,000 and the ratio of the UAAL to covered payroll was 6.13%. As of June 30, 2015, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2012 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy.

Mortality rates are from the Life Expectancy Table, from National Center for Health Statistics updated in 2008, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the table 1 of GASB Statement 45.

Projected claim costs of the medical plan are \$451 per month for retirees less than age 65. The salary increase rate was assumed to be 2.25% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) 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.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$132,223 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.

(11) Deficit Unrestricted Net Position

In the Statement of Net Position, the District had a deficit unrestricted net position in its Governmental Activities of \$1,403,197 and a deficit unrestricted net position in its Business Type Activities of \$17,194 at June 30, 2015. The reason for these deficit net positions is due to the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 during fiscal year, which requires all school districts and other governmental entities in the state of Iowa who contribute to IPERS to show their proportionate share of the IPERS funding deficit as a liability on each entity's financials beginning in fiscal year 2015.

(12) Special Investigation

The Office of Auditor of State is currently performing a special investigation of the District as a result of concerns identified during the course of the audit. The Auditor of State's special investigative report will be released upon completion.

(13) Construction Commitments

The District has entered into construction contracts totaling approximately \$100,000 for roof and gutter repair to District buildings. As of June 30, 2015, none of these costs were paid. These costs will be paid for in fiscal year 2016 as work on the projects progress.

(14) Lawsuit

The District has one known lawsuit as of June 29, 2016. This matter has been turned over to the District's insurance company. The District believes the portion of any potential costs or settlement in relation to this lawsuit not covered by insurance would not materially affect the financial position of the District. However, the probability and amount of loss, if any, is undeterminable.

(15) **Categorical Funding**

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

<u>Program</u>	<u>Amount</u>
At-risk program	\$ 34,075
Talented and gifted	15,615
Returning dropout and dropout prevention program	50,348
Four year old preschool	1,463
Beginning teacher mentoring and induction program	7,237
Teacher quality basic	6,008
Educator quality, market factor	1,891
Teacher leadership grants	5,980
Professional development	<u>20,686</u>
Total	<u>\$ 143,303</u>

(16) **Subsequent Events**

The District has evaluated subsequent events through June 29, 2016, which is the date the financial statements were available to be issued.

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

	<u>Governmental Activities</u>	<u>Business type Activities</u>
Net position June 30, 2014, as previously reported	\$ 2,970,199	39,670
Net pension liability at June 30, 2014	(1,749,156)	(41,176)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	<u>172,543</u>	<u>4,062</u>
Net position July 1, 2014, as restated	<u>\$ 1,393,586</u>	<u>2,556</u>

Required Supplementary Information

Melcher-Dallas Community School District

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

Required Supplementary Information

Year ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts	Budget to Net Variance
Revenues:							
Local sources	\$ 1,556,077	77,038	1,633,115	(7,049)	1,626,066	1,846,194	(220,128)
Intermediate sources	10,756	-	10,756	-	10,756	3,000	7,756
State sources	2,422,117	1,593	2,423,710	-	2,423,710	2,217,103	206,607
Federal sources	84,913	106,530	191,443	-	191,443	163,768	27,675
Total revenues	4,073,863	185,161	4,259,024	(7,049)	4,251,975	4,230,065	21,910
Expenditures / Expenses:							
Instruction	2,622,836	-	2,622,836	-	2,622,836	2,733,145	110,309
Support services	1,062,371	-	1,062,371	-	1,062,371	1,255,338	192,967
Non-instructional programs	10,058	182,201	192,259	(168)	192,091	131,477	(60,614)
Other expenditures	337,907	-	337,907	-	337,907	309,017	(28,890)
Total expenditures/expenses	4,033,172	182,201	4,215,373	(168)	4,215,205	4,428,977	213,772
Excess (deficiency) of revenues over (under) expenditures/expenses	40,691	2,960	43,651	(6,881)	36,770	(198,912)	235,682
Other financing sources, net	2,125	-	2,125	-	2,125	-	2,125
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	42,816	2,960	45,776	(6,881)	38,895	(198,912)	237,807
Balances beginning of year, as restated	751,120	61,249	812,369	(58,693)	753,676	668,831	84,845
Balances end of year	\$ 793,936	64,209	858,145	(65,574)	792,571	469,919	322,652

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2015

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard 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, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on 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, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt a budget amendment.

During the year ended June 30, 2015, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

Melcher-Dallas Community School District

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

Iowa Public Employees' Retirement System
Last Fiscal Year*
(In Thousands)

Required Supplementary Information

	<u>2015</u>
District's proportion of the net pension liability	0.030223%
District's proportionate share of the net pension liability	\$ 1,199
District's covered employee payroll	\$ 1,978
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.62%
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.

See accompanying independent auditor's report.

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

Melcher-Dallas Community School District

Schedule of District Contributions

Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(In Thousands)

Required Supplementary Information

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 183	177	177	155	136	128	130	118	108	104
Contributions in relation to the statutorily required contribution	(183)	(177)	(177)	(155)	(136)	(128)	(130)	(118)	(108)	(104)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 2,045	1,978	2,042	1,921	1,957	1,925	2,047	1,950	1,878	1,809
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

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

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

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

Changes of assumptions:

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

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

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

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

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

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

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

Melcher-Dallas Community School District

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 323	323	0.0%	\$ 2,000	16.15%
2011	July 1, 2009	-	323	323	0.0%	2,000	16.15%
2012	July 1, 2009	-	323	323	0.0%	1,960	16.50%
2013	July 1, 2012	-	76	76	0.0%	2,050	3.71%
2014	July 1, 2012	-	76	76	0.0%	1,174	6.47%
2015	July 1, 2012	-	76	76	0.0%	1,241	6.12%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Supplementary Information

Melcher-Dallas Community School District

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2015

	Special Revenue		
	Management Levy	Student Activity	Total
Assets			
Cash and cash equivalents	\$ 59,411	37,908	97,319
Receivables:			
Property tax:			
Delinquent	1,677	-	1,677
Succeeding year	70,000	-	70,000
Accounts	-	61	61
Prepaid expenses	61,962	-	61,962
Total assets	\$ 193,050	37,969	231,019
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ -	2,612	2,612
Total liabilities	-	2,612	2,612
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	70,000	-	70,000
Total deferred inflows of resources	70,000	-	70,000
Fund balances:			
Nonspendable:			
Prepaid expenses	61,962	-	61,962
Restricted for:			
Management levy purposes	61,088	-	61,088
Student activities	-	35,357	35,357
Total fund balances	123,050	35,357	158,407
Total liabilities, deferred inflows of resources and fund balances	\$ 193,050	37,969	231,019

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 2

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

Year ended June 30, 2015

	Special Revenue		Total
	Management Levy	Student Activity	
Revenues:			
Local sources:			
Local tax	\$ 79,962	-	79,962
Other	45	62,966	63,011
State sources	237	-	237
Total revenues	<u>80,244</u>	<u>62,966</u>	<u>143,210</u>
Expenditures:			
Current:			
Instruction:			
Regular	11,483	-	11,483
Special	2,834	-	2,834
Other	3,386	71,096	74,482
Support services:			
Student	543	-	543
Instructional staff	276	-	276
Administration	11,134	-	11,134
Operation and maintenance of plant	25,651	-	25,651
Transportation	8,779	-	8,779
Non-instructional programs	448	-	448
Total expenditures	<u>64,534</u>	<u>71,096</u>	<u>135,630</u>
Change in fund balances	15,710	(8,130)	7,580
Fund balances beginning of year	<u>107,340</u>	<u>43,487</u>	<u>150,827</u>
Fund balances end of year	<u>\$ 123,050</u>	<u>35,357</u>	<u>158,407</u>

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2015

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
Unreserved	\$ 87	1,110	3,478	2,405	124
High School Athletics	6,361	29,379	31,967	(2,389)	1,384
Music	1,290	48	1,300	-	38
SADD	1,771	-	55	-	1,716
Cheerleaders	543	1,142	988	-	697
FBLA	2,428	832	1,028	-	2,232
Yearbook	4,233	4,450	2,411	-	6,272
FCCLA	284	1,615	1,638	-	261
FFA	7,589	10,847	11,836	-	6,600
Student Council	7,513	5,813	6,639	-	6,687
Drill Team	658	3,258	2,047	-	1,869
Thespian Club	24	886	400	-	510
Spanish Club	121	-	-	-	121
Elementary Student Government	5,800	383	1,624	-	4,559
Science Club	1,073	2,505	1,347	-	2,231
Class of 13	372	-	-	(372)	-
Class of 15	592	357	1,736	222	(565)
Class of 16	-	341	475	134	-
Junior High	2,748	-	2,127	-	621
Total	\$ 43,487	62,966	71,096	-	35,357

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 4

Combining Balance Sheet
Capital Project Accounts

June 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and cash equivalents	\$ 273,026	65,398	338,424
Receivables:			
Property tax:			
Delinquent	-	440	440
Succeeding year	-	21,410	21,410
Due from other funds	19,000	-	19,000
Due from other governments	46,187	-	46,187
Total assets	\$ 338,213	87,248	425,461
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ 19,463	1,468	20,931
Total liabilities	19,463	1,468	20,931
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	21,410	21,410
Total deferred inflows of resources	-	21,410	21,410
Fund balances:			
Restricted for:			
School infrastructure	318,750	-	318,750
Physical plant and equipment	-	64,370	64,370
Total fund balances	318,750	64,370	383,120
Total liabilities, deferred inflows of resources and fund balances	\$ 338,213	87,248	425,461

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Schedule 5

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Capital Project Accounts

Year ended June 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	20,979	20,979
Other	111	28	139
State sources	298,624	62	298,686
Total revenues	<u>298,735</u>	<u>21,069</u>	<u>319,804</u>
Expenditures:			
Instruction:			
Regular	17,418	-	17,418
Support services:			
Administration	37,396	-	37,396
Operation and maintenance of plant	8,176	3,119	11,295
Transportation	80,940	-	80,940
Other expenditures:			
Facilities acquisition	39,950	11,108	51,058
Total expenditures	<u>183,880</u>	<u>14,227</u>	<u>198,107</u>
Change in fund balances	114,855	6,842	121,697
Fund balances beginning of year	<u>203,895</u>	<u>57,528</u>	<u>261,423</u>
Fund balances end of year	<u>\$ 318,750</u>	<u>64,370</u>	<u>383,120</u>

See accompanying independent auditor's report.

Melcher-Dallas Community School District

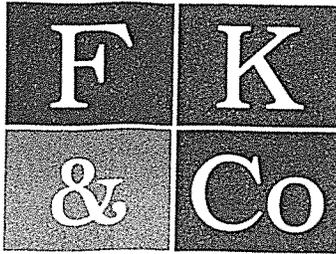
Schedule 6

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Ten Years

	Modified Accrual Basis									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues:										
Local sources:										
Local tax	\$ 1,232,544	1,265,826	1,412,690	1,487,948	1,429,557	1,394,776	1,218,608	1,197,503	1,216,786	1,379,115
Tuition	225,292	196,821	133,065	127,542	107,201	123,082	115,752	87,076	37,682	65,376
Other	98,241	223,622	150,387	127,883	167,840	171,990	213,248	228,925	272,977	222,448
Intermediate sources	10,756	3,000	-	2,765	-	-	-	-	1,000	-
State sources	2,422,117	2,441,471	1,808,707	1,939,550	1,995,950	1,896,360	2,502,678	2,538,309	2,331,711	2,094,760
Federal sources	84,913	97,580	130,091	78,523	237,495	383,115	116,884	67,614	165,426	182,962
Total	\$ 4,073,863	4,228,320	3,634,940	3,764,211	3,938,043	3,969,323	4,167,170	4,119,427	4,025,582	3,944,661
Expenditures:										
Instruction:										
Regular	\$ 1,616,067	1,390,522	1,607,049	1,569,997	1,392,914	1,401,023	1,447,433	1,547,492	1,369,143	1,363,106
Special	447,356	542,320	483,322	398,225	524,352	510,811	660,962	624,345	627,223	546,650
Other	559,413	499,798	464,576	463,756	469,220	554,480	390,800	416,425	391,935	369,681
Support services:										
Student	80,629	77,959	84,667	66,605	37,383	32,308	51,738	45,735	53,398	68,468
Instructional staff	43,298	70,674	75,571	70,623	63,721	77,829	42,090	38,563	12,977	48,804
Administration	445,722	579,041	513,071	471,032	464,828	446,841	469,718	556,861	486,116	445,826
Operation and maintenance of plant	269,874	261,366	301,010	254,779	249,382	223,709	326,200	316,465	317,989	299,611
Transportation	222,848	246,960	222,908	160,860	246,756	182,836	171,306	197,068	195,192	203,330
Non-instructional programs	10,058	11,283	187	248	355	348	428	429	414	352
Other expenditures:										
Facilities acquisition	51,058	171,930	97,246	6,410	1,126	5,842	380,061	11,950	31,824	-
Long-term debt:										
Principal	125,000	125,000	110,000	110,000	105,000	100,000	100,000	90,000	80,000	75,754
Interest and other charges	29,626	33,429	64,363	55,884	59,986	63,880	68,199	92,507	86,525	90,724
AEA flowthrough	132,223	130,602	122,660	123,248	141,596	142,824	137,704	134,635	130,293	124,015
Total	\$ 4,033,172	4,140,884	4,146,630	3,751,667	3,756,619	3,742,731	4,246,639	4,072,475	3,783,029	3,636,321

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

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

To the Board of Education of
Melcher-Dallas Community School District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District (District) as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A), (B), (C), (D), (F), (G), (H), (I) and (J) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (E) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

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.

The District's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



Faller, Kincheloe & Co., PLC

Des Moines, Iowa
June 29, 2016

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2015

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. Also, in some cases, vouchers are processed, disbursements are recorded and checks are prepared by the same person.

Recommendation – We realize that it is difficult to segregate duties with a limited number of office employees. However, the Melcher-Dallas Community School District (District) should review its operating procedures to obtain the maximum control possible under the circumstances using currently available staff, including elected officials.

Response – We will continue to investigate available alternatives.

Conclusion – Response acknowledged.

- (B) Financial Reporting – During the audit, we identified material amounts of assets, liabilities, revenues and expenditures not properly recorded in the District's financial statements. In addition, several adjustments were posted directly to fund balance, and as a result, the District's financial statements do not reconcile from year to year. Also, there were also material differences between the audited financial statement amounts and the amounts certified on the Certified Annual Report as filed with the State of Iowa. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure all assets, liabilities, revenues, expenditures and fund balances are identified and properly included in the District's financial statements.

Response – We will double check these in the future to avoid missing transactions.

Conclusion – Response acknowledged.

- (C) Preparation of Full Disclosure Financial Statements - Internal controls over financial reporting include the actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by generally accepted accounting principles. The District does not have the internal resources to prepare the full-disclosure financial statements required by generally accepted accounting principles for external reporting. While this circumstance is not uncommon for most governmental entities, it is the responsibility of management and those charged with governance to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – We recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles in preparing full-disclosure financial statements for external reporting purposes is difficult. However, we recommend that District officials continue to review operating procedures and obtain the internal expertise needed to handle all aspects of external financial reporting, rather than rely on external assistance.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2015

Response – We recognize our limitations, however, it is not fiscally responsible to add additional staff for this purpose.

Conclusion – Response acknowledged.

- (D) Receipt Slips – District personnel indicate a receipt slip is issued to all payees for all monies received. However, in some instances a copy of the receipt slip is not kept by the District. To increase accountability for the monies is receives, the District should retain a copy of all receipt slips given to the payees.

Recommendation – The District should implement procedures to ensure copies of receipt slips are retained by the District.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

- (E) Fixed Assets – Fixed assets were not periodically counted and reconciled to the fixed asset listing by an independent person. Also, a perpetual record of fixed assets is not kept. Generally accepted accounting principles require an accurate fixed asset listing be maintained.

Recommendation – To provide additional control over the proper recording of fixed assets, fixed assets should be periodically counted and reconciled to the fixed asset listing by a person who does not have custody of the fixed assets. Also, a perpetual fixed asset listing should be kept.

Response – We will review this situation.

Conclusion – Response acknowledged.

- (F) Outside Bank Account – The District identified a bank account that appeared to account for monies received from donations and fundraisers. The District did not know that this bank account existed until approximately April, 2015. Based on how the donation and fundraising activities were promoted, it may appear that these activities were school sponsored. This account was subsequently closed, and the balance in this account was paid to the District in May, 2015.

Recommendation – The District should implement procedures to ensure all monies collected on behalf of the District are recorded on the District's accounting records and deposited to the District's bank account.

Response – We have implemented this recommendation. In addition, we will be more vigilant to ensure all fundraisers and donations are deposited to a District bank account.

Conclusion – Response acknowledged.

- (G) Bank Reconciliation – Monthly reconciliation of the District's balances to the bank accounts were not reviewed by an independent person. The reconciling items and listing of outstanding checks are not reviewed for propriety. Many inaccurate reconciling items were included on the bank reconciliations.

Recommendation – To improve financial accountability and control, a monthly reconciliation of the book and bank balances should be prepared and reviewed by an independent individual. Any variances should be investigated and resolved in a timely manner.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2015

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (H) Accounting Records – A separate process for making adjustments to the accounting records was not documented. Also, adjustments were not identified and recorded in a manner to clearly document the purpose of the adjustments. Supporting documentation was not retained for certain adjustments. In addition, non-routine adjustments were not reviewed and approved by a responsible official.

Recommendation – The District should develop a process for making adjustments to the accounting records. All adjustments should be adequately explained and supported. Adjustments should be reviewed and approved by a responsible official.

Response – The District will make adjustments as soon as they are needed. Adjustments will be adequately explained and proper support will be maintained. Adjustments will be approved by responsible officials.

Conclusion – Response acknowledged.

- (I) Student Activity Fund – For Activity Fund fundraisers, there are no documented procedures in place to reconcile the cash receipts to the amount of money that should have been collected based on the quantity of merchandise purchased for resale or gross profit percentage.

Recommendation – The District should implement procedures for fundraisers which documents the reconciliation of actual monies collected to the amount of money that should have been collected based on quantity of merchandise purchased for resale or gross profit percentages.

Response – We will review this area.

Conclusion – Response acknowledged.

- (J) Payroll – Instances were noted where the District made payroll advances to employees. These payroll advances ranged from a few dollars to several thousand dollars for various individual. It would not appear that payroll advances given to employees meet the test of public purpose.

Recommendation – The District consult with their Attorney to determine the disposition of this matter. In addition, the District should refrain from giving out payroll advances in the future.

Response – Payroll advances will no longer be given. In addition, our Attorney is well aware of this issue.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Expenditures for the year ended June 30, 2015 exceeded the certified budget amounts in the non-instructional programs and other expenditures functions.

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

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

Conclusion – Response acknowledged.

- (2) Questionable Disbursements – Except as noted in the recommendation on page 61, item (J), no expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense - No expenditures of Melcher-Dallas Community School District (District) money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- (4) Business Transactions – No business transactions between the District and District officials or employees were noted.
- (5) 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 ensure that the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the District minutes but were not.

Instances were noted where the board minutes and the related schedule of bills were not timely published as required by the Code of Iowa. In addition, instances were noted where some invoices paid were not approved by the Board of Directors or published in the newspaper. Chapter 279.35 of the Code of Iowa requires that all board minutes be published within two weeks of the board meeting, and that the schedule of bills allowed be published as required by the above Code section.

The District went into closed session on June 22, 2015. The minutes record did not document the vote of each member on the question of holding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Instances were noted where the board minutes were not signed by either the Board President or the Board Secretary.

Recommendation – We recommend that the Board meeting minutes and the related schedule of bills allowed be published within two weeks of the Board meeting and that all bills allowed be approved by the Board of Directors and published in the newspaper as required per the Code of Iowa. Also, the District should ensure compliance with Chapter 21 of the Code of Iowa in relation to closed sessions. In addition, the board minutes should be signed by the Board President and the Board Secretary.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2015

Response – We will implement these recommendations to the best of our ability.

Conclusion – Response acknowledged.

- (7) Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- (8) Supplementary Weighting – No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- (9) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted, except that the Board minutes did not document the maximum amount which may be kept on deposit in each depository until December, 2014.

Recommendation – To be in compliance with Chapter 12C of the Code of Iowa, the District should implement procedures to ensure the Board minutes document the maximum amount which may be kept on deposit in each depository.

Response – We have implemented this recommendation.

Conclusion – Response acknowledged.

- (10) Certified Annual Report – The Certified Annual Report was certified timely to the Iowa Department of Education.
- (11) Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds. However, for full-time employees who work part-time on categorical funded projects, no time records are kept which documents the amount of time spent on categorical funded projects.

It appears the District paid for some capital expenditures related to facility construction from at-risk monies. According to the Department of Education's Uniform Administrative Procedures Manual, it would appear that these types of costs are not allowable to be charged to at-risk funds.

Recommendation – The District should contact the Iowa Department of Education regarding corrective action to be taken.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (12) Statewide Sales, Services and Use Tax – Except as noted below, no instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

The District expended \$2,734 for copier supplies which do not appear to be an allowable use in accordance with Chapter 423F.3 of the Code of Iowa.

Recommendation – The District should ensure expenditures of statewide sales, services and use tax revenue are limited to allowable uses.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2015

Response – The District will review expenditures to ensure compliance in the future.

Conclusion – Response acknowledged.

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 revenues. 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		\$ 203,895
Revenues:		
Statewide sales, services and use tax	\$ 298,624	
Other local revenues	111	298,735
		<u>502,630</u>
Expenditures:		
School infrastructure construction	32,201	
Equipment	133,040	
Other	18,639	183,880
		<u>318,750</u>
Ending balance		<u>\$ 318,750</u>

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

(13) Interfund Loans – The Iowa Department of Education issued a Declaratory Order (Order) dated October 22, 2009 outlining requirements for interfund loans. During the current and prior fiscal year, the District made loans between various funds. The District did not comply with the Order’s requirements, as follows:

- The interfund loans were not always formally approved by the Board.
- A provision for interest was not included in the resolution authorizing the interfund loan.
- The loans were not repaid by October 1 of the fiscal year following the fiscal year in which the loan occurred. For loans unable to be repaid, the District did not follow the remedies available under Chapter 74, 278.1(5) or 24.22 of the Code of Iowa.

Recommendation – The District should comply with the requirements for existing and future interfund loans.

Response – We will implement this recommendation to the best of our ability.

Conclusion – Response acknowledged.

(14) Financial Condition – The Special Revenue, Management Levy Fund had a fund balance of \$123,050 at June 30, 2015. Total expenditures from this fund in fiscal year 2015 were \$64,534. As a result, the fund balance in this fund may be excessive.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2015

As noted on the Statement of Net Position, the Governmental Activities had a deficit unrestricted net position of \$1,403,197 and the Business Type Activities had a deficit unrestricted net position of \$17,194 at June 30, 2015. In addition, a student activity account had a negative balance as of June 30, 2015.

Recommendation – The District should ensure the balance in the Special Revenue, Management Levy Fund is reasonable. The District should also continue to investigate alternatives to eliminate these deficits in order to return the funds to a sound financial condition. Procedures should be implemented to ensure all student activity accounts have a positive balance.

Response – We will review the Special Revenue, Management Levy Fund for reasonableness. The District will try to decrease expenditures and increase revenues so that the Governmental Activities and the Business Type Activities will not show a deficit balance at year-end. We are also working to ensure all the student activity accounts are positive.

Conclusion – Response acknowledged.

- (15) Fixed Asset Sales – The District sold two vehicles in the fiscal year. However, the District did not follow Chapter 297.22 of the Code of Iowa which requires that “each sale shall be published by at least one insertion each week for two consecutive weeks in a newspaper having general circulation in the district.” The District only advertised the vehicle sales one time in the newspaper.

Recommendation – On future fixed asset sales, the District should implement procedures to ensure compliance with Chapter 297.22 of the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (16) Disbursements – Instances were noted where invoices could not be located for items purchased with a credit card.

Recommendation – The District should implement procedures to ensure that invoices are obtained and retained for all purchases.

Response – We will implement this recommendation.

Conclusion - Response acknowledged.

- (17) Payroll Issues – Instances were noted where some employee compensation was paid as a vendor and was not being recorded as payroll. As a result, payroll taxes were not being paid by the District and employee payroll tax withholding were not remitted to the taxing authorities as required by Internal Revenue Service regulations.

Instances were noted where there was not always written authorization for employee payroll withholdings.

In some instances, it does not appear the District properly computed the IPERS gross wage amounts. As a result, it appears IPERS was underpaid in several instances.

Also, it appears the District failed to report one month’s of payroll earnings to the State of Iowa, Iowa Workforce Development.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2015

Recommendation – The District should implement procedures to ensure all employee compensation is being recorded as payroll with all applicable payroll taxes withheld and paid, as required by Internal Revenue Service regulations.

The District should also implement procedures to ensure written authorization exists for all employee payroll withholdings. In addition, the District should work with IPERS to ensure the proper amount of monies are remitted to IPERS, and that all compensation is properly reported to the State of Iowa, Iowa Workforce Development.

Response – We will ensure all employee compensation is paid as payroll. In addition, written authorization will be obtained for all employee payroll withholdings. We have also work with IPERS and the State of Iowa, Iowa Workforce Development on the above issues.

Conclusion – Response acknowledged.

- (18) Sharing Weighting – It does not appear the District will receive any sharing weighting monies from the State of Iowa for a shared teacher. It appears the District failed to report this data to the Iowa Department of Education. District personnel were apparently unaware of this situation until we brought it to their attention. As a result, the Department of Education has no records that sharing weighting monies are due to the District. If the District does not receive any sharing weighting monies from the State of Iowa because of this omission, the District would be forgoing several thousand dollars that was due to them from the State of Iowa.

Recommendation – The District should implement procedures to ensure all sharing weighting monies due to them from the State of Iowa are received in the future.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (19) Checks – The Board Secretary does not sign some of the District checks, as required by Chapter 291.8 of the Code of Iowa.

Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and the back of each cancelled check. In some cases, the District retains cancelled checks through electronic image, but in other cases the District did not obtain an image of the back of each cancelled check as required.

Recommendation – The Board Secretary should sign all District checks, as required by the Code of Iowa. In addition, the District should obtain and retain an image of both the front and back of each cancelled check as required by the Code of Iowa.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (20) Refinancing – It appears the District could have saved several thousand dollars if the District refinanced one issue of its long-term debt on May 1, 2015. District personnel were apparently unaware of this situation until we brought this to their attention.

Recommendation – In the future, the District review all financing decisions to ensure all financing is obtained in the most cost-effective manner.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2015

Response – In May of 2016, we checked on this, and due to the recent rise of interest rates, refinancing at this time is not economically feasible.

Conclusion – Response acknowledged.