

ALGONA COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2016

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# Algona Community School District

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2015 Election)</b>		
Floyd Lavrenz	President	2015
Cheryl Grether	Vice-President	2017
Gloria Bartelt	Board Member	2017
Rodney Davis	Board Member	2015
Bruce Knudsen	Board Member	2015
Jay Limbaugh	Board Member	2017
Brent Owen	Board Member	2015
<b>(After September 2015 Election)</b>		
Floyd Lavrenz	President	2019
Cheryl Grether	Vice-President	2017
Gloria Bartelt	Board Member	2017
Rodney Davis	Board Member	2019
Bruce Knudsen	Board Member	2019
Jay Limbaugh	Board Member	2017
Brent Owen	Board Member	2019
<b>School Officials</b>		
Marty Fonley	Superintendent	2016
Mary Beth Cooper	District Secretary/Treasurer	2016
Stephen Avery	Attorney	2016

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

**Independent Auditor's Report**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Algona Community School District, Algona, Iowa, as of and for the year ended June 30, 2016, 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.

The financial statements of Algona Community School Foundation have not been audited, and we were not engaged to audit the Algona Community School Foundation financial statements as part of our audit of the Algona Community School District's basic financial statements. The Algona Community School Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because we were not engaged to audit the Algona Community School Foundation's financial statements and because we did not apply any auditing procedures to the Algona Community School Foundation's financial statements, we do not express an opinion on the discretely presented component unit.

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, business type activities, each major fund, and the aggregate remaining fund information of the Algona Community School District as of June 30, 2016 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.

### **Other Matters**

#### *Required Supplementary Information.*

U.S generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions, the Schedule of Funding Progress for the Retiree Health Plan and the combining statements for the discretely presented component unit on pages 7 through 16 and 47 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 Algona Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 7 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2017, on our consideration of the Algona Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Algona Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2017  
Newton, Iowa

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

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Algona Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2016 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$16,336,295 in fiscal year 2015 to \$16,608,493 in fiscal year 2016, while General Fund expenditures increased from \$16,284,315 in fiscal year 2015 to \$16,851,494 in fiscal year 2016. Expenditures outpaced revenues causing a decrease in the District's General Fund balance from \$3,024,156 at June 30, 2015 to \$2,781,155 at June 30, 2016, an 8.04% decrease.
- The District's solvency ratio (unassigned plus assigned fund balance /General Fund revenues minus AEA flowthrough) was 14.95% at June 30, 2016.

### **USING THIS ANNUAL REPORT**

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Algona Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Algona Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Algona Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

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

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

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

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

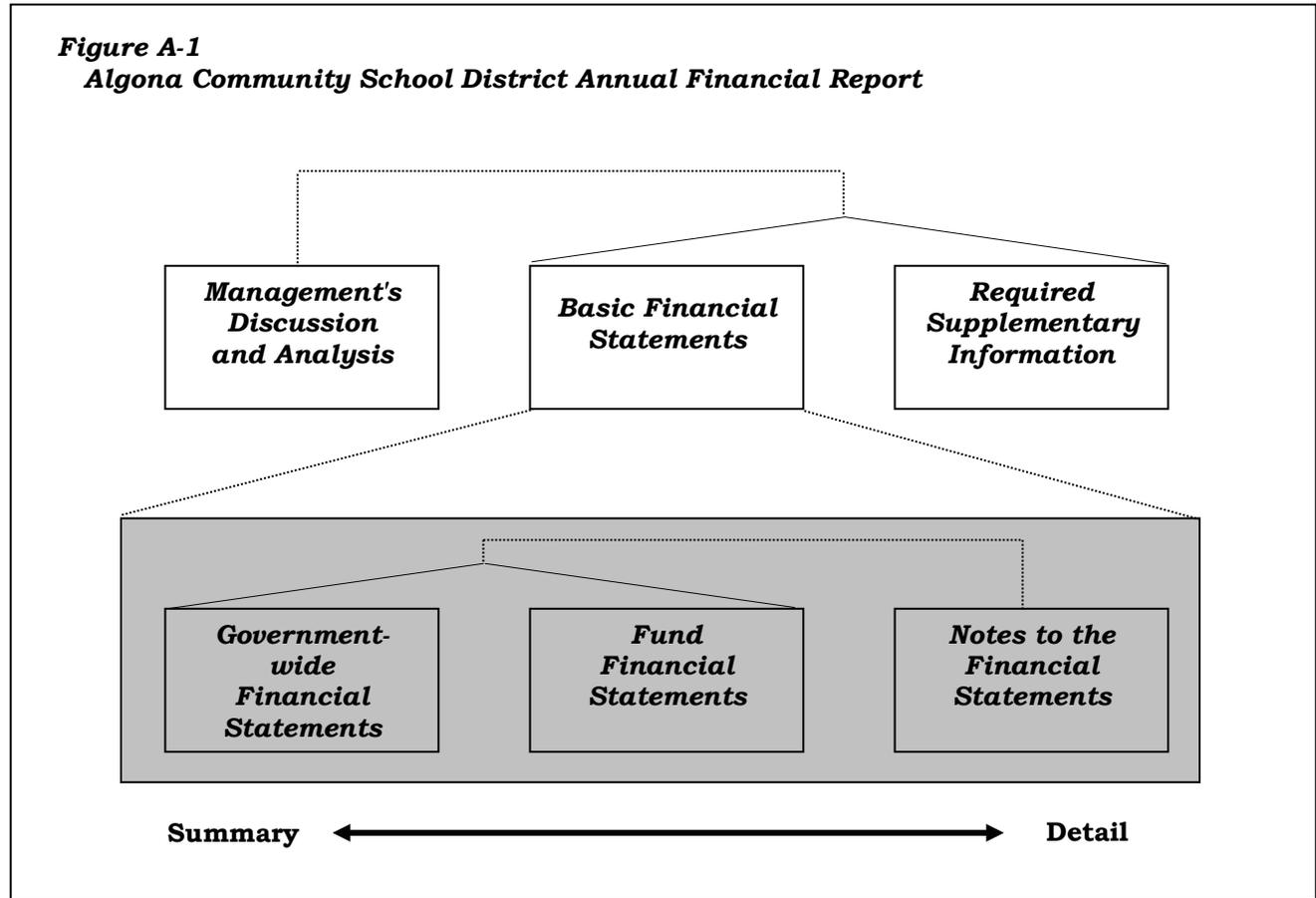


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food service, preschool	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of deferred outflow / inflow information	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of fund balance that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period.
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## **REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

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

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The two government-wide financial statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position 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 three 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.
- *Component Unit:* The Algona Community School Foundation was created to develop, increase and extend the facilities and services of the Algona Community School District while providing for boarder educational opportunities. The Foundation provides scholarships to graduates and classroom grants within the District.

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Preschool Fund. The District's internal service fund, another type of proprietary fund, is the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has two internal service funds, which include the Self-Funded Health Insurance Fund and Flex Benefit Fund.

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

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private Purpose Trust and Agency Funds.
- Private Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
  - Agency Fund - The District administers and accounts for revenues collected and expenditures paid for other organizations.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2016.

Figure A-3 Condensed Statement of Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2016	2015	2016	2015	2016	2015	2015-16
Current and other assets	\$ 18,967,417	19,248,212	140,631	124,771	19,108,048	19,372,983	-1.37%
Capital assets	20,268,986	15,482,967	115,565	85,473	20,384,551	15,568,440	30.94%
Total assets	39,236,403	34,731,179	256,196	210,244	39,492,599	34,941,423	13.03%
Deferred outflows of resources	1,094,145	1,097,330	26,440	25,746	1,120,585	1,123,076	-0.22%
Long-term liabilities	22,156,722	18,012,416	170,435	138,712	22,327,157	18,151,128	23.01%
Other liabilities	1,557,160	1,867,098	15,502	6,270	1,572,662	1,873,368	-16.05%
Total liabilities	23,713,882	19,879,514	185,937	144,982	23,899,819	20,024,496	19.35%
Deferred inflows of resources	8,144,995	9,456,044	10,551	44,955	8,155,546	9,500,999	-14.16%
Net position:							
Net investment in capital assets	5,338,986	6,337,997	115,565	85,473	5,454,551	6,423,470	-15.08%
Restricted	5,785,859	3,380,438	-	-	5,785,859	3,380,438	71.16%
Unrestricted	(2,653,174)	(3,225,484)	(29,417)	(39,420)	(2,682,591)	(3,264,904)	17.84%
Total net position	\$ 8,471,671	6,492,951	86,148	46,053	8,557,819	6,539,004	30.87%

The District's total net position at increased \$2,018,815 or 30.87% from the prior year. The largest portion of the District's net position is invested in capital assets (e.g. land, infrastructure, intangibles, 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 represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$2,405,421 or 71.16% compared to the prior year. The increase was primarily the result of the increase in net position restricted for school infrastructure purposes.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$582,313 or 17.84% compared to the prior year.

Figure A-4 shows the changes in net position for the year ended June 30, 2016.

Figure A-4 Changes in Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2016	2015	2016	2015	2016	2015	2015-16
Revenues:							
Program revenues:							
Charges for service	\$ 2,102,999	1,965,438	407,228	386,520	2,510,227	2,351,958	6.73%
Operating grants, contributions and restricted interest	1,608,797	1,375,601	414,670	391,881	2,023,467	1,767,482	14.48%
Capital grants, contributions and restricted interest	1,437,368	421,900	-	-	1,437,368	421,900	240.69%
General revenues:							
Property tax	7,225,451	7,093,819	-	-	7,225,451	7,093,819	1.86%
Income surtax	622,668	719,833	-	-	622,668	719,833	-13.50%
Statewide sales, services and use tax	1,251,785	1,258,801	-	-	1,251,785	1,258,801	-0.56%
Unrestricted state grants	6,674,355	6,822,553	-	-	6,674,355	6,822,553	-2.17%
Unrestricted investment earnings	3,108	2,778	30	18	3,138	2,796	12.23%
Other	193,046	64,337	836	2,616	193,882	66,953	189.58%
Total revenues	<u>21,119,577</u>	<u>19,725,060</u>	<u>822,764</u>	<u>781,035</u>	<u>21,942,341</u>	<u>20,506,095</u>	<u>7.00%</u>
Program expenses:							
Instruction	12,115,103	12,180,233	12,123	18,290	12,127,226	12,198,523	-0.58%
Support services	5,605,413	5,175,032	11,659	1,003	5,617,072	5,176,035	8.52%
Non-instructional programs	-	-	764,154	700,968	764,154	700,968	9.01%
Other expenses	1,455,909	1,552,070	-	-	1,455,909	1,552,070	-6.20%
Total expenses	<u>19,176,425</u>	<u>18,907,335</u>	<u>787,936</u>	<u>720,261</u>	<u>19,964,361</u>	<u>19,627,596</u>	<u>1.72%</u>
Change in net position before transfers	1,943,152	817,725	34,828	60,774	1,977,980	878,499	125.15%
Transfers	(8,600)	-	8,600	-	-	-	0.00%
Change in net position before extraordinary items	1,934,552	817,725	43,428	60,774	1,977,980	878,499	125.15%
Extraordinary items:							
Reorganization settlement	44,168	-	(3,333)	-	40,835	-	100.00%
Change in net position	1,978,720	817,725	40,095	60,774	2,018,815	878,499	129.80%
Net position beginning of year	<u>6,492,951</u>	<u>5,675,226</u>	<u>46,053</u>	<u>(14,721)</u>	<u>6,539,004</u>	<u>5,660,505</u>	<u>15.52%</u>
Net position end of year	<u>\$ 8,471,671</u>	<u>6,492,951</u>	<u>86,148</u>	<u>46,053</u>	<u>8,557,819</u>	<u>6,539,004</u>	<u>30.87%</u>

In fiscal year 2016, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants accounted for 74.69% of the revenue from governmental activities while charges for service and operating grants and contributions accounted for 99.90% of the revenue from business type activities.

The District's total revenues were approximately \$21.9 million of which approximately \$21.1 million was for governmental activities and approximately \$0.8 million was for business type activities.

### Governmental Activities

Revenues for governmental activities were \$21,119,577 and expenses were \$19,176,425.

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, 2016 compared to those expenses for the year ended June 30, 2015.

	Total Cost of Services			Net Cost of Services		
	June 30,		Change	June 30,		Change
	2016	2015	2015-16	2016	2015	2015-16
Instruction	\$12,115,103	12,180,233	-0.53%	9,147,187	9,516,757	-3.88%
Support services	5,605,413	5,175,032	8.32%	4,035,231	4,686,139	-13.89%
Other expenses	1,455,909	1,552,070	-6.20%	844,843	941,500	-10.27%
Totals	<u>\$19,176,425</u>	<u>18,907,335</u>	<u>1.42%</u>	<u>14,027,261</u>	<u>15,144,396</u>	<u>-7.38%</u>

- The cost financed by users of the District's programs was \$2,102,999.
- Federal and state governments along with contributions from local sources subsidized certain programs with grants and contributions totaling \$3,046,165.
- The net cost of governmental activities was financed with \$7,225,451 in property tax, \$622,668 in income surtax, \$1,251,785 in statewide sales, services and use tax, \$6,674,355 in unrestricted state grants, \$3,108 in interest income and \$193,046 in other general revenues.

### Business Type Activities

Revenues of the District's business type activities were \$822,764 and expenses were \$787,936 for the year ended June 30, 2016. The District's business type activities include the School Nutrition Fund and the Preschool Fund. Revenues of these activities were mostly comprised of charges for service and federal and state reimbursements.

### INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$8,225,825 at June 30, 2016, compared to \$8,686,930 at June 30, 2015. The primary reason for the decrease was the partial release of a bond reserve associated with the District doing a partial refunding on revenue bond indebtedness during the year.

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## **Governmental Fund Highlights**

- The General Fund balance decreased from a balance \$3,024,156 at June 30, 2015 to \$2,781,155 at June 30, 2016. The decrease was primarily the result of a transfer for a remodel of a building to convert it to community use.
- The Capital Projects Fund balance increased from a balance of \$4,003,358 at June 30, 2015 to \$4,465,632 at June 30, 2016. The increase was the result of capital loan notes issued during the year.
- The Debt Service Fund decreased from a balance of \$819,640 at June 30, 2015 to \$62,440 at June 30, 2016. The decrease was result of the partial release of the debt reserve associated with a revenue bond that was partially refunded during the year.

## **Proprietary Fund Highlights**

The School Nutrition Fund net position increased from \$21,915 at June 30, 2015 to \$52,140 at June 30, 2016, representing an increase of 137.92%. The Preschool Fund net position increased from \$24,128 at June 30, 2015 to \$34,008 at June 30, 2016, representing an increase of 40.89%.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$1,503,350 more than budgeted revenues, a variance of 7.36%. The most significant variance resulted from the District receiving more from local sources than originally anticipated.

It is the District's practice to budget expenditures at actual estimated costs. The District then manages or controls General Fund spending through its line-item budget and continues to monitor expenditures at a functional level. 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 and the District exceeded the budget in total.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2016, the District had invested \$20,384,551, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 30.94% from the prior year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$775,410.

The original cost of the District's capital assets was \$33,750,244. Governmental funds accounted for \$33,510,746 with the remainder of \$239,498 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$4,458,632 at June 30, 2016 compared to \$449,970 at June 30, 2015. This significant increase was primarily the result of work on the District's performing arts center.

Figure A-6							
Capital Assets, Net of Depreciation							
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2016	2015	2016	2015	2016	2015	2015-16
Land	\$ 380,615	245,615	-	-	380,615	245,615	54.96%
Construction in progress	4,458,632	449,970	-	-	4,458,632	449,970	890.87%
Buildings	13,020,559	13,078,749	-	-	13,020,559	13,078,749	-0.44%
Land improvements	1,251,347	600,909	-	-	1,251,347	600,909	108.24%
Machinery and equipment	1,157,833	1,107,724	115,565	85,473	1,273,398	1,193,197	6.72%
Total	\$ 20,268,986	15,482,967	115,565	85,473	20,384,551	15,568,440	30.94%

### Long-Term Debt

At June 30, 2016, the District had \$22,327,157 of total long-term debt outstanding. This represents an increase of 23.01% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

- The District had outstanding general obligation bonded indebtedness of \$1,475,000 at June 30, 2016, payable from the Debt Service Fund.
- The District had outstanding revenue bonded indebtedness of \$9,855,000 at June 30, 2016, payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.
- The District had outstanding Physical Plant and Equipment Levy tax anticipation notes of \$3,600,000 at June 30, 2016, payable from the Capital Projects: Physical Plant and Equipment Levy Tax Fund.
- The District had \$27,820 of outstanding termination benefits at June 30, 2016, payable from the Special Revenue, Management Levy Fund.
- The District had a total net pension liability of \$6,642,533 at June 30, 2016. \$6,499,571 of this total was attributable to the District's governmental activities while the remaining \$142,962 was attributable to the District's business type activities.
- The District had a total net OPEB liability of \$726,804 at June 30, 2016. Governmental activities accounted for \$699,331 of this total while business type activities accounted for the remaining \$27,473.

Figure A-7							
Outstanding Long-Term Obligations							
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2016	2015	2016	2015	2016	2015	2015-16
General obligation bonds	\$ 1,475,000	1,475,000	-	-	1,475,000	1,475,000	0.00%
Revenue bonds	9,855,000	10,470,000	-	-	9,855,000	10,470,000	-5.87%
PPEL tax anticipation notes	3,600,000	-	-	-	3,600,000	-	100.00%
Termination benefits	27,820	108,692	-	-	27,820	108,692	-74.40%
Net pension liability	6,499,571	5,348,893	142,962	115,150	6,642,533	5,464,043	21.57%
Net OPEB liability	699,331	609,831	27,473	23,562	726,804	633,393	14.75%
Total	\$ 22,156,722	18,012,416	170,435	138,712	22,327,157	18,151,128	23.01%

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

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

- The local industrial businesses have been stable for several years and have had job openings at times which have had to be filled by looking to other communities. This has led to an increase in students in the Algona Community School District.
- Corwith-Wesley Community School District dissolved as of June 30, 2016 which has resulted in a Whole Grade Sharing Agreement with LuVerne School District and Algona. In the Agreement Algona educates grades 7-12.
- The Performing Arts Center was completed and will add to the community with new families looking to settle in the area.

## **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 Mary Beth Cooper, District Secretary/Treasurer, Algona Community School District, 600 S. Hale St., Algona, Iowa, 50511.

## **Basic Financial Statements**

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Algona Community School Foundation*
<b>Assets</b>				
Cash and pooled investments	\$ 10,003,318	109,425	10,112,743	4,423,923
Receivables:				
Property tax:				
Delinquent	75,936	-	75,936	-
Succeeding year	7,375,356	-	7,375,356	-
Income surtax	653,771	-	653,771	-
Due from other governments	855,703	11,400	867,103	-
Due from other funds	3,333	-	3,333	-
Inventories	-	19,806	19,806	-
Capital assets, net of accumulated depreciation	20,268,986	115,565	20,384,551	-
<b>Total assets</b>	<b>39,236,403</b>	<b>256,196</b>	<b>39,492,599</b>	<b>4,423,923</b>
<b>Deferred Outflows of Resources</b>				
Pension related deferred outflows	1,094,145	26,440	1,120,585	-
<b>Liabilities</b>				
Due to other funds	-	3,333	3,333	-
Accounts payable	1,155,098	364	1,155,462	-
Salaries and benefits payable	133,660	6,717	140,377	-
Accrued interest payable	18,402	-	18,402	-
Incurred but not reported	250,000	-	250,000	-
Unearned revenue	-	5,088	5,088	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds	115,000	-	115,000	-
Revenue bonds	700,000	-	700,000	-
PPEL tax anticipation notes	800,000	-	800,000	-
Termination benefits	22,200	-	22,200	-
Portion due after one year:				
General obligation bonds	1,360,000	-	1,360,000	-
Revenue bonds	9,155,000	-	9,155,000	-
PPEL tax anticipation notes	2,800,000	-	2,800,000	-
Termination benefits	5,620	-	5,620	-
Net pension liability	6,499,571	142,962	6,642,533	-
Net OPEB liability	699,331	27,473	726,804	-
<b>Total liabilities</b>	<b>23,713,882</b>	<b>185,937</b>	<b>23,899,819</b>	<b>-</b>
<b>Deferred Inflows of Resources</b>				
Unavailable property tax revenues	7,375,356	-	7,375,356	-
Pension related deferred inflows	769,639	10,551	780,190	-
<b>Total deferred inflows of resources</b>	<b>8,144,995</b>	<b>10,551</b>	<b>8,155,546</b>	<b>-</b>
<b>Net Position</b>				
Net investment in capital assets	5,338,986	115,565	5,454,551	-
Restricted for:				
Scholarships/District support	-	-	-	4,161,275
Categorical funding	386,889	-	386,889	-
Debt service	44,038	-	44,038	-
Management levy purposes	674,042	-	674,042	-
Student activities	215,258	-	215,258	-
School infrastructure	4,099,344	-	4,099,344	-
Physical plant and equipment	366,288	-	366,288	-
Unrestricted	(2,653,174)	(29,417)	(2,682,591)	262,648
<b>Total net position</b>	<b>\$ 8,471,671</b>	<b>86,148</b>	<b>8,557,819</b>	<b>4,423,923</b>

\* Year end for the Algona Community School Foundation was December 31, 2015.

SEE NOTES TO FINANCIAL STATEMENTS.

**ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

	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	Primary Government		Component Unit	
					Governmental Activities	Business Type Activities	Total	Algona Community School Foundation*
<b>Functions/Programs:</b>								
Governmental activities:								
Instruction:								
Regular	\$ 6,410,756	809,243	115,315	-	(5,486,198)	-	(5,486,198)	-
Special	3,048,974	647,022	90,734	-	(2,311,218)	-	(2,311,218)	-
Other	2,655,373	645,953	659,649	-	(1,349,771)	-	(1,349,771)	-
	<u>12,115,103</u>	<u>2,102,218</u>	<u>865,698</u>	<u>-</u>	<u>(9,147,187)</u>	<u>-</u>	<u>(9,147,187)</u>	<u>-</u>
Support services:								
Student	480,137	-	-	-	(480,137)	-	(480,137)	-
Instructional staff	524,725	-	-	-	(524,725)	-	(524,725)	-
Administration	1,493,081	-	-	-	(1,493,081)	-	(1,493,081)	-
Operation and maintenance of plant	2,335,574	-	-	1,437,368	(898,206)	-	(898,206)	-
Transportation	771,896	781	132,033	-	(639,082)	-	(639,082)	-
	<u>5,605,413</u>	<u>781</u>	<u>132,033</u>	<u>1,437,368</u>	<u>(4,035,231)</u>	<u>-</u>	<u>(4,035,231)</u>	<u>-</u>
Long-term debt interest	287,801	-	-	-	(287,801)	-	(287,801)	-
Other expenditures:								
AEA flowthrough	611,066	-	611,066	-	-	-	-	-
Depreciation(unallocated)**	557,042	-	-	-	(557,042)	-	(557,042)	-
	<u>1,168,108</u>	<u>-</u>	<u>611,066</u>	<u>-</u>	<u>(557,042)</u>	<u>-</u>	<u>(557,042)</u>	<u>-</u>
Total governmental activities	<u>19,176,425</u>	<u>2,102,999</u>	<u>1,608,797</u>	<u>1,437,368</u>	<u>(14,027,261)</u>	<u>-</u>	<u>(14,027,261)</u>	<u>-</u>
Business type activities:								
Instruction:								
Other	12,123	8,905	13,080	-	-	9,862	9,862	-
Support services:								
Administration	660	-	-	-	-	(660)	(660)	-
Operation and maintenance of plant	10,999	-	-	-	-	(10,999)	(10,999)	-
	<u>11,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,659)</u>	<u>(11,659)</u>	<u>-</u>
Non-instructional programs:								
Food service operations	764,154	398,323	401,590	-	-	35,759	35,759	-
Total business type activities	<u>787,936</u>	<u>407,228</u>	<u>414,670</u>	<u>-</u>	<u>-</u>	<u>33,962</u>	<u>33,962</u>	<u>-</u>
Total primary government	<u>\$ 19,964,361</u>	<u>2,510,227</u>	<u>2,023,467</u>	<u>1,437,368</u>	<u>(14,027,261)</u>	<u>33,962</u>	<u>(13,993,299)</u>	<u>-</u>
Total component unit	<u>\$ 769,396</u>	<u>-</u>	<u>242,784</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(526,612)</u>
<b>General Revenues and Transfers:</b>								
Property tax levied for:								
General purposes					\$ 6,397,919	-	6,397,919	-
Debt service					156,779	-	156,779	-
Capital outlay					670,753	-	670,753	-
Income surtax					622,668	-	622,668	-
Statewide sales, service and use tax					1,251,785	-	1,251,785	-
Unrestricted state grants					6,674,355	-	6,674,355	-
Unrestricted investment earnings					3,108	30	3,138	184,908
Realized gain on investments					-	-	-	68,182
Other general revenues					193,046	836	193,882	-
Transfers					(8,600)	8,600	-	-
Total general revenues and transfers					<u>15,961,813</u>	<u>9,466</u>	<u>15,971,279</u>	<u>253,090</u>
Change in net position before extraordinary items					1,934,552	43,428	1,977,980	(273,522)
Extraordinary items:								
Reorganization settlement					44,168	(3,333)	40,835	-
Changes in net position					1,978,720	40,095	2,018,815	(273,522)
Net position beginning of year					6,492,951	46,053	6,539,004	4,697,445
Net position end of year					<u>\$ 8,471,671</u>	<u>86,148</u>	<u>8,516,984</u>	<u>4,423,923</u>

\* Year end for the Algona Community School Foundation was December 31, 2015.

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

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	General	Capital Projects	Debt Service	Nonmajor	Total
<b>Assets</b>					
Cash and pooled investments	\$ 2,428,619	4,300,296	923,864	925,832	8,578,611
Receivables:					
Property tax:					
Delinquent	62,197	6,935	2,622	4,182	75,936
Succeeding year	6,212,784	709,959	152,613	300,000	7,375,356
Income surtax	653,771	-	-	-	653,771
Due from other governments	650,319	205,384	-	-	855,703
Due from other funds	10,683	-	-	-	10,683
<b>Total assets</b>	<b>\$ 10,018,373</b>	<b>5,222,574</b>	<b>1,079,099</b>	<b>1,230,014</b>	<b>17,550,060</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
Liabilities:					
Due to other funds	\$ -	7,350	-	-	7,350
Accounts payable	237,003	39,633	864,046	13,416	1,154,098
Salaries and benefits payable	133,660	-	-	-	133,660
Total liabilities	370,663	46,983	864,046	13,416	1,295,108
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	6,212,784	709,959	152,613	300,000	7,375,356
Income surtax	653,771	-	-	-	653,771
Total deferred inflows of resources	6,866,555	709,959	152,613	300,000	8,029,127
Fund balances:					
Restricted for:					
Categorical funding	386,889	-	-	-	386,889
Debt service	-	-	62,440	-	62,440
Management levy purposes	-	-	-	701,862	701,862
Student activities	-	-	-	215,258	215,258
School infrastructure	-	4,099,344	-	-	4,099,344
Physical plant and equipment	-	366,288	-	-	366,288
Unassigned:					
General	2,394,266	-	-	-	2,394,266
Student activities	-	-	-	(522)	(522)
Total fund balances	2,781,155	4,465,632	62,440	916,598	8,225,825
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 10,018,373</b>	<b>5,222,574</b>	<b>1,079,099</b>	<b>1,230,014</b>	<b>17,550,060</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2016

<b>Total fund balances of governmental funds(page 20)</b>	\$	8,225,825
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		20,268,986
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		1,173,707
Accounts receivable income surtax are not yet available to finance expenditures of the current year and, therefore, are recognized as deferred inflows of resources in the governmental funds.		653,771
Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the government funds.		(18,402)
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	\$ 1,094,145	
Deferred inflows of resources	<u>(769,639)</u>	324,506
Long-term liabilities, including bonds payable, termination benefits payable, other postemployment benefits payable, PPEL tax anticipation notes payable and net pension liability, are not due and payable in the current year and, therefore, are not reported in the governmental funds.		<u>(22,156,722)</u>
<b>Net position of governmental activities(page 18)</b>	<b>\$</b>	<b><u><u>8,471,671</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2016

	General	Capital Projects	Debt Service	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 6,614,553	670,753	156,779	401,548	7,843,633
Tuition	1,450,563	-	-	-	1,450,563
Other	414,912	1,518,957	23	500,094	2,433,986
State sources	7,773,890	1,267,063	1,825	8,785	9,051,563
Federal sources	335,346	-	-	-	335,346
Total revenues	<u>16,589,264</u>	<u>3,456,773</u>	<u>158,627</u>	<u>910,427</u>	<u>21,115,091</u>
Expenditures:					
Current:					
Instruction:					
Regular	6,528,343	-	-	116,312	6,644,655
Special	3,154,208	-	-	-	3,154,208
Other	2,136,767	-	-	476,795	2,613,562
	<u>11,819,318</u>	<u>-</u>	<u>-</u>	<u>593,107</u>	<u>12,412,425</u>
Support services:					
Student	402,325	-	-	-	402,325
Instructional staff	289,935	128,487	-	-	418,422
Administration	1,248,437	8,757	149,539	12,180	1,418,913
Operation and maintenance of plant	1,508,642	165,641	-	236,217	1,910,500
Transportation	625,935	-	-	-	625,935
	<u>4,075,274</u>	<u>302,885</u>	<u>149,539</u>	<u>248,397</u>	<u>4,776,095</u>
Capital outlay	-	5,658,355	-	-	5,658,355
Long-term debt:					
Principal	-	-	875,000	-	875,000
Interest and fiscal charges	-	-	281,359	-	281,359
	<u>-</u>	<u>-</u>	<u>1,156,359</u>	<u>-</u>	<u>1,156,359</u>
Other expenditures:					
AEA flowthrough	611,066	-	-	-	611,066
Total expenditures	<u>16,505,658</u>	<u>5,961,240</u>	<u>1,305,898</u>	<u>841,504</u>	<u>24,614,300</u>
Excess(Deficiency) of revenues over(under) expenditures	83,606	(2,504,467)	(1,147,271)	68,923	(3,499,209)
Other financing sources(uses):					
Proceeds from sale of equipment	1,725	-	-	-	1,725
PPEL tax anticipation note proceeds	-	3,600,000	-	-	3,600,000
General obligation refunding bond	-	-	1,590,000	-	1,590,000
Payment to refunded bond escrow accounts	-	-	(8,947,789)	-	(8,947,789)
Transfer in	-	3,945,836	997,860	-	4,943,696
Transfer out	(345,836)	(4,597,860)	-	-	(4,943,696)
Proceeds from the issuance of revenue bonds	-	-	6,750,000	-	6,750,000
Reorganization settlement	17,504	18,765	-	7,899	44,168
Total other financing sources(uses)	<u>(326,607)</u>	<u>2,966,741</u>	<u>390,071</u>	<u>7,899</u>	<u>3,038,104</u>
Change in fund balances	(243,001)	462,274	(757,200)	76,822	(461,105)
Fund balances beginning of year	<u>3,024,156</u>	<u>4,003,358</u>	<u>819,640</u>	<u>839,776</u>	<u>8,686,930</u>
Fund balances end of year	<u>\$ 2,781,155</u>	<u>4,465,632</u>	<u>62,440</u>	<u>916,598</u>	<u>8,225,825</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016

**Change in fund balances - total governmental funds(page 22)** \$ (461,105)

*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 exceeded depreciation expense in the current year, as follows:

Capital outlay	\$ 5,547,757	
Depreciation expense	(760,483)	
Loss on disposal of assets	<u>(1,255)</u>	4,786,019

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. 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. Current year issuances exceeded repayments, as follows:

Issued	(11,940,000)	
Repaid	<u>8,955,000</u>	(2,985,000)

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.

(6,442)

Income surtax receivable is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds.

4,486

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance on an entity-wide basis.

314,334

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.

816,824

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:

Termination benefits	80,872	
Pension expense	(481,768)	
Other postemployment benefits	<u>(89,500)</u>	<u>(490,396)</u>

**Change in net position of governmental activities(page 19)** \$ 1,978,720

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Funds		
	School	Preschool	Total	Self-Funded	Flex	Total
	Nutrition			Insurance	Benefit	
<b>Assets</b>						
Current assets:						
Cash and pooled investments	\$ 68,491	40,934	109,425	1,386,381	38,326	1,424,707
Due from other governments	11,400	-	11,400	-	-	-
Inventories	19,806	-	19,806	-	-	-
	<u>99,697</u>	<u>40,934</u>	<u>140,631</u>	<u>1,386,381</u>	<u>38,326</u>	<u>1,424,707</u>
Noncurrent assets:						
Capital assets, net of accumulated depreciation	115,565	-	115,565	-	-	-
<b>Total assets</b>	<u>215,262</u>	<u>40,934</u>	<u>256,196</u>	<u>1,386,381</u>	<u>38,326</u>	<u>1,424,707</u>
<b>Deferred Outflows of Resources</b>						
Pension related deferred outflows	25,125	1,315	26,440	-	-	-
<b>Liabilities</b>						
Current liabilities:						
Due to other funds	3,333	-	3,333	-	-	-
Accounts payable	364	-	364	1,000	-	1,000
Salaries and benefits payable	6,717	-	6,717	-	-	-
Unearned revenue	5,088	-	5,088	-	-	-
Incurred but not reported	-	-	-	250,000	-	250,000
	<u>15,502</u>	<u>-</u>	<u>15,502</u>	<u>251,000</u>	<u>-</u>	<u>251,000</u>
Noncurrent liabilities:						
Net pension liability	137,671	5,291	142,962	-	-	-
Net OPEB liability	24,566	2,907	27,473	-	-	-
	<u>162,237</u>	<u>8,198</u>	<u>170,435</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>177,739</u>	<u>8,198</u>	<u>185,937</u>	<u>251,000</u>	<u>-</u>	<u>251,000</u>
<b>Deferred Inflows of Resources</b>						
Pension related deferred inflows	10,508	43	10,551	-	-	-
<b>Net Position</b>						
Net investment in capital assets	115,565	-	115,565	-	-	-
Unrestricted	(63,425)	34,008	(29,417)	1,135,381	38,326	1,173,707
<b>Total net position</b>	<u>\$ 52,140</u>	<u>34,008</u>	<u>86,148</u>	<u>1,135,381</u>	<u>38,326</u>	<u>1,173,707</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016

	Business Type Activities:			Governmental Activities:		
	Enterprise Funds			Internal Service Funds		
	School Nutrition	Preschool	Total	Self-Funded Insurance	Flex Benefit	Total
Operating revenues:						
Local sources:						
Charges for service	\$ 398,323	8,905	407,228	-	-	-
Miscellaneous	836	-	836	2,620,521	78,090	2,698,611
Total operating revenues	<u>399,159</u>	<u>8,905</u>	<u>408,064</u>	<u>2,620,521</u>	<u>78,090</u>	<u>2,698,611</u>
Operating expenses:						
Instructional:						
Other:						
Salaries	-	10,887	10,887	-	-	-
Benefits	-	1,207	1,207	-	-	-
Supplies	-	29	29	-	-	-
	<u>-</u>	<u>12,123</u>	<u>12,123</u>	<u>-</u>	<u>-</u>	<u>-</u>
Support services:						
Administration:						
Benefits	-	-	-	1,880,109	-	1,880,109
Services	660	-	660	429,183	75,294	504,477
Operation and maintenance of plant:						
Services	10,999	-	10,999	-	-	-
	<u>11,659</u>	<u>-</u>	<u>11,659</u>	<u>2,309,292</u>	<u>75,294</u>	<u>2,384,586</u>
Non-instructional programs:						
Food service operations:						
Salaries	228,040	-	228,040	-	-	-
Benefits	107,357	-	107,357	-	-	-
Supplies	413,565	-	413,565	-	-	-
Depreciation	14,927	-	14,927	-	-	-
Other	265	-	265	-	-	-
	<u>764,154</u>	<u>-</u>	<u>764,154</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>775,813</u>	<u>12,123</u>	<u>787,936</u>	<u>2,309,292</u>	<u>75,294</u>	<u>2,384,586</u>
Operating income(loss)	<u>(376,654)</u>	<u>(3,218)</u>	<u>(379,872)</u>	<u>311,229</u>	<u>2,796</u>	<u>314,025</u>
Non-operating revenues:						
Interest	22	8	30	307	2	309
State sources	6,452	13,080	19,532	-	-	-
Federal sources	395,138	-	395,138	-	-	-
Total non-operating revenues	<u>401,612</u>	<u>13,088</u>	<u>414,700</u>	<u>307</u>	<u>2</u>	<u>309</u>
Change in net position before other financing sources	24,958	9,870	34,828	311,536	2,798	314,334
OTHER FINANCING SOURCES(USES):						
Capital contributions	8,600	-	8,600	-	-	-
Reorganization settlement	(3,333)	-	(3,333)	-	-	-
Total other financing sources(uses)	<u>5,267</u>	<u>-</u>	<u>5,267</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	30,225	9,870	40,095	311,536	2,798	314,334
Net position beginning of year	<u>21,915</u>	<u>24,138</u>	<u>46,053</u>	<u>823,845</u>	<u>35,528</u>	<u>859,373</u>
Net position end of year	<u>\$ 52,140</u>	<u>34,008</u>	<u>86,148</u>	<u>1,135,381</u>	<u>38,326</u>	<u>1,173,707</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016

	Business Type Activities:			Governmental Activities		
	Enterprise Funds			Internal Service Funds		
	School Nutrition	Preschool	Total	Self-Funded Insurance	Flex Benefit	Total
Cash flows from operating activities:						
Cash received from sale of lunches and breakfasts	\$ 410,288	-	410,288	-	-	-
Cash received from miscellaneous	836	8,905	9,741	2,620,521	78,090	2,698,611
Cash payments to employees for services	(335,262)	(13,051)	(348,313)	-	-	-
Cash payments to suppliers for goods or services	(366,288)	(1,933)	(368,221)	(2,519,678)	(75,294)	(2,594,972)
Net cash provided by(used in) operating activities	<u>(290,426)</u>	<u>(6,079)</u>	<u>(296,505)</u>	<u>100,843</u>	<u>2,796</u>	<u>103,639</u>
Cash flows from non-capital financing activities:						
State grants received	6,452	21,648	28,100	-	-	-
Federal grants received	319,782	-	319,782	-	-	-
Net cash provided by non-capital financing activities	<u>326,234</u>	<u>21,648</u>	<u>347,882</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:						
Interest on investments	22	8	30	307	2	309
Cash flows from capital financing activities:						
Acquisition of capital assets	<u>(36,419)</u>	<u>-</u>	<u>(36,419)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase(decrease) in cash and pooled investments	(589)	15,577	14,988	101,150	2,798	103,948
Cash and pooled investments beginning of year	<u>69,080</u>	<u>25,357</u>	<u>94,437</u>	<u>1,285,231</u>	<u>35,528</u>	<u>1,320,759</u>
Cash and pooled investments end of year	<u>\$ 68,491</u>	<u>40,934</u>	<u>109,425</u>	<u>1,386,381</u>	<u>38,326</u>	<u>1,424,707</u>
<b>Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:</b>						
Operating income(loss)	\$ (376,654)	(3,218)	(379,872)	311,229	2,796	314,025
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:						
Commodities consumed	63,956	-	63,956	-	-	-
Depreciation	14,927	-	14,927	-	-	-
Increase in inventories	(4,917)	-	(4,917)	-	-	-
Decrease in accounts receivable	6,877	-	6,877	-	-	-
Increase(Decrease) in accounts payable	162	(1,904)	(1,742)	(190,386)	-	(190,386)
Increase in salaries and benefits payable	2,553	-	2,553	-	-	-
Decrease in incurred but not reported	-	-	-	(20,000)	-	(20,000)
Increase in unearned revenue	5,088	-	5,088	-	-	-
Increase in net pension liability	25,691	2,121	27,812	-	-	-
Decrease(Increase) in deferred outflows of resources	(1,034)	340	(694)	-	-	-
Decrease in deferred inflows of resources	(33,209)	(1,195)	(34,404)	-	-	-
Increase(Decrease) in other postemployment benefits pay	6,134	(2,223)	3,911	-	-	-
Net cash provided by(used in) operating activities	<u>\$ (290,426)</u>	<u>(6,079)</u>	<u>(296,505)</u>	<u>100,843</u>	<u>2,796</u>	<u>103,639</u>

**Non-cash investing, capital and related financing activities:**

During the year ended June 30, 2016, the District received \$63,956 of federal commodities.

During the year ended June 30, 2016, the Nutrition Fund received \$8,600 of capital contributions from the General Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016

	<u>Private Purpose Trust Scholarship</u>	<u>Agency</u>
<b>Assets</b>		
Cash and pooled investments	\$ 6,500	4,681
<b>Liabilities</b>		
Accounts payable	500	-
Due to other groups	-	4,681
<b>Total liabilities</b>	<u>500</u>	<u>4,681</u>
<b>Net Position</b>		
Held in trust for scholarships	<u>\$ 6,000</u>	<u>-</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2016

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Contributions	<u>\$ -</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>500</u>
Change in net position	(500)
Net position beginning of year, as restated	<u>6,500</u>
Net position end of year	<u><u>\$ 6,000</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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

Algona Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. 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 Cities of Algona, Burt and Titonka, Iowa, and the predominate agricultural territory in Kossuth, Hancock and Winnebago Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

*A. Reporting Entity*

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

These financial statements present Algona Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit - The Algona Community School Foundation was created to financially support the Algona Community School system and post high school scholarship support to graduates of the school. The Foundation is a separate legal entity with its own accounting records and board of trustees. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The foundation is accounted for as a component unit in these financial statements with the year ending December 31, 2015.

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 Kossuth, Hancock and Winnebago County Assessors' Conference Board.

*B. Basis of Presentation*

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the activities of the District, with omission of the fiduciary funds. 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 two preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, 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 also reports the following non-major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund, the Enterprise, Preschool Fund, the Internal Service, Self-Funded Insurance Fund and the Internal Service, Flex Benefit Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool Fund is used to account for preschool operations of the District. The Self-Funded Insurance Fund is used to account for the District's self-funded health insurance plan. The Flex Benefit Fund is used to account for the flexible health and childcare benefits program offered by the District.

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

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

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

*C. Measurement Focus and Basis of Accounting*

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

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

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

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

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

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

Cash, Pooled Investments and Cash Equivalents - The cash balance of most District funds are pooled and invested. Investments are stated at fair value.

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

Property Tax Receivable - Property taxes in governmental funds are accounted for using the modified accrual basis of accounting.

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

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2015.

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

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

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

Asset Class	Amount
Land	\$ 3,500
Buildings	3,500
Land improvements	3,500
Machinery and equipment:	
Intangibles	75,000
School Nutrition Fund equipment	500
Other machinery and equipment	3,500

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more years
Machinery and equipment	5-12 years

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

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

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. The net pension liability attributable to the governmental activities will be paid primarily by the General Fund.

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collectible within the current year or 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 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:

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 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, 2016 expenditures exceeded the amounts budgeted in the non-instructional programs and other expenditures functional areas and expenditures exceeded the budget in total.

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

The District's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The District had no such investments as of June 30, 2016.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

**Note 3. Capital Assets**

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 245,615	135,000	-	380,615
Construction in progress	449,970	5,157,952	1,149,290	4,458,632
Total capital assets not being depreciated	<u>695,585</u>	<u>5,292,952</u>	<u>1,149,290</u>	<u>4,839,247</u>
Capital assets being depreciated:				
Buildings	21,989,173	413,110	-	22,402,283
Land improvements	1,010,768	736,180	-	1,746,948
Machinery and equipment	4,343,633	254,805	76,170	4,522,268
Total capital assets being depreciated	<u>27,343,574</u>	<u>1,404,095</u>	<u>76,170</u>	<u>28,671,499</u>
Less accumulated depreciation for:				
Buildings	8,910,424	471,300	-	9,381,724
Land improvements	409,859	85,742	-	495,601
Machinery and equipment	3,235,909	203,441	74,915	3,364,435
Total accumulated depreciation	<u>12,556,192</u>	<u>760,483</u>	<u>74,915</u>	<u>13,241,760</u>
Total capital assets being depreciated, net	<u>14,787,382</u>	<u>643,612</u>	<u>1,255</u>	<u>15,429,739</u>
Governmental activities capital assets, net	<u>\$ 15,482,967</u>	<u>5,936,564</u>	<u>1,150,545</u>	<u>20,268,986</u>
<b>Business type activities:</b>				
Machinery and equipment	\$ 194,479	45,019	-	239,498
Less accumulated depreciation	109,006	14,927	-	123,933
Business type activities capital assets, net	<u>\$ 85,473</u>	<u>30,092</u>	<u>-</u>	<u>115,565</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 4,549
Other		16,782
Support services:		
Administration		13,705
Operation and maintenance of plant		78,890
Transportation		89,515
		<u>203,441</u>
Unallocated depreciation		<u>557,042</u>
Total governmental activities depreciation expense		<u>\$ 760,483</u>
Business type activities:		
Food service operations		<u>\$ 14,927</u>

#### **Note 4. Long-Term Debt**

Changes in long-term liabilities for the year ended June 30, 2016 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 1,475,000	1,590,000	1,590,000	1,475,000	115,000
Revenue bonds	10,470,000	6,750,000	7,365,000	9,855,000	700,000
PPEL tax anticipation notes	-	3,600,000	-	3,600,000	800,000
Termination benefits	108,692	-	80,872	27,820	22,200
Net pension liability	5,348,893	1,150,678	-	6,499,571	-
Net OPEB liability	609,831	89,500	-	699,331	-
Total	<u>\$ 18,012,416</u>	<u>13,180,178</u>	<u>9,035,872</u>	<u>22,156,722</u>	<u>1,637,200</u>
<b>Business type activities:</b>					
Net pension liability	\$ 115,150	27,812	-	142,962	-
Net OPEB liability	23,562	6,134	2,223	27,473	-
Total	<u>\$ 138,712</u>	<u>33,946</u>	<u>2,223</u>	<u>170,435</u>	<u>-</u>

#### **General Obligation Bonds**

Details of the District's June 30, 2016 general obligation indebtedness are as follows:

Year Ending June 30,	Bond Issue of January 5, 2016			
	Interest Rates	Principal	Interest	Total
2017	2.550 %	\$ 115,000	37,612	152,612
2018	2.550	120,000	34,680	154,680
2019	2.550	125,000	31,620	156,620
2020	2.550	130,000	28,433	158,433
2021	2.550	130,000	25,117	155,117
2022-2026	2.550	705,000	73,696	778,696
2027	2.550	150,000	3,825	153,825
Total		<u>\$ 1,475,000</u>	<u>234,983</u>	<u>1,709,983</u>

Revenue Bonds

Details of the District's June 30, 2016 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 28, 2009			Bond Issue of June 23, 2015		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2017	4.00 %	\$ 185,000	7,400	2.85 %	\$ 150,000	87,994
2018	4.00	-	-	2.85	160,000	83,647
2019	4.20	-	-	2.85	170,000	79,017
2020		-	-	2.85	185,000	74,057
2021		-	-	2.85	195,000	68,714
2022-2026		-	-	2.85	1,205,000	250,030
2027-2030		-	-	2.85	1,060,000	61,331
<b>Total</b>		<b>\$ 185,000</b>	<b>7,400</b>		<b>\$ 3,125,000</b>	<b>704,790</b>

Year Ending June 30,	Bond Issue of November 3, 2015			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
2017	2.45 %	\$ 365,000	160,352	700,000	255,746	955,746
2018	2.45	485,000	151,410	645,000	235,057	880,057
2019	2.45	495,000	139,528	665,000	218,545	883,545
2020	2.45	495,000	127,400	680,000	201,457	881,457
2021	2.45	505,000	115,272	700,000	183,986	883,986
2022-2026	2.45	2,585,000	388,693	3,790,000	638,723	4,428,723
2027-2030	2.45	1,615,000	79,380	2,675,000	140,711	2,815,711
		<b>\$ 6,545,000</b>	<b>1,162,035</b>	<b>9,855,000</b>	<b>1,874,225</b>	<b>11,729,225</b>

The District has pledged future statewide sales, services and use tax revenues to repay the \$9,645,000 of bonds issued July 28, 2009, the \$3,250,000 of bonds issued June 2015 and the \$6,750,000 of bonds issued November 3, 2015. The bonds were issued for the purpose of defraying a portion of the cost of the new Middle School and the Performing Arts Center. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on bonds are expected to require approximately 76 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$11,729,225. For the current year \$760,000 of principal and \$227,717 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$1,251,785.

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

- a) \$61,500 of the proceeds from the issuance of the revenue bonds shall be deposited to the reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.

- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Physical Plant and Equipment Levy Tax Anticipation Notes

Details of the District's June 30, 2016 physical plant and equipment levy tax anticipation note indebtedness are as follows:

Year Ending June 30,	Note Issue of May 4, 2016			
	Interest Rates	Principal	Interest	Total
2017	1.600 %	\$ 800,000	72,800	872,800
2018	1.700	800,000	60,000	860,000
2019	2.200	800,000	46,400	846,400
2020	2.400	1,200,000	28,800	1,228,800
Total		<u>\$ 3,600,000</u>	<u>208,000</u>	<u>3,808,000</u>

During the year ended June 30, 2016 the District issued \$3,600,000 of Revenue and Physical Plant and Equipment Levy Tax Anticipation Project Notes. The notes are payable from the Capital Projects: Physical Plant and Equipment Levy Tax Fund. Prior to the issuance of the notes the District entered into agreements with donors to donate \$4,500,000, of which \$1,300,000 has been received, to finance construction and repayment of the notes. A schedule of expected remaining donations is as follows:

Year Ending June 30,	Planned Donation
2017	\$ 800,000
2018	800,000
2019	800,000
2020	800,000
Total	<u>\$ 3,200,000</u>

(See comment II-O-16 for further information)

Termination Benefits(Early Retirement)

The District offered a voluntary early retirement plan to its employees during the fiscal years 2013 and 2014. Eligible employees had to be a full-time teacher or administrator that reached age 55 before June 30<sup>th</sup> of the year of retirement. Eligible employees must have completed fifteen years of continuous service to the District. Employees had to complete an application which was required to be approved by the Board of Education.

The early retirement benefits were \$20,000 per retiree. The policy requires early retirement benefits be applied to the retirees' health insurance premiums until exhausted.

As of June 30, 2016 the District has obligations to eight participants with a total liability of \$27,820. Actual early retirement expenditures for the year ended June 30, 2016 totaled \$80,872.

**Note 5. Bond Defeasement**

Revenue Bonds

On November 3, 2015, the District issued \$6,750,000 in revenue bonds and released \$757,328 of the July 28, 2009 revenue bond reserve to partially advance refund \$6,605,000 of outstanding revenue bonds dated July 28, 2009. The proceeds of the refunding issue along with the released debt reserve amount have been placed in an irrevocable escrow account and have been invested in U.S. Government obligations which have been certified to be sufficient to pay the principal and the interest on the defeased principal through the date that the bonds become callable on July 1, 2018.

The District is contingently liable in the remote possibility the escrow account is insufficient to pay the bonds. After the principal and interest on all of the outstanding bonds are paid, any remaining funds in the escrow account, together with any interest thereon, will be returned to the District. The new refunding bonds have been added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is insufficient to pay the refunded bonds. At June 30, 2016, \$6,605,000 of such bonds are outstanding. Defeasement of principal and interest for the year was \$6,605,000 and \$954,083,

General Obligation Bonds

On January 5, 2016, the District issued \$1,590,000 in general obligation bonds to advance refund \$1,475,000 of outstanding general obligation bonds dated May 1, 2007. The proceeds of the refunding issue have been placed in an irrevocable escrow account and have been invested in U.S. Government obligations which have been certified to be sufficient to pay all principal and interest on the refunded bonds through the date that the bonds become callable on May 1, 2017.

The District remains contingently liable in the remote possibility the account is insufficient to pay the refunding bonds. The new advance refunding bonds have been added to the appropriate financial statements and schedules. At June 30, 2016 \$1,380,000 of such bonds are outstanding. Defeasement of principal and interest for the year was \$1,475,000 and \$87,889.

**Note 6. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 997,860
Capital Projects: Statewide Sales, Services and Use Tax	General Fund	345,836
Capital Projects: Statewide Sales, Services and Use Tax	Capital Projects: Physical Plant and Equipment Levy	<u>3,600,000</u>
Total		<u>\$ 4,943,696</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was for principal and interest payments on the District's revenue bonded indebtedness.

The transfer from the General Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund was for work on a building that the District acquired as part of the consolidation with the Titonka Community School District that is being converted for community use.

The transfer from the Capital Projects: Physical Plant and Equipment Levy Tax Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund

**Note 7. Other Postemployment Benefits(OPEB)**

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 221 active and 18 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

The following table shows the components of the District’s annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 191,483
Interest on net OPEB obligation	16,585
Adjustment to annual required contribution	<u>(67,752)</u>
Annual OPEB cost	140,316
Contributions made	<u>(46,905)</u>
Increase in net OPEB obligation	93,411
Net OPEB obligation beginning of year	633,393
Net OPEB obligation end of year	<u><u>\$ 726,804</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, 2016. For the year ended June 30, 2016, the District contributed \$46,905 to the medical plan.

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2016 is summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 155,123	31.54%	\$ 525,802
2015	161,752	33.48	663,393
2016	140,316	33.43	726,804

Funded Status and Funding Progress - As of July 1, 2015, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was \$1,012,678 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,012,678. The covered payroll (annual payroll of active employees covered by the plan) was \$9,117,421 and the ratio of the UAAL to covered payroll was 11.1%. As of June 30, 2016, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the

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

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

As of the July 1, 2015 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6.0%.

Mortality rates are from the Group Annuity Mortality Table Projected to 2015, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

The UAAL is being amortized as a level percentage of the projected payroll expense on an open basis over 30 years.

#### **Note 8. Pension Plan**

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

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

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

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

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before 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 - 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 2016, 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, 2016 were \$837,339.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the District reported a liability of \$6,642,533 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the District's collective proportion was 0.134451%, which was a decrease of 0.003324% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2015, the District recognized pension expense of \$494,997. At June 30, 2016, 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	\$ 100,360	\$ -
Changes of assumptions	182,886	-
Net difference between projected and actual earnings on IPERS' investments	-	552,832
Changes in proportion and differences between District contributions and the District's proportionate share of contributions	-	227,358
District contributions subsequent to the measurement date	837,339	-
<b>Total</b>	<b>\$ 1,120,585</b>	<b>\$ 780,190</b>

\$837,339 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, 2017. 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,	Amount
2017	\$ (249,801)
2018	(249,801)
2019	(249,801)
2020	252,685
2021	(226)
	<u>\$ (496,944)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 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% per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage 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:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 11,629,880	6,642,533	2,432,854

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

Payables to IPERS - At June 30, 2016, the District reported payables to the defined benefit pension plan of \$12,487 for legally required employer contributions and \$8,320 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**Note 9. Risk Management**

Algona Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

**Note 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 \$611,066 for the year ended June 30, 2016 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 11. Budget Overexpenditure**

Per the code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2016, the District exceeded its budgeted amounts in the non-instructional programs and other expenditures functional areas and the District exceeded the budget in total.

**Note 12. Construction Commitment**

During the year ended June 30, 2016, the District entered into contracts totaling \$8,250,334 for work on a performing arts center and a parking lot project. As of June 30, 2016, expenses of \$4,458,632 had been incurred against the contracts. The remaining amounts will be spent as work on the projects proceeds.

**Note 13. Categorical Funding**

The District's restricted balance for categorical funding at June 30, 2016 is comprised of the following programs:

Programs	Amount
At-risk programs	\$ 103
Gifted and talented programs	129,448
Returning dropouts and dropout prevention programs	3,340
Four-year-old preschool state aid	204,107
Teacher salary supplement	195
Market factor incentives	10
Iowa early intervention block grant	1,362
Textbook aid for nonpublic students	92
Successful progression for early readers	19,593
Professional development for model core curriculum	21,033
Teacher development academies	16
Professional development	4,478
Teacher leadership grants	3,112
Total	<u>\$ 386,889</u>

**Note 14. Reconciliation of Governmental Fund Balances to Net Position**

Reconciliations of certain governmental fund balances to net position are as follows:

	Net Investment in Capital Assets	Debt Service	Management Levy	Unassigned/ Unrestricted
Fund balance (Exhibit C)	\$ -	62,440	701,862	2,394,266
Invested in capital assets, net of accumulated depreciation	20,268,986	-	-	-
General obligation bond capitalized indebtedness	(1,475,000)	-	-	-
Revenue bond capitalized indebtedness	(9,855,000)	-	-	-
PPEL tax anticipation note indebtedness	(3,600,000)	-	-	-
Accrued interest payable	-	(18,402)	-	-
Termination benefits	-	-	(27,820)	-
Internal service fund	-	-	-	1,173,707
Income surtax	-	-	-	653,771
Unassigned for student activities	-	-	-	(522)
Pension related deferred outflows	-	-	-	1,094,145
Pension related deferred inflows	-	-	-	(769,639)
Net pension liability	-	-	-	(6,499,571)
Net OPEB liability	-	-	-	(699,331)
Net position (Exhibit A)	<u>\$ 5,338,986</u>	<u>44,038</u>	<u>674,042</u>	<u>(2,653,174)</u>

**Note 15. Deficit Fund Balances/Net Position**

As of June 30, 2016, the School Nutrition Fund had deficit unrestricted net position of \$63,425, business type activities had deficit unrestricted net position of \$29,417 and the governmental activities had deficit unrestricted net position of \$2,653,174. The District also had two accounts in the Student Activity Fund with a negative unassigned fund balance of \$522.

**Note 16. Operating Lease**

The District entered into an operating lease with Executive Technologies for District copiers. The agreement runs through September 2019 with monthly base payments of \$1,201.

**Note 17. Extraordinary Items/Reorganization Settlement**

On September 9, 2014 voters of the Corwith-Wesley District voted to dissolved the District effective June 30, 2015. Fund balances of the District will be divided between LuVerne, Algona, West Hancock and Clarion-Goldfield-Dows Community School Districts.

The allocation of the Corwith-Wesley Community School District's fund balances by fund to other districts per the recommendation of the Iowa Department of Management are as follows:

School District	Percentage Allocation Per DOM	General	Student Activity	Management Levy	Statewide Sales, Services and Use Tax	Property Plant and Equipment Levy	Nutrition	Total Received
Algona	7.10%	\$ 17,504.36	890.28	7,008.82	14,836.10	3,928.81	(3,332.98)	40,835.39
Clarion-Goldfield-Dows	1.15%	2,835.22	144.21	1,135.22	2,403.05	636.35	(539.85)	6,614.20
LuVerne	87.31%	215,254.77	10,947.88	86,188.89	182,442.44	48,313.27	(40,986.32)	502,160.93
West Hancock	4.44%	10,946.44	556.73	4,383.00	9,277.81	2,456.89	(2,084.29)	25,536.58
Total		<u>\$ 246,540.79</u>	<u>12,539.10</u>	<u>98,715.93</u>	<u>208,959.40</u>	<u>55,335.32</u>	<u>(46,943.44)</u>	<u>575,147.10</u>

## **Required Supplementary Information**

ALGONA 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, 2016

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 11,728,182	408,094	12,136,276	10,652,209	10,652,209	1,484,067
State sources	9,051,563	19,532	9,071,095	9,117,296	9,117,296	(46,201)
Federal sources	335,346	395,138	730,484	665,000	665,000	65,484
Total revenues	<u>21,115,091</u>	<u>822,764</u>	<u>21,937,855</u>	<u>20,434,505</u>	<u>20,434,505</u>	<u>1,503,350</u>
Expenditures/expenses:						
Instruction	12,412,425	12,123	12,424,548	12,626,000	12,626,000	201,452
Support services	4,776,095	11,659	4,787,754	5,130,000	5,130,000	342,246
Non-instructional programs	-	764,154	764,154	670,000	670,000	(94,154)
Other expenditures	7,425,780	-	7,425,780	1,591,740	1,591,740	(5,834,040)
Total expenditures/expenses	<u>24,614,300</u>	<u>787,936</u>	<u>25,402,236</u>	<u>20,017,740</u>	<u>20,017,740</u>	<u>(5,384,496)</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	(3,499,209)	34,828	(3,464,381)	416,765	416,765	(3,881,146)
Other financing sources(uses), net	<u>3,038,104</u>	<u>5,267</u>	<u>3,043,371</u>	-	-	<u>3,043,371</u>
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(461,105)	40,095	(421,010)	416,765	416,765	(837,775)
Balances beginning of year	<u>8,686,930</u>	<u>46,053</u>	<u>8,732,983</u>	<u>5,860,349</u>	<u>5,860,349</u>	<u>2,872,634</u>
Balances end of year	<u>\$ 8,225,825</u>	<u>86,148</u>	<u>8,311,973</u>	<u>6,277,114</u>	<u>6,277,114</u>	<u>2,034,859</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2016

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2016, the expenditures in the non-instructional programs and other expenditures functional areas exceeded the amounts budgeted and the District exceeded its budget in total.

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

	2016	2015
District's proportion of the net pension liability	0.134451%	0.137775%
District's proportionate share of the net pension liability	\$ 6,642,533	5,464,043
District's covered-employee payroll	\$ 9,211,124	9,015,431
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.61%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS\*  
REQUIRED SUPPLEMENTARY INFORMATION

	2016	2015	2014*	2013*	2012*	2011*	2010*	2009*	2008*	2007*
Statutorily required contribution	\$ 837,339	822,553	805,078	783,823	723,120	611,470	569,261	518,297	515,634	476,346
Contributions in relation to the statutorily required contribution	\$ (837,339)	(822,553)	(805,078)	(783,823)	(723,120)	(611,470)	(569,261)	(518,297)	(515,634)	(476,346)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 9,376,755	9,211,124	9,015,431	9,040,634	8,960,595	8,798,129	8,190,806	8,162,157	8,522,876	8,284,278
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%

\* The Algona Community School District merged with the Titonka Consolidated School District as of July 1, 2014. Information for fiscal years 2014 and prior reflect a combination of information from both of those entities.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY  
YEAR ENDED JUNE 30, 2016

*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.

*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.
- 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 the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	-	\$ 1,360,117	1,360,117	0.0%	\$ 6,971,296	19.5%
2010	July 1, 2008	-	1,360,117	1,360,117	0.0	6,545,082	20.8
2011	July 1, 2008	-	1,360,117	1,360,117	0.0	7,837,500	17.4
2012	July 1, 2011	-	1,611,343	1,611,343	0.0	8,312,448	19.4
2013	July 1, 2011	-	1,550,869	1,550,869	0.0	8,421,367	18.4
2014	July 1, 2013	-	1,457,765	1,457,765	0.0	8,390,132	17.4
2015	July 1, 2013	-	1,415,836	1,415,836	0.0	9,043,663	15.7
2016	July 1, 2015	-	1,012,678	1,012,678	0.0	9,117,421	11.1

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF ASSETS, LIABILITIES AND NET POSITION - CASH BASIS  
 COMPONENT UNIT  
 DECEMBER 31, 2015

	Algona Community School Foundation
<b>Assets</b>	
Cash and pooled investments	\$ 4,423,923
<b>Liabilities</b>	
	-
<b>Net Position</b>	
Restricted for:	
Scholarships/District support	4,161,275
Unrestricted	262,648
<b>Total net position</b>	<b>\$ 4,423,923</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF SUPPORT AND REVENUES, EXPENSES AND  
CHANGES IN NET POSITION - CASH BASIS  
COMPONENT UNIT  
YEAR ENDED DECEMBER 31, 2015

	Algona Community School Foundation
Revenues:	
Related organizations	\$ 1,760
Contributions, gifts, grants and similar amounts	241,024
Interest and dividends	184,908
Realized gain on investments	68,182
Total revenue	495,874
Expenses:	
Grants and similar amounts paid:	
Grants/Scholarships	530,574
Other:	
Investment management fees	26,575
Advertising and promotion	235
Insurance	213
Fundraising supplies	2,023
Foreign tax on dividends	268
Other	11,892
Outside services	5,000
Total expenses	576,780
Change in net assets before other financing sources	(80,906)
Other financing uses:	
Unrealized loss on investments	(192,616)
Change in net position	(273,522)
Net position beginning of year	4,697,445
Net position end of year	\$ 4,423,923

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**Algona Community School District**



## **Supplementary Information**

ALGONA COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2016

	Special Revenue		
	Management Levy	Student Activity	Total
<b>Assets</b>			
Cash and pooled investments	\$ 697,680	228,152	925,832
Receivables:			
Property tax:			
Delinquent	4,182	-	4,182
Succeeding year	300,000	-	300,000
<b>Total assets</b>	<b>\$ 1,001,862</b>	<b>228,152</b>	<b>1,230,014</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ -	13,416	13,416
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	300,000	-	300,000
Fund balances:			
Restricted for:			
Management levy purposes	701,862	-	701,862
Student activities	-	215,258	215,258
Unassigned:			
Student activities	-	(522)	(522)
Total fund balances	701,862	214,736	916,598
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,001,862</b>	<b>228,152</b>	<b>1,230,014</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2016

	Special Revenue		
	Management Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 401,548	-	401,548
Other	41,110	458,984	500,094
State sources	8,785	-	8,785
Total revenues	451,443	458,984	910,427
Expenditures:			
Current:			
Instruction:			
Regular	116,312	-	116,312
Other	-	476,795	476,795
	116,312	476,795	593,107
Support services:			
Administration	12,180	-	12,180
Operation and maintenance of plant	236,217	-	236,217
	248,397	-	248,397
Total expenditures	364,709	476,795	841,504
Excess(Deficiency) of revenues over(under) expenditures	86,734	(17,811)	68,923
Other financing sources:			
Reorganization settlement	7,009	890	7,899
Change in fund balances	93,743	(16,921)	76,822
Fund balances beginning of year	608,119	231,657	839,776
Fund balances end of year	\$ 701,862	214,736	916,598

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS FUND ACCOUNTS  
 JUNE 30, 2016

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 3,907,434	392,862	4,300,296
Receivables:			
Delinquent	-	6,935	6,935
Succeeding year	-	709,959	709,959
Due from other governments	205,384	-	205,384
<b>Total assets</b>	<b>\$ 4,112,818</b>	<b>1,109,756</b>	<b>5,222,574</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Due to other funds	\$ 7,350	-	7,350
Accounts payable	6,124	33,509	39,633
Total liabilities	13,474	33,509	46,983
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	709,959	709,959
Fund balances:			
Restricted for:			
School infrastructure	4,099,344	-	4,099,344
Physical plant and equipment	-	366,288	366,288
Total fund balances	4,099,344	366,288	4,465,632
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 4,112,818</b>	<b>1,109,756</b>	<b>5,222,574</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS FUND ACCOUNTS  
 YEAR ENDED JUNE 30, 2016

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	670,753	670,753
Other	1,502,514	16,443	1,518,957
State sources	1,251,785	15,278	1,267,063
Total revenues	<u>2,754,299</u>	<u>702,474</u>	<u>3,456,773</u>
Expenditures:			
Current:			
Support services:			
Instructional staff	110,590	17,897	128,487
Administration	8,757	-	8,757
Operation and maintenance of plant	-	165,641	165,641
Capital outlay	5,412,355	246,000	5,658,355
Total expenditures	<u>5,531,702</u>	<u>429,538</u>	<u>5,961,240</u>
Excess(Deficiency) of revenues over(under) expenditures	(2,777,403)	272,936	(2,504,467)
Other financing sources(uses):			
Transfer in	3,945,836	-	3,945,836
Transfer out	(997,860)	(3,600,000)	(4,597,860)
PPEL tax anticipation note proceeds	-	3,600,000	3,600,000
Reorganization settlement	14,836	3,929	18,765
Total other financing sources(uses)	<u>2,962,812</u>	<u>3,929</u>	<u>2,966,741</u>
Change in fund balances	185,409	276,865	462,274
Fund balances beginning of year	<u>3,913,935</u>	<u>89,423</u>	<u>4,003,358</u>
Fund balances end of year	<u>\$ 4,099,344</u>	<u>366,288</u>	<u>4,465,632</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2016

Account	Balance Beginning of Year	Revenues	Expendi- tures	Reorganization Settlement	Balance End of Year
Drama	2,217	5,637	6,342	-	1,512
Vocal Music	16,752	18,900	27,706	-	7,946
Instrumental Music	5,236	42,993	35,010	-	13,219
Cross Country	-	1,666	1,666	-	-
Special Cross Country	1,326	-	183	-	1,143
Special Swim Team	4,764	2,759	2,970	-	4,553
Boys Basketball	-	8,625	8,625	-	-
Special Boys Basketball	1,695	4,632	2,542	-	3,785
Football	575	19,546	20,121	-	-
Special Football	8,784	12,741	16,718	-	4,807
Baseball	-	8,475	8,475	-	-
Special Baseball	753	3,772	4,492	-	33
Boys Track	-	3,914	3,914	-	-
Special Boys Track	3,647	1,615	4,122	-	1,140
Boys Golf	-	392	392	-	-
Special Boys Golf	1,616	-	362	-	1,254
Wrestling	1,406	5,340	6,351	-	395
Special Wrestling	1,999	1,574	3,188	-	385
Girls Basketball	-	5,592	5,592	-	-
Special Girls Basketball	1,190	3,624	2,551	-	2,263
Volleyball	6,807	8,933	6,287	-	9,453
Special Volleyball	7,721	2,531	7,470	-	2,782
Softball	-	4,777	4,864	-	(87)
Special Softball	3,093	3,859	6,250	-	702
Girls Track	851	2,325	2,572	-	604
Special Girls Track	6,901	1,530	8,398	-	33
Girls Golf	-	599	599	-	-
Special Girls Golf	-	336	309	-	27
Athletics General	8,413	22,353	24,455	-	6,311
High School Projects	(65)	2,813	-	-	2,748
Mock Trial	-	459	424	-	35
TNT	371	-	-	-	371
Activity Tickets	-	10	-	-	10
MS Cheerleaders	472	-	-	-	472
HS Cheerleaders	1,242	4,607	4,165	-	1,684
Class of 2016	338	68	406	-	-
Class of 2017	247	2,252	2,364	-	135
Class of 2018	489	3,584	3,044	-	1,029
Concession	5,601	56,019	60,578	-	1,042
Concession Equipment	-	166	166	-	-
Drill Team	1,077	11,861	12,200	-	738
FFA	44,382	93,496	90,593	-	47,285
Construction Club	139	1,487	757	-	869
Env. Science	1,960	-	-	-	1,960
HOSA	1,044	-	-	-	1,044
Interest	-	54	-	890	944
England Trip	-	606	-	-	606
Special Olympics	1,798	809	984	-	1,623
Academic Decathlon	50	1,468	1,953	-	(435)
Model UN	388	1,787	1,860	-	315
National Honor Society	305	3,020	385	-	2,940
Outdoor Club	1,054	607	60	-	1,601
P.E. Club	8,185	-	-	-	8,185
Peer Helpers	1,342	-	-	-	1,342
Prom Improvement	718	1,041	1,153	-	606
Public Broadcasting	107	131	-	-	238
Quiz Bowl	679	4,301	4,863	-	117
Science Fair	967	2,367	2,166	-	1,168
Student Senate	4,087	14,255	10,429	-	7,913
TV Productions	5,451	2,186	2,843	-	4,794
Yearbook	15,116	21,297	12,801	-	23,612
Special advertising	42,199	18,825	29,433	-	31,591
Vocal/Band Uniforms	119	1,894	1,815	-	198
Swing Choir & Band	2,391	-	2,391	-	-
Band Tour	2,934	8,037	6,436	-	4,535
Vocal Tour	724	437	-	-	1,161
Total	\$ 231,657	458,984	476,795	890	214,736

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITES  
AGENCY FUND  
YEAR ENDED JUNE 30, 2016

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>Assets</b>				
Cash and pooled investments	\$ 4,244	20,172	19,735	4,681
<b>Liabilities</b>				
Due to other groups	\$ 4,244	20,172	19,735	4,681

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 TWO YEARS ENDED JUNE 30, 2016

	Modified Accrual Basis	
	Years Ended June 30,	
	2016	2015
Revenues:		
Local sources:		
Local tax	\$ 7,843,633	7,852,032
Tuition	1,450,563	1,280,551
Other	2,433,986	1,181,494
State sources	9,051,563	9,097,222
Federal sources	335,346	352,141
	\$ 21,115,091	19,763,440
Expenditures:		
Instruction:		
Regular	\$ 6,644,655	6,376,925
Special	3,154,208	3,168,883
Other	2,613,562	2,787,241
Support services:		
Student	402,325	152,042
Instructional staff	418,422	578,646
Administration	1,418,913	1,198,272
Operation and maintenance of plant	1,910,500	2,083,055
Transportation	625,935	925,820
Capital outlay	5,658,355	882,376
Long-term debt:		
Principal	875,000	561,501
Interest and fiscal charges	281,359	428,403
Other expenditures:		
AEA flowthrough	611,066	610,570
	\$ 24,614,300	19,753,734

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

We have audited 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, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Algona Community School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 20, 2017.

**Internal Control Over Financial Reporting**

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

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

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 on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-16 to be a material weaknesses.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Algona Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have

a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2016 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.

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

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal controls 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 Algona Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2017  
Newton, Iowa

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016

**Part I: Findings Related to the Financial Statements:**

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

I-A-16 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over one or more of the following areas for the District:

- 1) Journal Entries - writing and posting.
- 2) School Lunch Program - journalizing, posting, reconciling, check preparation, mailing and recording.

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

Response - We will continue to work on segregating duties

Conclusion - Response accepted.

ALGONA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2016

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-16 Certified Budget - Expenditures for the year ended June 30, 2016 exceeded the certified budgeted amounts in the non-instructional programs and other expenditures functional areas and the District exceeded its budget in total.

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

Response - We will amend the budget before disbursements exceed the certified budget.

Conclusion - Response accepted.

II-B-16 Questionable Disbursements - 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.

II-C-16 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-16 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Shelly TerHark, Teacher Spouse officiates	Officiating	\$ 245
Jay Limbaugh, Board Member Father owns Jack's OK Tires	Tire purchases	11,199
Rodney Davis, Board Member Winter sports duty	Score keeper	560

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with relatives of District employees or officials do not appear to represent a conflict of interest.

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

II-E-16 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-16 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. We did note that the depository resolution passed by the Board of Directors did not included all depositories in accordance with Chapter 12C.2 of

the Code of Iowa.

Recommendation - The District should review its procedures to ensure compliance with the Code of Iowa.

Response - The District will review procedures to ensure compliance with the Code of Iowa.

Conclusion - Response accepted

II-G-16 Certified Enrollment - We noted variances in the basic enrollment data certified to the Iowa Department of Education. The enrollment data was overstated by 1.22 students.

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

Response - The District’s auditor will contact the Iowa Department of Education and Iowa Department of Management to resolve this matter.

Conclusion - Response accepted.

II-H-16 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-I-16 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

II-J-16 Certified Annual Report - The Certified Annual Report was filed with the Iowa Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-K-16 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds. We did note that the district paid for property taxes out of the Talented and Gift Funds and receipted funds to the Successful Progression for Early Readers grant that was for another purpose. The following adjustments were made:

	Unaudited Number	Adjustment	Audited Number
Gifted and talented programs	\$ 128,348	1,100	129,448
Successful progression for early readers	20,817	(1,224)	19,593

Recommendation - The District should review its coding procedures to ensure revenues and expenses are coded in accordance with guidelines provided by the Iowa Department of Education.

Response - The District will keep a better watch over the funds and where they are expensed from.

Conclusion - Response accepted.

II-L-16 Statewide Sales, Services and Use Tax - No instances of non-compliance with the allowable uses of the statewide sales, services and use tax revenue provided in Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2016, 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 2016 audit:

Beginning balance		\$ 3,913,935
Revenues:		
Sales tax revenues	\$ 1,251,785	
Other local revenues	1,502,514	
Transfer from other funds	3,945,836	
Reorganization settlement	14,836	6,714,971
	<u>                    </u>	<u>10,628,906</u>
Expenditures/transfers out:		
School infrastructure	3,730,313	
Land purchased	135,000	
Equipment	110,590	
Other	1,555,799	
Transfers to other funds:		
Debt service fund	997,860	6,529,562
	<u>                    </u>	<u>                    </u>
Ending balance		<u><u>\$ 4,099,344</u></u>

For the year ended June 30, 2016 the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

II-M-16 Student Activity Fund - In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. We noted certain accounts and expenditures that appear inappropriate to the student activity fund.

**Scholarships:** We noted during our audit that scholarships were paid out of the FFA account within the Student Activity Fund.

Recommendation - When fundraising takes place the revenues should be recorded in the fund that may legally pay for the purpose of the fundraiser. Scholarships are most appropriately paid from the Private Purpose Trust Fund; therefore, proceeds from scholarship fundraising should be placed and expended from the Private Purpose Trust Fund.

Response - We have opened a Trust Fund for FFA to have for their scholarship program.

Conclusion - Response accepted.

**Interest account:** We noted during our audit that the District uses a separate account to track interest earned on the Student Activity Fund during the year which was carrying a balance at year end.

Recommendation - Interest earned on the Student Activity Fund should be reallocated to accounts that earned the interest or at the discretion of the Board of Directors on at least

a yearly basis.

Response - We will make sure all interest is reallocated back to the accounts earning the interest.

Conclusion - Response accepted.

**Inactive accounts:** We noted during our audit that the District has a HOSA, Peer Helpers and TNT accounts in the student activity fund that are carrying balances and have not had activity in the prior two fiscal years.

Recommendation - These accounts should be reviewed to determine if the groups are still active or if the accounts should be closed and the remaining balances distributed within the Student Activity Fund at the discretion of the Board of Directors.

Response - We have closed the accounts and have acted according to the direction of the school board.

Conclusion - Response accepted.

II-N-16 Financial Condition - The School Nutrition Fund had deficit unrestricted net position of \$63,425 and the business type activities had deficit unrestricted net position of \$29,417 at June 30, 2016. The District's governmental activities had deficit unrestricted net position of \$2,653,174 at June 30, 2016. The primary reason for these deficit net positions is due to the effects of GASB Statements No. 68 and No. 71 during the year. The District also had two account in the Student Activity Fund with a combined negative unassigned fund balance of \$522.

Recommendation - The District should take steps to ensure the District's administration and Board of Education understand this accounting change/restatement and how GASB Statements No. 68 and 71 will affect the District's financials moving forward. The District should continue to monitor the Student Activity Fund account and investigate alternatives to eliminate the deficit fund balance.

Response - We have talked to persons in charge of each activity fund account to make sure they know the importance of having a positive balance.

Conclusion - Response accepted.

II-O-16 Revenue and Physical Plant and Equipment Levy Tax Anticipation Project Notes - We noted during the year that the District entered into agreements with donors to donate funds to the District for the construction of a performing arts center. We noted that the District then issued project notes under Iowa Code Section 76.13 (1)(c) backed by the donor agreements. Revenues under this code section would appear to be "sure sources" such as SAVE funding, voted PPEL property taxes or a bond issue not private donations which can be withdrawn. We would question whether outside donations are an allowable revenue source to back notes under the Code of Iowa.

Recommendation - The District should contact its financial advisor and bond council to determine the appropriate steps and actions required to resolve this matter.

Response - We contacted the appropriate financial advisors and are following their recommendation.

Conclusion - Response accepted.