

**WAVERLY-SHELL ROCK
COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017**

Table of Contents

Board of Education and School District Officials	1
Independent Auditor’s Report	2-4
Management’s Discussion and Analysis (MD&A)	5-15
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	16
Statement of Activities.....	17
Governmental Fund Financial Statements	
Balance Sheet.....	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	19
Statement of Revenue, Expenditures and Changes in Fund Balances.....	20
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	21
Proprietary Funds Financial Statements	
Statement of Net Position	22
Statement of Revenue, Expenses and Changes in Fund Net Position	23
Statement of Cash Flows	24
Fiduciary Funds Financial Statements	
Statement of Fiduciary Net Position	25
Statement of Changes in Fiduciary Net Position	26
Notes to the Financial Statements	27-45
Required Supplementary Information	
Schedule of Budgetary Comparison of Revenue, Expenditures/Expenses and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund	46
Notes to Required Supplementary Information - Budgetary Reporting.....	47
Schedule of Proportionate Share of the Net Pension Liability	48
Schedule of Contributions.....	49
Notes to Required Supplementary Information - Pension Liability.....	50
Schedule of Funding Progress for the Retiree Health Plan	51
Supplementary Information	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	52
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances	53
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	54-56
Capital Projects Accounts	
Combining Balance Sheet.....	57
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances	58
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Funds.....	59
Schedule of Revenue by Source and Expenditures by Function - All Governmental Fund Types (Modified Accrual Basis).....	60
Schedule of Expenditures of Federal Awards	61-62
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	63-64
Independent Auditor’s Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	65-66
Schedule of Findings and Questioned Costs	67-73

Introductory Section

Board of Education and School District Officials

As of June 30, 2017

Name	Title	Term Expires
Board of Education		
Kelly Flege	President	September, 2019
Adam Folkerts	Vice President	September, 2019
Nancy Luebbers	Member	September, 2017
Cheryl Elsbury-Reiher	Member	September, 2017
Dennis Epley	Member	September, 2019
School Officials		
Ed Klamfoth	Superintendent	Indefinite
Michael Kalvig	Business Manager and District Secretary	Indefinite
Linda Hildreth	District Treasurer	Indefinite

Financial Section

Independent Auditor's Report

Board of Education
Waverly-Shell Rock Community School District
Waverly, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Waverly-Shell Rock Community School District, Waverly, Iowa, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 as of June 30, 2017 and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the schedule of proportionate share of the net pension liability, the schedule of contributions and the schedule of funding progress for the retiree health plan on pages 5 through 15 and 46 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waverly-Shell Rock 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 two years ended June 30, 2016 (which are not presented herein) and expressed modified opinions on those financial statements. The financial statements for the seven years ended June 30, 2014 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the third paragraph of this report who expressed unmodified opinions on those financial statements. The supplementary information on pages 52 through 62, including the schedule of expenditures of federal awards required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2017 on our consideration of Waverly-Shell Rock 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 Waverly-Shell Rock Community School District's internal control over financial reporting and compliance.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
November 1, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Waverly-Shell Rock 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, 2017. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- General Fund revenue increased from \$25,231,891 in fiscal year 2016 to \$26,161,416 in fiscal year 2017, while General Fund expenditures increased from \$21,680,346 in fiscal year 2016 to \$23,268,301 in fiscal year 2017. The District's General Fund balance increased from a restated balance of \$4,317,603 at the end of fiscal year 2016 to a balance of \$7,215,071 at the end of fiscal year 2017.
- The fiscal year 2017 increase in General Fund revenue was primarily attributable to more special education tuition received.
- The increase in expenditures was due primarily to an increase in special education expense and instructional staff expense.

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

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

Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year, the District's proportionate share of the net pension liability and related contributions, as well as presenting the schedule of funding progress for the retiree health plan.

Supplementary information provides detailed information about the nonmajor governmental funds. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the District.

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

FIGURE A-1

**WAVERLY-SHELL ROCK COMMUNITY SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT**

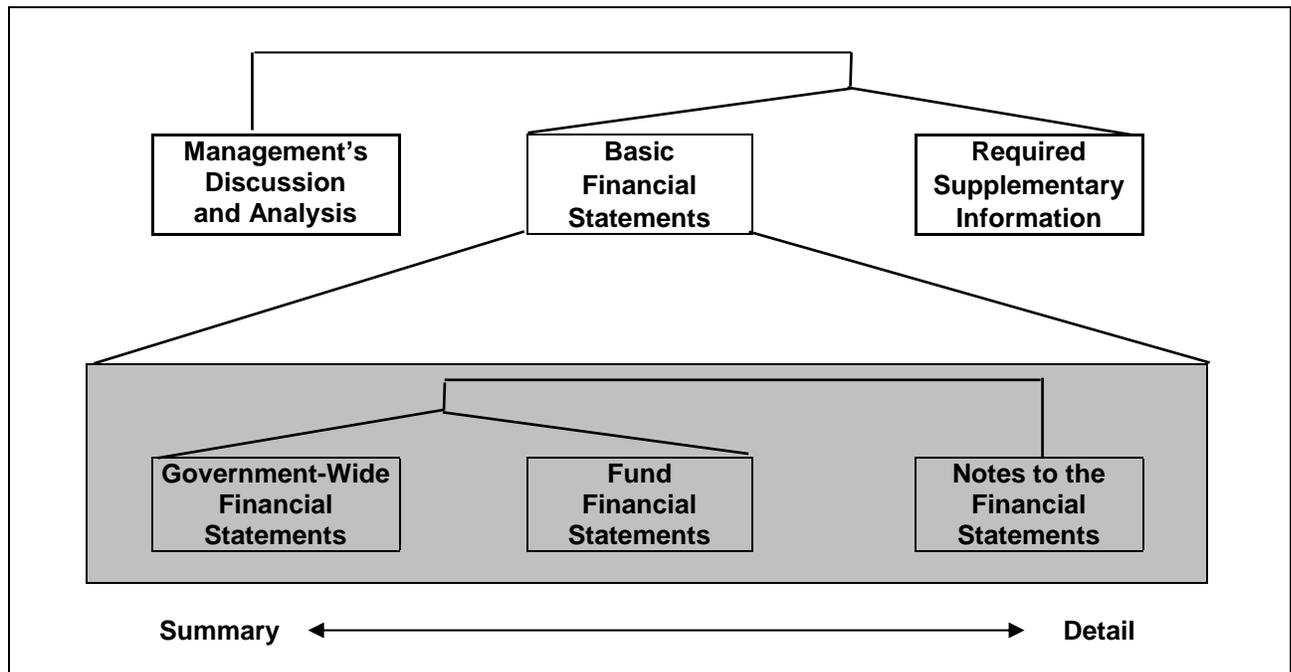


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-Wide Financial Statements

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

The two government-wide financial statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- *Proprietary Funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The District's enterprise fund is the School Nutrition Fund. Internal service funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District's Internal Service Fund is used to account for health insurance.
- The required financial statements for proprietary funds include a statement of net position, a statement of revenue, expenses and changes in fund net position and a statement of cash flows.
- *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 Funds - The District accounts for outside donations for scholarships for individual students in these funds.
 - Agency Funds - There are two funds through which the District administers and accounts for certain revenue as a fiscal agent.

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

The required financial statements for fiduciary funds include a statement of fiduciary net position and a statement of changes in fiduciary net position.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position as of June 30, 2017 compared to June 30, 2016.

**FIGURE A-3
CONDENSED STATEMENT OF NET POSITION**

	Governmental Activities June 30,		Business- Type Activities June 30,		Total District June 30,		Total Percentage Change June 30, 2016-2017
	2017	2016 (Restated)	2017	2016	2017	2016 (Restated)	
Current and other assets	\$ 26,423,309	\$ 25,293,361	\$ 348,100	\$ 308,240	\$ 26,771,409	\$ 25,601,601	4.6%
Capital assets	44,097,997	43,303,276	51,004	20,174	44,149,001	43,323,450	1.9
Total Assets	<u>70,521,306</u>	<u>68,596,637</u>	<u>399,104</u>	<u>328,414</u>	<u>70,920,410</u>	<u>68,925,051</u>	2.9
Deferred Outflows of Resources	<u>3,669,488</u>	<u>2,011,121</u>	<u>122,131</u>	<u>122,893</u>	<u>3,791,619</u>	<u>2,134,014</u>	N/A
Total Assets and Deferred Outflows of Resources	<u>\$ 74,190,794</u>	<u>\$ 70,607,758</u>	<u>\$ 521,235</u>	<u>\$ 451,307</u>	<u>\$ 74,712,029</u>	<u>\$ 71,059,065</u>	5.1
Long-term liabilities	\$ 24,769,497	\$ 23,512,187	\$ 421,088	\$ 341,175	\$ 25,190,585	\$ 23,853,362	5.6
Other liabilities	4,630,904	5,030,517	99,270	76,167	4,730,174	5,106,684	(7.4)
Total Liabilities	<u>29,400,401</u>	<u>28,542,704</u>	<u>520,358</u>	<u>417,342</u>	<u>29,920,759</u>	<u>28,960,046</u>	3.3
Deferred Inflows of Resources	<u>9,503,653</u>	<u>11,095,947</u>	<u>12,799</u>	<u>86,048</u>	<u>9,516,452</u>	<u>11,181,995</u>	(14.9)
Net Position							
Investment in capital assets	31,447,818	29,167,830	51,004	20,174	31,498,822	29,188,004	7.9
Restricted	5,120,450	6,004,346	—	—	5,120,450	6,004,346	(14.7)
Unrestricted	(1,281,528)	(4,203,069)	(62,926)	(72,257)	(1,344,454)	(4,275,326)	68.6
Total Net Position	<u>35,286,740</u>	<u>30,969,107</u>	<u>(11,922)</u>	<u>(52,083)</u>	<u>35,274,818</u>	<u>30,917,024</u>	14.1
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 74,190,794</u>	<u>\$ 70,607,758</u>	<u>\$ 521,235</u>	<u>\$ 451,307</u>	<u>\$ 74,712,029</u>	<u>\$ 71,059,065</u>	5.1

The District's total net position increased 14.1%, or approximately \$4.4 million, from the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased approximately \$884,000, or 14.7%, from the prior year. The decrease was primarily a result of a decrease in restricted funds held for school infrastructure and categorical funding.

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 by approximately \$2.9 million, or 68.6%. This increase in unrestricted net position was primarily a result of the increase in revenue over expenditures.

Figure A-4 shows the changes in net position for the year ended June 30, 2017 compared to the year ended June 30, 2016.

**FIGURE A-4
CHANGES IN NET POSITION**

	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total District</u>		<u>Total Percentage Change 2016-2017</u>
	<u>2017</u>	<u>2016 (Restated)</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016 (Restated)</u>	
Revenue							
Program Revenue							
Charges for service	\$ 4,626,458	\$ 3,884,101	\$ 831,147	\$ 805,825	\$ 5,457,605	\$ 4,689,926	16.4%
Operating grants and contributions	4,232,434	4,084,552	396,067	389,878	4,628,501	4,474,430	3.4
Capital grants and contributions	68,100	162,926	—	—	68,100	162,926	(58.2)
General Revenue							
Property tax	10,285,955	10,126,763	—	—	10,285,955	10,126,763	1.6
Income surtax	877,883	751,189	—	—	877,883	751,189	16.9
Statewide sales, services and use tax	1,911,957	1,931,121	—	—	1,911,957	1,931,121	(1.0)
Unrestricted state grants	9,333,865	9,445,270	—	—	9,333,865	9,445,270	(1.2)
Unrestricted invest- ment earnings	47,239	30,985	—	—	47,239	30,985	52.5
Other	4,123	3,692	—	—	4,123	3,692	11.7
Total Revenue	<u>31,388,014</u>	<u>30,420,599</u>	<u>1,227,214</u>	<u>1,195,703</u>	<u>32,615,228</u>	<u>31,616,302</u>	3.2
Program Expenses							
Instruction	19,055,163	17,863,501	—	—	19,055,163	17,863,501	6.7
Support services	6,591,537	5,865,838	—	—	6,591,537	5,865,838	12.4
Noninstructional programs	57,370	62,418	1,187,053	1,104,239	1,244,423	1,166,657	6.7
Other expenses	1,366,311	1,519,293	—	—	1,366,311	1,519,293	(10.1)
Total Program Expenses	<u>27,070,381</u>	<u>25,311,050</u>	<u>1,187,053</u>	<u>1,104,239</u>	<u>28,257,434</u>	<u>26,415,289</u>	7.0
Change in Net Position	4,317,633	5,109,549	40,161	91,464	4,357,794	5,201,013	(16.2)
Transfers	—	100	—	(100)	—	—	0.0
Net Position - Beginning of Year	<u>30,969,107</u>	<u>25,859,458</u>	<u>(52,083)</u>	<u>(143,447)</u>	<u>30,917,024</u>	<u>25,716,011</u>	20.2
Net Position - End of Year	<u>\$ 35,286,740</u>	<u>\$ 30,969,107</u>	<u>\$ (11,922)</u>	<u>\$ (52,083)</u>	<u>\$ 35,274,818</u>	<u>\$ 30,917,024</u>	14.1

In fiscal year 2017, property tax and unrestricted state grants accounted for 62.5% of governmental activities revenue while charges for service and operating grants and contributions accounted for 100% of business-type activities revenue.

As shown on Figure A-4, the District as a whole experienced a 3.2% increase in revenue and a 7.0% increase in expenses.

Governmental Activities

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, noninstructional programs and other expenses for the year ended June 30, 2017 compared to the year ended June 30, 2016.

**FIGURE A-5
TOTAL AND NET COST OF GOVERNMENTAL ACTIVITIES**

	Total Cost of Services		Percentage Change 2016-2017	Net Cost of Services		Percentage Change 2016-2017
	2017	2016 (Restated)		2017	2016 (Restated)	
Instruction	\$ 19,055,163	\$ 17,863,501	6.7%	\$ 11,236,469	\$ 10,859,767	3.5%
Support services	6,591,537	5,865,838	12.4	6,435,071	5,796,062	11.0
Noninstructional programs	57,370	62,418	(8.1)	57,370	62,418	(8.1)
Other	<u>1,366,311</u>	<u>1,519,293</u>	(10.1)	<u>414,479</u>	<u>461,224</u>	(10.1)
Total	<u>\$ 27,070,381</u>	<u>\$ 25,311,050</u>		<u>\$ 18,143,389</u>	<u>\$ 17,179,471</u>	

For the year ended June 30, 2017:

- The cost financed by users of the District's programs was \$4,626,458.
- Federal and state governments and local entities subsidized certain programs with operating grants and contributions totaling \$4,232,434.
- The net cost of governmental activities was financed with \$13,075,795 in property and other taxes, \$9,333,865 in unrestricted state grants and \$51,362 of other revenue.

Business-Type Activities

Revenue for business-type activities during the year ended June 30, 2017 was \$1,227,214, representing a 2.6% increase from the prior year, while expenses totaled \$1,187,053, a 7.5% increase from the prior year. The District's business-type activities only included the School Nutrition Fund in the current year. Revenue from this activity was comprised of charges for service and federal and state reimbursements. The Internal Service Fund activity is included in the governmental activities.

INDIVIDUAL FUND ANALYSIS

As previously noted, Waverly-Shell Rock 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 the District completed the year, its governmental funds reported combined fund balances of \$12,449,539, an increase of \$1,988,016 over last year's restated ending fund balances. The primary reason for the increase in combined fund balances in fiscal year 2017 is due to increased state and local sources.

Governmental Fund Highlights

- The General Fund balance increased from \$4,317,603 as of the end of fiscal year 2016 to a balance of \$7,215,071 as of the end of fiscal year 2017 due, in part, to an increase in state and local funding.
- The Debt Service Fund balance decreased from \$1,002,349 as of the end of fiscal year 2016 to \$976,820 as of the end of fiscal year 2017.
- The Capital Projects Fund balance decreased from \$4,319,183 as of the end of fiscal year 2016 to \$3,416,585 as of the end of fiscal year 2017. This decrease was primarily due to the transfers to the Debt Service Fund and amounts spent for facility improvements.

Proprietary Fund Highlights

School Nutrition Fund net position improved from a deficit balance of \$52,083 as of June 30, 2016 to a deficit balance of \$11,922 as of June 30, 2017. The increase is primarily due to managing the program to ensure revenue exceeds expenses.

The District uses an internal service fund which is included in the governmental activities of the government-wide financial statements to account for the health care plan which is a fully insured, high deductible plan administered by Wellmark Blue Cross Blue Shield of Iowa. The plan includes a feature whereby the District self-insures for a portion of the high deductible. Charges to the District's funds for insurance premiums and expenses totaled \$2,018,958 and reported costs including health insurance premiums and deductibles totaled \$1,856,812. Claims incurred for the year ended June 30, 2017 but not paid, which have been included in expense, totaled \$13,818.

BUDGETARY HIGHLIGHTS

Waverly-Shell Rock Community School District did not amend its budget during the year. See page 46 for a comparison of the budget to actual results.

The District's total revenue was \$15,034 more than total budgeted revenue.

Total expenditures were \$2,166,351 less than budgeted, due primarily to overbudgeting all expenditures. The District's practice is to budget expenditures conservatively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2017, the District had invested \$44,149,001, 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 2% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$1,413,653.

The original cost of the District's capital assets was \$59,814,100. Governmental funds account for \$59,718,616 with the remainder of \$95,484 accounted for in the Proprietary, School Nutrition Fund.

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

	Governmental Activities		Business- Type Activities		Total District		Total Percentage Change June 30, 2016-2017
	June 30,		June 30,		June 30,		
	2017	2016	2017	2016	2017	2016	
Land	\$ 678,470	\$ 678,470	\$ —	\$ —	\$ 678,470	\$ 678,470	0.0%
Construction in progress	403,784	628,152	—	—	403,784	628,152	(35.7)
Buildings Improvements other than buildings	39,651,761	40,263,016	—	—	39,651,761	40,263,016	(1.5)
Furniture and equipment	2,178,517	618,676	—	—	2,178,517	618,676	252.1
	<u>1,185,465</u>	<u>1,114,962</u>	<u>51,004</u>	<u>20,174</u>	<u>1,236,469</u>	<u>1,135,136</u>	8.9
Total	<u>\$ 44,097,997</u>	<u>\$ 43,303,276</u>	<u>\$ 51,004</u>	<u>\$ 20,174</u>	<u>\$ 44,149,001</u>	<u>\$ 43,323,450</u>	1.9

Long-Term Debt

As of June 30, 2017, the District had \$12,613,000 of bonded indebtedness outstanding. This represents a decrease of 10.5% from last year. (See Figure A-7.) Additional information about the District's long-term debt is presented in Note 6 to the financial statements. The District has approved a resolution authorizing the redemption of bonds, in the amount of \$960,000, after the call date of June 1, 2019, which represents 7.68% of the outstanding bonded indebtedness.

The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5% of the assessed value of all taxable property within the District. The District's outstanding debt subject to this limit is significantly below its constitutional debt limit of approximately \$37.3 million.

**FIGURE A-7
OUTSTANDING LONG-TERM OBLIGATIONS**

	Total District		Total Percentage Change June 30, 2016-17
	June 30,		
	2017	2016	
General obligation bonds	\$ 11,205,000	\$ 12,330,000	(9.1)%
Revenue bonds	<u>1,408,000</u>	<u>1,760,000</u>	(20.0)
	<u>\$ 12,613,000</u>	<u>\$ 14,090,000</u>	

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- State funding, known as supplemental state aid (SSA), is critical to funding educational programs. There is currently some uncertainty in the state budget, which may result in inadequate funding for schools.
- After experiencing an increase of 27 students over the past three years, the District saw a decrease of 29 students in the October, 2016 certified enrollment. Since revenue is driven by student enrollment, declining enrollment brings about the challenge of how to reduce expenditures to balance the budget.
- Local economic indicators are quite strong, with very low unemployment (currently around 2.8%), single family home construction in Waverly is steady over the prior year and bank deposits and assets are up over the prior year. Building permits issued in 2017 have increased and the valuation of building permits for 2017 are up more than \$4 million (48%) over 2016 valuations. Home sales are steady and average days on the market are down. The median and average sales price for property listings has increased.
- Commercial and industrial property tax reform has lowered the taxable valuation. This would have increased the property tax rate except the state is currently backfilling to keep the property tax rate stable. There is some uncertainty as to how long the state will backfill for this purpose.

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 Michael Kalvig, Business Manager, Waverly-Shell Rock Community School District, 1415 - 4th Avenue, SW, Waverly, IA 50677.

Basic Financial Statements

Statement of Net Position

As of June 30, 2017

	Governmental Activities	Business- Type Activities	Total
Assets and Deferred Outflows of Resources			
Assets			
Cash, cash equivalents and investments	\$ 13,779,889	\$ 289,372	\$ 14,069,261
Receivables			
Property Tax, Net of Allowance			
Current year delinquent.....	50,743	—	50,743
Succeeding year	9,196,529	—	9,196,529
Other.....	15,719	31,835	47,554
Due from agency fund	944,146	—	944,146
Due from other governments.....	2,230,029	2,754	2,232,783
Inventory.....	—	24,139	24,139
Restricted cash, cash equivalents and investments	206,254	—	206,254
Capital assets, net of accumulated depreciation	44,097,997	51,004	44,149,001
Total Assets	<u>70,521,306</u>	<u>399,104</u>	<u>70,920,410</u>
Deferred Outflows of Resources			
Pension-related deferred outflows	<u>3,669,488</u>	<u>122,131</u>	<u>3,791,619</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 74,190,794</u>	<u>\$ 521,235</u>	<u>\$ 74,712,029</u>
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Accounts payable	\$ 665,595	\$ 365	\$ 665,960
Salaries and benefits payable	2,707,242	63,478	2,770,720
Due to other funds.....	26,539	—	26,539
Deferred revenue	4,349	35,427	39,776
Accrued interest payable	37,179	—	37,179
Long-Term Liabilities			
Portion Due Within One Year			
General obligation bonds	745,000	—	745,000
Revenue bonds.....	337,000	—	337,000
Early retirement.....	108,000	—	108,000
Portion Due After One Year			
General obligation bonds	10,460,000	—	10,460,000
Revenue bonds.....	1,071,000	—	1,071,000
Early retirement.....	196,000	—	196,000
Net pension liability	12,362,963	421,088	12,784,051
Net OPEB liability.....	679,534	—	679,534
Total Liabilities	<u>29,400,401</u>	<u>520,358</u>	<u>29,920,759</u>
Deferred Inflows of Resources			
Unavailable property tax revenue.....	9,196,529	—	9,196,529
Pension-related deferred inflows	307,124	12,799	319,923
Total Deferred Inflows of Resources	<u>9,503,653</u>	<u>12,799</u>	<u>9,516,452</u>
Net Position			
Net investment in capital assets	31,447,818	51,004	31,498,822
Restricted for			
Categorical funding.....	189,982	—	189,982
Debt service.....	1,152,820	—	1,152,820
School infrastructure.....	2,078,599	—	2,078,599
Physical plant and equipment.....	1,161,986	—	1,161,986
Student activities.....	227,662	—	227,662
Management levy purposes.....	309,401	—	309,401
Unrestricted	(1,281,528)	(62,926)	(1,344,454)
Total Net Position	<u>35,286,740</u>	<u>(11,922)</u>	<u>35,274,818</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 74,190,794</u>	<u>\$ 521,235</u>	<u>\$ 74,712,029</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue			Net (Expenses), Revenue and Changes in Net Position		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction							
Regular	\$ 10,937,358	\$ 1,393,474	\$ 2,539,236	\$ —	\$ (7,004,648)	\$ —	\$ (7,004,648)
Special	5,006,929	2,208,644	738,493	—	(2,059,792)	—	(2,059,792)
Other	3,110,876	910,116	28,731	—	(2,172,029)	—	(2,172,029)
Total Instruction.....	<u>19,055,163</u>	<u>4,512,234</u>	<u>3,306,460</u>	<u>—</u>	<u>(11,236,469)</u>	<u>—</u>	<u>(11,236,469)</u>
Support Services							
Student	538,937	—	—	—	(538,937)	—	(538,937)
Instructional staff.....	1,436,565	—	—	—	(1,436,565)	—	(1,436,565)
Administration	2,058,274	—	—	—	(2,058,274)	—	(2,058,274)
Operation and maintenance of plant	1,480,137	95,657	—	—	(1,384,480)	—	(1,384,480)
Transportation.....	1,077,624	18,567	42,242	—	(1,016,815)	—	(1,016,815)
Total Support Services.....	<u>6,591,537</u>	<u>114,224</u>	<u>42,242</u>	<u>—</u>	<u>(6,435,071)</u>	<u>—</u>	<u>(6,435,071)</u>
Noninstructional programs.....	<u>57,370</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(57,370)</u>	<u>—</u>	<u>(57,370)</u>
Other Expenses							
Facilities acquisition	—	—	—	68,100	68,100	—	68,100
Long-term debt interest and fiscal charges.....	482,579	—	—	—	(482,579)	—	(482,579)
AEA flowthrough	883,732	—	883,732	—	—	—	—
Total Other Expenses.....	<u>1,366,311</u>	<u>—</u>	<u>883,732</u>	<u>68,100</u>	<u>(414,479)</u>	<u>—</u>	<u>(414,479)</u>
Total Governmental Activities.....	<u>27,070,381</u>	<u>4,626,458</u>	<u>4,232,434</u>	<u>68,100</u>	<u>(18,143,389)</u>	<u>—</u>	<u>(18,143,389)</u>
Business-Type Activities							
Noninstructional Programs							
Food service operations.....	<u>1,187,053</u>	<u>831,147</u>	<u>396,067</u>	<u>—</u>	<u>—</u>	<u>40,161</u>	<u>40,161</u>
Total	<u>\$ 28,257,434</u>	<u>\$ 5,457,605</u>	<u>\$ 4,628,501</u>	<u>\$ 68,100</u>	<u>(18,143,389)</u>	<u>40,161</u>	<u>(18,103,228)</u>
General Revenue (Expense)							
Property Tax Levied for							
General purposes.....					8,107,350	—	8,107,350
Management levy.....					429,711	—	429,711
Capital outlay					246,435	—	246,435
Debt service					1,502,459	—	1,502,459
Income surtax.....					877,883	—	877,883
Statewide sales, services and use tax					1,911,957	—	1,911,957
Unrestricted state grants					9,333,865	—	9,333,865
Unrestricted investment earnings					47,239	—	47,239
Gain on sale of capital assets.....					4,123	—	4,123
Total General Revenue (Expense).....					<u>22,461,022</u>	<u>—</u>	<u>22,461,022</u>
Change in Net Position					<u>4,317,633</u>	<u>40,161</u>	<u>4,357,794</u>
Net Position - Beginning of Year, as previously reported					30,977,599	(52,083)	30,925,516
Prior period adjustment (Note 17).....					(8,492)	—	(8,492)
Net Position - Beginning of Year, as Restated					<u>30,969,107</u>	<u>(52,083)</u>	<u>30,917,024</u>
Net Position - End of Year.....					<u>\$ 35,286,740</u>	<u>\$ (11,922)</u>	<u>\$ 35,274,818</u>

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

As of June 30, 2017

	General	Debt Service	Capital Projects	Nonmajor	Total
Assets					
Cash, cash equivalents and investments.....	\$ 7,905,612	\$ 938,601	\$ 3,538,659	\$ 835,955	\$ 13,218,827
Receivables					
Property Tax, Net of Allowance					
Current year delinquent	39,525	7,965	1,306	1,947	50,743
Succeeding year	6,305,840	2,085,604	255,085	550,000	9,196,529
Other	—	—	—	15,719	15,719
Due from other funds	939,538	—	—	4,608	944,146
Due from other governments	2,071,135	—	158,894	—	2,230,029
Restricted cash, cash equivalents and investments	—	30,254	176,000	—	206,254
Total Assets	<u>\$ 17,261,650</u>	<u>\$ 3,062,424</u>	<u>\$ 4,129,944</u>	<u>\$ 1,408,229</u>	<u>\$ 25,862,247</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts payable.....	\$ 204,246	\$ —	\$ 436,343	\$ 14,450	\$ 655,039
Salaries and benefits payable	2,683,818	—	—	2,716	2,686,534
Due to other funds.....	4,608	—	21,931	—	26,539
Deferred revenue	4,349	—	—	—	4,349
Total Liabilities	<u>2,897,021</u>	<u>—</u>	<u>458,274</u>	<u>17,166</u>	<u>3,372,461</u>
Deferred Inflows of Resources					
Unavailable Revenue					
Succeeding year property tax ...	6,305,840	2,085,604	255,085	550,000	9,196,529
Income surtax	843,718	—	—	—	843,718
Total Deferred Inflows of Resources	<u>7,149,558</u>	<u>2,085,604</u>	<u>255,085</u>	<u>550,000</u>	<u>10,040,247</u>
Fund Balances					
Restricted for					
Categorical funding	189,982	—	—	—	189,982
Debt service	—	976,820	176,000	—	1,152,820
School infrastructure	—	—	2,078,599	—	2,078,599
Physical plant and equipment...	—	—	1,161,986	—	1,161,986
Student activities.....	—	—	—	227,662	227,662
Management levy purposes.....	—	—	—	613,401	613,401
Unassigned	7,025,089	—	—	—	7,025,089
Total Fund Balances	<u>7,215,071</u>	<u>976,820</u>	<u>3,416,585</u>	<u>841,063</u>	<u>12,449,539</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 17,261,650</u>	<u>\$ 3,062,424</u>	<u>\$ 4,129,944</u>	<u>\$ 1,408,229</u>	<u>\$ 25,862,247</u>

See accompanying notes to the financial statements.

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

As of June 30, 2017

Total Fund Balances for Governmental Funds (Page 18).... **\$ 12,449,539**

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

An internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position..... 529,798

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds 44,097,997

Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds..... (37,179)

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	\$ 3,669,488	
Deferred inflows of resources	<u>(307,124)</u>	3,362,364

Long-term liabilities are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.

General obligation bonds	\$ (11,205,000)	
Revenue bonds	(1,408,000)	
Early retirement.....	(304,000)	
Net pension liability	(12,362,963)	
Net OPEB liability	<u>(679,534)</u>	(25,959,497)

Income surtax receivable is not available to pay current year expenditures and, therefore, is recognized as deferred inflows of resources in the governmental funds..... 843,718

Net Position of Governmental Activities (Page 16)..... **\$ 35,286,740**

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

Year Ended June 30, 2017

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenue					
Local Sources					
Local tax.....	\$ 8,948,383	\$ 1,502,459	\$ 2,158,391	\$ 399,919	\$ 13,009,152
Tuition	2,272,044	—	—	—	2,272,044
Other	1,323,830	—	163,559	900,712	2,388,101
Interest income.....	—	9,887	—	—	9,887
Gifts and contributions	20,755	—	—	—	20,755
State sources	12,846,109	34,977	5,737	9,967	12,896,790
Federal sources	750,295	—	—	—	750,295
Total Revenue	<u>26,161,416</u>	<u>1,547,323</u>	<u>2,327,687</u>	<u>1,310,598</u>	<u>31,347,024</u>
Expenditures					
Current					
Instruction					
Regular	9,444,377	—	270,662	147,127	9,862,166
Special	5,006,929	—	—	—	5,006,929
Other	2,005,306	—	159,581	926,353	3,091,240
Total Instruction	<u>16,456,612</u>	<u>—</u>	<u>430,243</u>	<u>1,073,480</u>	<u>17,960,335</u>
Support Services					
Student	521,731	—	27,600	1,687	551,018
Instructional staff	1,424,089	—	—	3,649	1,427,738
Administration	1,765,765	—	242,156	21,859	2,029,780
Operation and maintenance of plant	1,609,442	—	46,222	125,261	1,780,925
Transportation	606,930	—	301,207	39,499	947,636
Total Support Services.....	<u>5,927,957</u>	<u>—</u>	<u>617,185</u>	<u>191,955</u>	<u>6,737,097</u>
Noninstructional programs.....	—	—	—	26,258	26,258
Other Expenditures					
Facilities acquisition.....	—	—	1,787,863	—	1,787,863
Long-Term Debt					
Principal.....	—	1,477,000	—	—	1,477,000
Interest and fiscal charges	—	490,846	—	—	490,846
AEA flowthrough	883,732	—	—	—	883,732
Total Other Expenditures.....	<u>883,732</u>	<u>1,967,846</u>	<u>1,787,863</u>	<u>—</u>	<u>4,639,441</u>
Total Expenditures.....	<u>23,268,301</u>	<u>1,967,846</u>	<u>2,835,291</u>	<u>1,291,693</u>	<u>29,363,131</u>
Revenue Over (Under) Expenditures	<u>2,893,115</u>	<u>(420,523)</u>	<u>(507,604)</u>	<u>18,905</u>	<u>1,983,893</u>
Other Financing Sources (Uses)					
Proceeds from the sale of capital assets					
Operating transfers in.....	4,123	—	—	—	4,123
Operating transfers out	307	394,994	—	77	395,378
Operating transfers out	(77)	—	(394,994)	(307)	(395,378)
Total Other Financing Sources (Uses).....	<u>4,353</u>	<u>394,994</u>	<u>(394,994)</u>	<u>(230)</u>	<u>4,123</u>
Change in Fund Balances	<u>2,897,468</u>	<u>(25,529)</u>	<u>(902,598)</u>	<u>18,675</u>	<u>1,988,016</u>
Fund Balances - Beginning of Year, as previously reported					
Prior period adjustment (Note 17)	4,222,004	1,002,349	4,319,183	926,479	10,470,015
Fund Balances - Beginning of Year, as Restated	95,599	—	—	(104,091)	(8,492)
Fund Balances - Beginning of Year, as Restated	<u>4,317,603</u>	<u>1,002,349</u>	<u>4,319,183</u>	<u>822,388</u>	<u>10,461,523</u>
Fund Balances - End of Year	<u>\$ 7,215,071</u>	<u>\$ 976,820</u>	<u>\$ 3,416,585</u>	<u>\$ 841,063</u>	<u>\$ 12,449,539</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2017

Change in Fund Balances - Total Governmental Funds (Page 20) \$ 1,988,016

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

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

163,538

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

Expenditures for capital outlays.....	\$ 2,177,544	
Depreciation expense.....	<u>(1,382,823)</u>	794,721

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 interest accrues, regardless of when it is due.....

8,267

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.		1,477,000
--------------	--	-----------

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

1,384,670

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

Early retirement.....	\$ 108,000	
Net OPEB liability	(120,929)	
Pension expense.....	<u>(1,522,517)</u>	(1,535,446)

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

36,850

Other.....		<u>17</u>
------------	--	-----------

Change in Net Position of Governmental Activities (Page 17) \$ 4,317,633

Statement of Net Position - Proprietary Funds

As of June 30, 2017

	<u>Major Enterprise School Nutrition</u>	<u>Internal Service Health Insurance</u>	Total
Assets and Deferred Outflows of Resources			
Current Assets			
Cash, cash equivalents and investments	\$ 289,372	\$ 561,062	\$ 850,434
Receivables			
Other	31,835	—	31,835
Due from other governments	2,754	—	2,754
Inventory	<u>24,139</u>	<u>—</u>	<u>24,139</u>
Total Current Assets	<u>348,100</u>	<u>561,062</u>	<u>909,162</u>
Capital Assets, Net of Accumulated Depreciation	<u>51,004</u>	<u>—</u>	<u>51,004</u>
Deferred Outflows of Resources			
Pension-related deferred outflows	<u>122,131</u>	<u>—</u>	<u>122,131</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 521,235</u>	<u>\$ 561,062</u>	<u>\$ 1,082,297</u>
Liabilities, Deferred Inflows of Resources and Net Position			
Current Liabilities			
Accounts payable	\$ 365	\$ 10,556	\$ 10,921
Salaries and benefits payable	63,478	20,708	84,186
Deferred revenue	<u>35,427</u>	<u>—</u>	<u>35,427</u>
Total Current Liabilities	<u>99,270</u>	<u>31,264</u>	<u>130,534</u>
Noncurrent Liability			
Net pension liability	<u>421,088</u>	<u>—</u>	<u>421,088</u>
Total Liabilities	<u>520,358</u>	<u>31,264</u>	<u>551,622</u>
Deferred Inflows of Resources			
Pension-related deferred inflows	<u>12,799</u>	<u>—</u>	<u>12,799</u>
Net Position			
Net investment in capital assets	51,004	—	51,004
Unrestricted	<u>(62,926)</u>	<u>529,798</u>	<u>466,872</u>
Total Net Position	<u>(11,922)</u>	<u>529,798</u>	<u>517,876</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 521,235</u>	<u>\$ 561,062</u>	<u>\$ 1,082,297</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2017

	<u>Major Enterprise School Nutrition</u>	<u>Internal Service Health Insurance</u>
Operating Revenue		
Local Sources		
Charges for service	\$ 831,147	\$ —
Reimbursement from operating funds, employees and others	<u>—</u>	<u>2,018,958</u>
Total Operating Revenue	<u>831,147</u>	<u>2,018,958</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries	480,554	—
Benefits	122,557	—
Purchased services	19,371	13,343
Supplies	558,172	—
Depreciation	6,399	—
Insurance premiums, claims and fees	<u>—</u>	<u>1,843,469</u>
Total Operating Expenses	<u>1,187,053</u>	<u>1,856,812</u>
Income (Loss) From Operations	<u>(355,906)</u>	<u>162,146</u>
Nonoperating Revenue		
State sources	7,630	—
Federal sources	388,437	—
Interest income	<u>—</u>	<u>1,392</u>
Total Nonoperating Revenue	<u>396,067</u>	<u>1,392</u>
Net Income	40,161	163,538
Net Position - Beginning of Year	<u>(52,083)</u>	<u>366,260</u>
Net Position - End of Year	<u>\$ (11,922)</u>	<u>\$ 529,798</u>

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2017

	<u>Major Enterprise School Nutrition</u>	<u>Internal Service Health Insurance</u>
Cash Flows From Operating Activities		
Cash received from sale of lunches and breakfasts.....	\$ 839,773	\$ —
Cash received from operating funds, employees and others	—	2,018,958
Cash paid to employees for services	(494,149)	—
Cash paid to suppliers for goods or services	<u>(579,831)</u>	<u>(1,825,856)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(234,207)</u>	<u>193,102</u>
Cash Flows From Noncapital Financing Activities		
State and federal grants received	307,097	—
Net transfers.....	—	—
Net repayments to other funds	<u>—</u>	<u>—</u>
Net Cash Provided by Noncapital Financing Activities	<u>307,097</u>	<u>—</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets.....	<u>(37,229)</u>	<u>—</u>
Cash Flows From Investing Activities		
Interest on investments	<u>—</u>	<u>1,392</u>
Net Increase in Cash, Cash Equivalents and Investments	35,661	194,494
Cash, Cash Equivalents and Investments - Beginning of Year	<u>253,711</u>	<u>366,568</u>
Cash, Cash Equivalents and Investments - End of Year	<u>\$ 289,372</u>	<u>\$ 561,062</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities		
Income (loss) from operations.....	\$ (355,906)	\$ 162,146
Adjustments to Reconcile Loss From Operations to Net Cash Provided by (Used in) Operating Activities		
Commodities used.....	86,216	—
Depreciation.....	6,399	—
Changes in Assets and Liabilities		
Decrease in receivables	926	—
Increase in inventories and prepaids	(2,371)	—
Decrease in pension-related deferred outflows.....	762	—
Increase (decrease) in accounts payable	(451)	10,248
Increase in salaries and benefits payable	15,854	20,708
Increase in unearned revenue	7,700	—
Increase in net pension liability	79,913	—
Decrease in pension-related deferred inflows	<u>(73,249)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (234,207)</u>	<u>\$ 193,102</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2017, the District received \$86,216 of federal commodities.

Statement of Fiduciary Net Position - Fiduciary Funds

As of June 30, 2017

	Private Purpose Trust	Agency	
	Scholarship	General	Lied Center Consortium
Assets			
Cash, cash equivalents and investments.....	\$ 115,971	\$ 57,374	\$ 360,269
Other receivable	—	666	812
Due from other funds.....	—	—	21,931
Due from other governments	—	—	547,643
Total Assets	<u>\$ 115,971</u>	<u>\$ 58,040</u>	<u>\$ 930,655</u>
Liabilities and Net Position			
Liabilities			
Accounts payable	\$ 1,999	\$ 40,320	\$ 8,837
Due to other funds.....	—	17,720	921,818
Total Liabilities	<u>1,999</u>	<u>58,040</u>	<u>930,655</u>
Net Position			
Reserved for scholarships	<u>113,972</u>	—	—
Total Liabilities and Net Position	<u>\$ 115,971</u>	<u>\$ 58,040</u>	<u>\$ 930,655</u>

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2017

	<u>Private Purpose Trust Scholarship</u>
Additions	
Local Sources	
Gifts and contributions	<u>\$ 68,839</u>
Deductions	
Instruction	
Regular	
Scholarships awarded	<u>53,953</u>
Change in Net Position	14,886
Net Position - Beginning of Year	<u>99,086</u>
Net Position - End of Year	<u>\$ 113,972</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Waverly-Shell Rock Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades prekindergarten through twelve. The geographic area served includes the Cities of Shell Rock and Waverly and the predominate agricultural territory in Black Hawk, Bremer and Butler Counties. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

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

Reporting Entity

For financial reporting purposes, Waverly-Shell Rock Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Bremer County Assessor's Conference Board.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities report information on all the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenue, are reported separately from business-type activities which rely to a significant extent on fees and charges for service.

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

Fund Financial Statements

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

The District reports the following major governmental funds:

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

The *Debt Service Fund* is utilized to account for property tax and other revenue to be used for the payment of principal and interest 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's proprietary funds are the School Nutrition Fund, an enterprise fund, used to account for the food service operations of the District and an internal service fund, used to account for the District's health insurance plan.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise 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 revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

Cash, Cash Equivalents and Investments

The cash balances of most District funds are invested. Investments are stated at fair value except for the investment in nonnegotiable certificates of deposit which are stated at cost.

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

Property Tax Receivable

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

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

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% per month penalty for delinquent payments; is based on January 1, 2015 assessed property valuations; is for the tax accrual period July 1, 2016 through June 30, 2017; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2016.

Due From Other Governments

Due from other governments represents amounts due from the State of Iowa, various shared revenue, grants and reimbursements from other governments.

Inventories

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

Capital Assets

Capital assets, which include property, furniture and equipment and intangibles, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. The District did not have any intangible assets as of June 30, 2017. 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

Buildings	10 - 50 Years
Improvements other than buildings	15 - 20 Years
Furniture and equipment	5 - 20 Years

Deferred Outflows of Resources

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

Salaries and Benefits Payable

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

Advances From Grantors

Grant proceeds which have been received by the District but will be spent in a succeeding fiscal year.

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation and sick leave. The District's policy is not to reimburse for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District had no compensated absences liability as of June 30, 2017.

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.

(1) Summary of Significant Accounting Policies

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and income surtax not collected within 60 days after year end.

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

Fund Balances

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

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

Unassigned - All amounts not included in the preceding classification.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2017, the District did not exceed its General Fund unspent authorized budget.

Estimates and Assumptions

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

(2) Cash, Cash Equivalents and Investments

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

Notes to the Financial Statements

(2) Cash, Cash Equivalents and Investments

Interest Rate Risk

The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District. The District did not own any investments as of June 30, 2017 other than certificates of deposits.

Credit Risk

The Board authorizes the District to invest funds in excess of current needs in interest-bearing savings, money market and checking accounts in the District's authorized depositories; the Iowa Schools Joint Investment Trust; obligations of the United States governments, its agencies and instrumentalities; and certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions. The District's policy does not further limit the District's investments in relation to credit risk.

Concentration of Credit Risk

The District's general investment policy is to apply the prudent-person rule: in making investments, the District shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use to meet the goals of the investment program.

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in an event of a bank failure, the government's deposits may not be returned to it. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District's deposits in banks as of June 30, 2017 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 had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72

(3) Due From and Due To Other Funds

The detail of interfund receivables and payables as of June 30, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
General	Agency	\$ 939,538
Student Activity	General	4,608
Agency	Capital Projects	21,931
		<u>\$ 966,077</u>

Notes to the Financial Statements

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

Transfer To	Transfer From	Amount
General	School Nutrition	\$ 307
Debt Service	Capital Projects	394,994
Student Activity	General	<u>77</u>
		<u>\$ 395,378</u>

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

(5) Capital Assets

Capital assets activity for the year ended June 30, 2017 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 678,470	\$ —	\$ —	\$ 678,470
Construction in progress	<u>628,152</u>	<u>1,088,917</u>	<u>1,313,285</u>	<u>403,784</u>
Total Capital Assets Not Being Depreciated.....	<u>1,306,622</u>	<u>1,088,917</u>	<u>1,313,285</u>	<u>1,082,254</u>
Capital Assets Being Depreciated				
Buildings	50,593,299	385,933	—	50,979,232
Improvements other than buildings	1,955,162	1,659,329	—	3,614,491
Furniture and equipment	<u>3,771,555</u>	<u>356,650</u>	<u>85,566</u>	<u>4,042,639</u>
Total Capital Assets Being Depreciated.....	<u>56,320,016</u>	<u>2,401,912</u>	<u>85,566</u>	<u>58,636,362</u>
Less Accumulated Depreciation for				
Buildings	10,330,283	997,188	—	11,327,471
Improvements other than buildings	1,336,486	99,488	—	1,435,974
Furniture and equipment	<u>2,656,593</u>	<u>286,147</u>	<u>85,566</u>	<u>2,857,174</u>
Total Accumulated Depreciation...	<u>14,323,362</u>	<u>1,382,823</u>	<u>85,566</u>	<u>15,620,619</u>
Net Capital Assets Being Depreciated	<u>41,996,654</u>	<u>1,019,089</u>	<u>—</u>	<u>43,015,743</u>
Net Governmental Activities				
Capital Assets	<u>\$ 43,303,276</u>	<u>\$ 2,108,006</u>	<u>\$ 1,313,285</u>	<u>\$ 44,097,997</u>

Notes to the Financial Statements

(5) Capital Assets

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Business-Type Activities				
Capital Assets Being Depreciated				
Furniture and equipment	\$ 58,255	\$ 37,229	\$ —	\$ 95,484
Less accumulated depreciation	<u>38,081</u>	<u>6,399</u>	<u>—</u>	<u>44,480</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 20,174</u>	<u>\$ 30,830</u>	<u>\$ —</u>	<u>\$ 51,004</u>

Depreciation expense was charged to the following functions:

Governmental Activities

Instruction		
Regular		\$ 1,180,793
Other		19,636
Support Services		
Instructional staff		1,245
Administration		1,245
Operation and maintenance of plant		26,412
Transportation		122,380
Noninstructional programs		<u>31,112</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 1,382,823</u>

Business-Type Activities

Food service operations		<u>\$ 6,399</u>
-------------------------------	--	-----------------

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2017 are summarized as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 12,330,000	\$ —	\$ 1,125,000	\$ 11,205,000	\$ 745,000
Revenue bond	1,760,000	—	352,000	1,408,000	337,000
Early retirement	412,000	—	108,000	304,000	108,000
Net pension liability	10,036,582	2,326,381	—	12,362,963	—
Net OPEB liability	<u>558,605</u>	<u>120,929</u>	<u>—</u>	<u>679,534</u>	<u>—</u>
Total	<u>\$ 25,097,187</u>	<u>\$ 2,447,310</u>	<u>\$ 1,585,000</u>	<u>\$ 25,959,497</u>	<u>\$ 1,190,000</u>
Business-Type Activities					
Net pension liability	<u>\$ 341,175</u>	<u>\$ 79,913</u>	<u>\$ —</u>	<u>\$ 421,088</u>	<u>\$ —</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

General Obligation Bonds

General obligation bonds are liquidated in the Debt Service Fund. Details of the District's June 30, 2017 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bonds Issued February 1, 2010			
	Interest Rates	Principal	Interest	Total
2018	3.500%	\$ 745,000	\$ 420,106	\$ 1,165,106
2019	3.500	775,000	394,031	1,169,031
2020	3.500	800,000	366,906	1,166,906
2021	3.500	835,000	338,906	1,173,906
2022	3.500	865,000	309,682	1,174,682
2023-2027	3.625 - 4.000	4,905,000	1,047,758	5,952,758
2028-2029	4.000 - 4.125	2,280,000	140,712	2,420,712
Total		<u>\$ 11,205,000</u>	<u>\$ 3,018,101</u>	<u>\$ 14,223,101</u>

Revenue Bond

The revenue bond is liquidated in the Debt Service Fund. Details of the District's June 30, 2017 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bonds Issued March 30, 2016			
	Interest Rates	Principal	Interest	Total
2018	1.85%	\$ 337,000	\$ 26,048	\$ 363,048
2019	1.85	307,000	19,814	326,814
2020	1.85	277,000	14,134	291,134
2021	1.85	258,000	9,010	267,010
2022	1.85	229,000	4,236	233,236
Total		<u>\$ 1,408,000</u>	<u>\$ 73,242</u>	<u>\$ 1,481,242</u>

The District has pledged future statewide sales, services and use tax revenue to repay the bonds issued in March, 2016. The bonds were issued for the purpose of refinancing bonds issued in August, 2007. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District and are payable through 2022. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require 40% of the statewide sales, services and use tax revenue. During 2017, the District paid \$352,000 of principal and \$38,077 of interest on these bonds. The total principal and interest remaining to be paid on the bonds is \$1,481,242. Total statewide sales, services and use tax revenue was \$1,911,957.

Notes to the Financial Statements

(6) Long-Term Liabilities

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

- (a) \$660,500 of the proceeds from the issuance of revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- (b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- (c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- (d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all the revenue bond provisions during the year ended June 30, 2017.

The early retirement liability is liquidated in the Management Levy Fund and the pension and OPEB liabilities are liquidated in the General Fund.

(7) Pension and Retirement Benefits

Plan Description

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

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

Pension Benefits

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

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

(7) Pension and Retirement Benefits

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

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. State statute limits the amount rates can increase or decrease each year to one percentage point. IPERS' Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, regular members contributed 5.95% of covered payroll and the District contributed 8.93% for a total rate of 14.88%.

The District's contributions to IPERS for the year ended June 30, 2017 were \$1,429,544.

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

As of June 30, 2017, the District reported a liability of \$12,784,051 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. As of June 30, 2016, the District's proportion was 0.203137% which was a decrease of 0.006918% from its proportion measured as of June 30, 2015.

Notes to the Financial Statements

(7) Pension and Retirement Benefits

For the year ended June 30, 2017, the District recognized pension expense of \$1,574,817. As of June 30, 2017, 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	\$ 112,986	\$ 152,572
Changes of assumptions	195,045	—
Net difference between projected and actual earnings on IPERS' investments	1,821,324	—
Changes in proportion and differences between District contributions and proportionate share of contributions	232,720	167,351
District contributions subsequent to the measurement date	<u>1,429,544</u>	<u>—</u>
Total	<u>\$ 3,791,619</u>	<u>\$ 319,923</u>

\$1,429,544 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,

2018	\$ 300,781
2019	300,781
2020	962,851
2021	501,436
2022	<u>(23,697)</u>
Total	<u>\$ 2,042,152</u>

There were no nonemployer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2016 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% per annum.
Salary increases (effective June 30, 2010)	4% to 17%, average, including inflation. Rates vary by membership group.
Investment rate of return (effective June 30, 1996)	7.5% per annum, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4% per annum, based on 3% inflation assumption and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Notes to the Financial Statements

(7) Pension and Retirement Benefits

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 IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of 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%	1.90%
Domestic Equity	24	5.85
International Equity	16	6.32
Private Equity/Debt	11	10.31
Real Estate	8	3.87
Credit Opportunities	5	4.48
U.S. TIPS	5	1.36
Other Real Assets	2	6.42
Cash	1	(0.26)
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, IPERS' 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 IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 20,682,865	\$ 12,784,051	\$ 6,117,349

Notes to the Financial Statements

(7) Pension and Retirement Benefits

Pension Plan Fiduciary Net Position

Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

All legally required employer contributions and legally required employee contributions which had been withheld from employee wages were remitted by the District to IPERS by June 30, 2017.

(8) 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 approximately 210 active and 15 retired members in the plan. Retired participants must be age 55 or older at retirement. The plan does not issue a stand-alone financial report.

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the District's annual OPEB cost for the year ended for June 30, 2017, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 142,429
Interest on net OPEB obligation.....	13,965
Adjustment to annual required contribution.....	<u>(32,453)</u>
Annual OPEB Cost	123,941
Contributions made	<u>(3,012)</u>
Increase in Net OPEB Obligation	120,929
Net OPEB Obligation - Beginning of Year.....	<u>558,605</u>
Net OPEB Obligation - End of Year	<u>\$ 679,534</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2017.

Notes to the Financial Statements

(8) Other Postemployment Benefits (OPEB)

For the year ended 2017, the District contributed \$1,809,673 to the medical plan. Plan members eligible for benefits contributed \$95,406, or 5.3%, of the premium costs.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 119,497	9.4%	\$ 449,045
June 30, 2016	117,781	7.0	558,605
June 30, 2017	123,941	6.8	679,534

Funded Status and Funding Progress

As of July 1, 2014, the most recent estimated actuarial valuation date for the period of July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$742,869 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$742,869. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$16 million and the ratio of the UAAL to the covered payroll was 5%. As of June 30, 2017, there were no trust fund assets.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress for the retiree health plan presented as required supplementary information in the section following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2016 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. An inflation rate of 0% is assumed for the purpose of this calculation.

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

Notes to the Financial Statements

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$883,732 for the year ended June 30, 2017, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Early Retirement

The District offered a voluntary early retirement plan to employees for the year ended June 30, 2017. Eligible employees must have completed at least ten years of service to the District and had to be at least age 55 by June 30 in the year of retirement. The application for early retirement was subject to approval by the Board of Education.

Early retirement benefits equal \$14,000 per year for five years for most employees. One employee's benefit is \$10,000 a year for three years.

As of June 30, 2017, the District had obligations to eight participants with a total liability of \$304,000.

(12) Categorical Funding

The District's restricted fund balance for categorical funding as of June 30, 2017 is comprised of the following programs:

Program	Amount
Four-Year-Old Preschool.....	\$ 343
Core Curriculum	16,727
Gifted and Talented.....	141,744
Nonpublic textbooks	668
Teacher Leadership.....	9,222
Iowa Early Literacy	9,687
Professional Development.....	9,681
Home School Assistance Program	1,910
Total	<u>\$ 189,982</u>

Notes to the Financial Statements

(13) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenue that results from an agreement between one or more governments and an individual entity in which (a) one or more governments promise to forgo tax revenue to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Tax Abatements of Other Entities

Property tax revenue of the District was reduced by the following amounts for the year ended June 30, 2017 under agreements entered into by the following entities:

Entity	Tax Abatement Program	Amount of Tax Abated
Bremer County	Economic development	\$ 70,726
City of Waverly	Economic development	45,071
City of Shell Rock	Economic development	18,710
		<u>\$ 134,507</u>

The State of Iowa reimburses the District an amount equivalent to the increment of valuation on which property tax is divided times \$5.40 per \$1,000 of taxable valuation. However, for the year ended June 30, 2017, no amount was reimbursed by the State.

(14) Commitments

As of June 30, 2017, the District had entered into construction contracts totaling approximately \$760,000 for the High School roof, High School commons area remodeling and other equipment. Approximately \$367,000 had been incurred as of June 30, 2017.

(15) Subsequent Events

Management has evaluated subsequent events through November 1, 2017, the date which the financial statements were available to be issued.

Subsequent to June 30, 2017, the District entered into agreements to purchase a bus and for a tuck pointing project at the High School totaling approximately \$174,000.

(16) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information. In addition, the statement of net position is expected to include a significant liability for the government's other postemployment benefits.

(17) Prior Period Adjustment

During 2017, management corrected the accounting for certain amounts and transactions which had been incorrectly included within the Student Activity Fund in prior years. The effect of this correction was to increase the fund balance of the General Fund and decrease the fund balance of the Student Activity Fund by \$104,091. In addition, the District made an \$8,492 adjustment to reduce the fund balance of the General Fund for expenditures made in the current year which were for prior year expenses. Although the amount is immaterial, the Iowa Department of Education requires this type of correction to be reported as an adjustment to fund balance on the District's Certified Annual Report.

Required Supplementary Information

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

Year Ended June 30, 2017

	Govern- mental Fund Type	Proprietary Fund Type	Total	Budget	Over (Under) Budget
Revenue					
Local sources	\$ 17,699,939	\$ 831,147	\$ 18,531,086	\$ 16,963,264	\$ 1,567,822
State sources	12,896,790	7,630	12,904,420	14,455,940	(1,551,520)
Federal sources	<u>750,295</u>	<u>388,437</u>	<u>1,138,732</u>	<u>1,140,000</u>	<u>(1,268)</u>
Total Revenue	<u>31,347,024</u>	<u>1,227,214</u>	<u>32,574,238</u>	<u>32,559,204</u>	<u>15,034</u>
Expenditures/Expenses					
Instruction.....	17,960,335	—	17,960,335	19,150,000	(1,189,665)
Support services	6,737,097	—	6,737,097	6,904,000	(166,903)
Noninstructional services	26,258	1,187,053	1,213,311	1,400,000	(186,689)
Other expenditures.....	<u>4,639,441</u>	<u>—</u>	<u>4,639,441</u>	<u>5,262,535</u>	<u>(623,094)</u>
Total Expenditures/ Expenses	<u>29,363,131</u>	<u>1,187,053</u>	<u>30,550,184</u>	<u>32,716,535</u>	<u>(2,166,351)</u>
Revenue Over (Under) Expenditures/Expenses....	1,983,893	40,161	2,024,054	(157,331)	2,181,385
Other Financing Sources (Uses), Net.....	<u>4,123</u>	<u>—</u>	<u>4,123</u>	<u>—</u>	<u>4,123</u>
Revenue and Other Financing Sources Over (Under) Expenditures/ Expenses and Other Financing Uses.....	1,988,016	40,161	2,028,177	(157,331)	<u>\$ 2,185,508</u>
Balance - Beginning of Year, as restated.....	<u>10,461,523</u>	<u>(52,083)</u>	<u>10,409,440</u>	<u>10,893,948</u>	
Balance - End of Year	<u>\$ 12,449,539</u>	<u>\$ (11,922)</u>	<u>\$ 12,437,617</u>	<u>\$ 10,736,617</u>	

Notes to Required Supplementary Information - Budgetary Reporting ---

Year Ended June 30, 2017

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

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

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

During the year ended June 30, 2017, the District did not exceed its General Fund unspent authorized budget.

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

Last Three Years*

	2017	2016	2015
District's proportion of the net pension liability	0.203137%	0.210603%	0.208747%
District's proportionate share of the net pension liability	\$12,784,051	\$10,377,757	\$8,368,615
District's covered-employee payroll (approximate) ...	\$14,624,000	\$14,519,000	\$13,808,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll .	87.42%	71.48%	60.61%
Plan fiduciary net position as a percentage of the total pension liability.....	81.82%	85.19%	87.61%

* The amounts presented for each fiscal year were determined as of June 30 of the preceding year.

Schedule of Contributions
Iowa Public Employees' Retirement System

Last Ten Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statorily required contribution	\$ 1,429,544	\$ 1,305,967	\$ 1,296,515	\$ 1,233,041	\$ 1,121,491	\$ 870,687	\$ 740,959	\$ 726,681	\$ 650,558	\$ 597,385
Contributions in relation to the statorily required contributions.....	<u>(1,429,544)</u>	<u>(1,305,967)</u>	<u>(1,296,515)</u>	<u>(1,233,041)</u>	<u>(1,121,491)</u>	<u>(870,687)</u>	<u>(740,959)</u>	<u>(726,681)</u>	<u>(650,558)</u>	<u>(597,385)</u>
Contribution Deficiency (Excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>				
District's covered-employee payroll (approximate)	\$ 16,008,000	\$ 14,624,000	\$ 14,519,000	\$ 13,808,000	\$ 12,935,000	\$ 10,803,000	\$ 10,661,000	\$ 10,928,000	\$ 10,245,000	\$ 9,874,000
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%	8.67%	8.06%	6.95%	6.65%	6.35%	6.05%

Notes to Required Supplementary Information - Pension Liability ---

Year Ended June 30, 2017

Changes of Benefit Terms

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

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

Changes of Assumptions

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the regular membership group.
- 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.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	\$ —	\$ 546,000	\$ 546,000	0%	\$ 10,095,000	5.4%
2010	7-1-08	—	541,000	541,000	0	11,120,000	4.9
2011	7-1-08	—	541,000	541,000	0	10,380,000	5.2
2012	7-1-11	—	439,000	439,000	0	8,567,000	5.2
2013	7-1-11	—	416,000	416,000	0	10,452,000	3.9
2014	7-1-11	—	383,000	383,000	0	10,721,000	3.6
2015	7-1-14	—	869,742	869,742	0	14,600,000	6.0
2016	7-1-14	—	742,869	742,869	0	15,000,000	5.0
2017	7-1-14	—	742,869	742,869	0	16,000,000	4.6

See Note 8 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

As of June 30, 2017

	<u>Special Revenue</u>		Total
	Student Activity	Management Levy	
Assets			
Cash, cash equivalents and investments.....	\$ 224,501	\$ 611,454	\$ 835,955
Receivables			
Property Tax, Net of Allowance			
Current year delinquent.....	—	1,947	1,947
Succeeding year	—	550,000	550,000
Other.....	15,719	—	15,719
Due from other funds.....	<u>4,608</u>	<u>—</u>	<u>4,608</u>
Total Assets	<u>\$ 244,828</u>	<u>\$ 1,163,401</u>	<u>\$ 1,408,229</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable	\$ 14,450	\$ —	\$ 14,450
Salaries and benefits payable.....	<u>2,716</u>	<u>—</u>	<u>2,716</u>
Total Liabilities	<u>17,166</u>	<u>—</u>	<u>17,166</u>
Deferred Inflows of Resources			
Unavailable Revenue			
Succeeding year property tax.....	<u>—</u>	<u>550,000</u>	<u>550,000</u>
Fund Balances			
Restricted for			
Student activities.....	227,662	—	227,662
Management levy purposes	<u>—</u>	<u>613,401</u>	<u>613,401</u>
Total Fund Balances	<u>227,662</u>	<u>613,401</u>	<u>841,063</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 244,828</u>	<u>\$ 1,163,401</u>	<u>\$ 1,408,229</u>

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

Year Ended June 30, 2017

	Special Revenue		
	Student Activity	Management Levy	Total
Revenue			
Local Sources			
Local tax	\$ —	\$ 399,919	\$ 399,919
Other.....	869,229	31,483	900,712
State sources	—	9,967	9,967
Total Revenue	869,229	441,369	1,310,598
Expenditures			
Current			
Instruction			
Regular	—	147,127	147,127
Other.....	926,353	—	926,353
Total Instruction.....	926,353	147,127	1,073,480
Support Services			
Student.....	—	1,687	1,687
Instructional staff.....	—	3,649	3,649
Administration	—	21,859	21,859
Operation and maintenance of plant.....	—	125,261	125,261
Transportation.....	—	39,499	39,499
Total Support Services	—	191,955	191,955
Noninstructional programs	—	26,258	26,258
Total Expenditures	926,353	365,340	1,291,693
Revenue Over (Under) Expenditures	(57,124)	76,029	18,905
Other Financing Sources (Uses)			
Operating transfers in	77	—	77
Operating transfers out.....	(307)	—	(307)
Total Other Financing Sources (Uses) ...	(230)	—	(230)
Change in Fund Balances	(57,354)	76,029	18,675
Fund Balances - Beginning of Year, as previously reported.....	389,107	537,372	926,479
Prior period adjustment (Note 17).....	(104,091)	—	(104,091)
Fund Balances - as Restated	285,016	537,372	822,388
Fund Balances - End of Year	\$ 227,662	\$ 613,401	\$ 841,063

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

Year Ended June 30, 2017

	Balance - Beginning of Year	Revenue	Expenses	Transfers and Prior Period Adjustment	Balance - End of Year
Activity Tickets.....	\$ 3,535	\$ 349	\$ —	\$ (3,535)	\$ 349
Annual.....	16,240	26,617	23,461	—	19,396
Art Club.....	10,345	100	—	—	10,445
Baseball.....	14	22,309	24,915	2,612	20
Baseball Reciprocal.....	5,775	15,657	23,748	2,438	122
Books.....	349	—	—	(349)	—
BOWLING RECIP.....	272	212	1,819	1,335	—
Bowling Reciprocal.....	969	3,162	3,252	—	879
Boys Basketball.....	412	37,320	36,930	(800)	2
Boys Basketball Reciprocal.....	2,175	35,696	34,836	—	3,035
Boys Golf.....	35	2,237	2,896	625	—
Boys Golf Reciprocal.....	—	170	—	(170)	—
Boys Soccer.....	18	13,998	12,934	(935)	148
Boys Soccer Reciprocal.....	908	—	—	—	908
Boys Tennis.....	178	—	1,714	1,537	—
Boys Track.....	171	6,331	5,660	(841)	—
Boys Track Reciprocal.....	1,531	786	1,000	—	1,316
Boys W Club.....	80	—	—	—	80
Business Office.....	7,134	—	—	(7,134)	—
Calculators - High School Math.....	2,328	—	—	(2,328)	—
Chat and Chew Book Review ..	55	—	—	(55)	—
Christmas Card.....	7,944	297	8,241	—	—
Class of 2017.....	2,114	520	2,994	360	—
Class of 2018.....	—	6,885	4,685	—	2,200
Cross Country.....	29	3,025	4,591	1,537	—
Cross Country Reciprocal.....	1,841	3,036	3,507	—	1,370
Dance Team.....	3,670	12,858	15,127	—	1,401
DECA.....	3,677	18,866	23,028	485	—
Elementary Art Contest.....	660	—	—	(660)	—
FFA.....	4,328	60,510	56,399	—	8,438
Football.....	840	26,269	19,532	(7,510)	67
Football Reciprocal.....	10,135	49,169	57,370	—	1,934
Gaming Club.....	51	—	—	—	51
General Athletics.....	325	30,371	25,680	(4,980)	36
German Account.....	1,228	2,025	930	—	2,323
German Club.....	6,338	16	2,047	—	4,307
Girls Basketball.....	724	8,515	6,833	(2,400)	7
Girls Basketball Reciprocal.....	3,352	41,714	40,607	—	4,459
Girls Golf.....	91	—	255	164	—
Girls Soccer.....	281	10,459	9,383	(1,200)	157
Girls Soccer Reciprocal.....	4,893	12,091	7,864	—	9,120
Girls Softball.....	60	17,468	22,829	5,301	—
Girls Tennis.....	48	1,375	2,067	650	6
Girls Tennis Reciprocal.....	24	175	—	—	199

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

Year Ended June 30, 2017

	Balance - Beginning of Year	Revenue	Expenses	Transfers and Prior Period Adjustment	Balance - End of Year
Girls Track.....	\$ 164	\$ 5,211	\$ 6,419	\$ 1,044	\$ —
Girls Volleyball.....	932	10,436	7,541	(3,600)	227
Guidance Transcripts	3,942	—	—	(3,942)	—
High School Advanced Placement.....	737	—	—	(737)	—
High School Band Trip.....	30,837	128,802	172,419	14,351	1,571
High School Basketball Cheerleaders	436	2,518	2,701	—	252
High School Color Guard.....	—	1,132	2,101	970	—
High School Engineering Club	2,878	100	—	—	2,978
High School FCCLA	4,747	6,579	4,120	—	7,205
High School Football Cheerleaders	1,059	11,266	12,116	—	210
High School Front Door Donations.....	500	—	—	(500)	—
High School Girls Varsity Club	43	1,362	1,148	—	257
High School Industrial Tech Grants.....	2,077	—	—	(2,077)	—
High School Jazz.....	940	2,747	2,325	—	1,362
High School Musical	9,315	6,427	12,138	—	3,605
High School Strings Fundraising	835	13,454	3,861	—	10,428
High School Vocal Music.....	10,767	7,389	8,319	—	9,838
High School Vocal Music Fundraising	1,564	—	—	(974)	589
High School Vocal Music Trips	7,521	4,292	5,140	—	6,673
High School Wrestling Cheerleaders	1,042	2,271	1,522	—	1,790
Human Rights Group.....	1,064	—	—	—	1,064
Industrial Tech Stores.....	1,091	—	—	(1,091)	—
Instrumental Music	—	17,339	3,295	(13,856)	187
IPAD Repair	2,805	—	—	(2,805)	—
Masquers	6,477	11,381	12,837	—	5,021
Middle School General Athletics	—	6,753	13,429	6,676	—
Middle School Band.....	14,894	7,155	9,402	—	12,648
Middle School Concessions.....	8,460	9,955	6,827	(299)	11,288
Middle School Student Council	215	1,429	1,270	—	374
Middle School Vocal Music.....	3,201	10,878	13,654	—	425
Middle School Orchestra	7,473	3,214	2,847	—	7,839
MOC.....	616	—	—	(616)	—
National Honor Society.....	657	1,060	1,635	—	82
PE Stores	28	—	—	(28)	—
Pictures	58,950	—	—	(58,950)	—
Prairie Project.....	6,029	—	—	(6,029)	—
SADD	244	—	—	—	244

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

Year Ended June 30, 2017

	Balance - Beginning of Year	Revenue	Expenses	Transfers and Prior Period Adjustment	Balance - End of Year
School Lunch.....	\$ 610	\$ —	\$ 610	\$ —	\$ —
Science Club	6,507	1,123	1,959	7,240	12,911
Science Stores	14,765	—	—	(14,765)	—
Shell Rock PTO.....	—	34	—	(34)	—
Shell Rock Transportation	129	—	—	(129)	—
Softball Reciprocal.....	241	16,799	18,363	1,322	—
Spanish Club	18,551	5,274	6,899	—	16,927
Staff Device Protection.....	1,598	—	—	(1,598)	—
Strength and Conditioning Reciprocal.....	12,537	18,264	13,894	—	16,907
String Music.....	3,154	2,201	4,067	—	1,288
Student Lounge	45	—	—	—	45
Student Senate.....	1,310	3,242	3,776	—	776
Talented and Gifted	2,703	863	1,567	—	1,999
Transportation Pop.....	543	—	—	(543)	—
Trapshooting	10,801	16,466	18,076	—	9,191
Unreserved.....	1,728	1,644	(340)	(1,534)	2,178
Volleyball and Girls Golf Reciprocal.....	7,043	36,007	38,039	—	5,011
Weightlifting.....	3,165	48	1,715	—	1,498
West Cedar Account.....	758	—	—	(758)	—
West Cedar Transportation.....	3,423	—	—	(3,423)	—
Whisper Café.....	534	—	—	(534)	—
Wrestling Reciprocal.....	—	53	142	89	—
Wrestling	35	23,474	23,386	(123)	—
WSR Wilderness	1,211	—	—	(1,211)	—
	<u>\$ 389,107</u>	<u>\$ 869,229</u>	<u>\$ 926,353</u>	<u>\$ (104,321)</u>	<u>\$ 227,662</u>

Combining Balance Sheet - Capital Projects Accounts

As of June 30, 2017

	<u>Capital Projects</u>		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Assets			
Cash, cash equivalents and investments.....	\$ 2,210,095	\$ 1,328,564	\$ 3,538,659
Receivables			
Property Tax, Net of Allowance			
Current year delinquent.....	—	1,306	1,306
Succeeding year	—	255,085	255,085
Due from other governments	158,894	—	158,894
Restricted cash.....	<u>176,000</u>	<u>—</u>	<u>176,000</u>
Total Assets	<u>\$ 2,544,989</u>	<u>\$ 1,584,955</u>	<u>\$ 4,129,944</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable	\$ 268,459	\$ 167,884	\$ 436,343
Due to other funds.....	<u>21,931</u>	<u>—</u>	<u>21,931</u>
Total Liabilities	<u>290,390</u>	<u>167,884</u>	<u>458,274</u>
Deferred Inflows of Resources			
Unavailable Revenue			
Succeeding year property tax.....	<u>—</u>	<u>255,085</u>	<u>255,085</u>
Fund Balances			
Restricted for			
Debt service.....	176,000	—	176,000
School infrastructure	2,078,599	—	2,078,599
Physical plant and equipment	<u>—</u>	<u>1,161,986</u>	<u>1,161,986</u>
Total Fund Balances	<u>2,254,599</u>	<u>1,161,986</u>	<u>3,416,585</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,544,989</u>	<u>\$ 1,584,955</u>	<u>\$ 4,129,944</u>

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Capital Projects Accounts

Year Ended June 30, 2017

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Revenue			
Local Sources			
Local tax	\$ 1,911,957	\$ 246,434	\$ 2,158,391
Other.....	153,929	9,630	163,559
State sources	—	5,737	5,737
Total Revenue	2,065,886	261,801	2,327,687
Expenditures			
Current			
Instruction			
Regular	54,086	216,576	270,662
Other.....	159,581	—	159,581
Total Instruction.....	213,667	216,576	430,243
Support Services			
Student.....	27,600	—	27,600
Administration	128,451	113,705	242,156
Operation and maintenance of plant.....	46,222	—	46,222
Transportation.....	—	301,207	301,207
Total Support Services	202,273	414,912	617,185
Other Expenditures			
Facilities acquisition	1,783,138	4,725	1,787,863
Total Expenditures	2,199,078	636,213	2,835,291
Revenue Under Expenditures	(133,192)	(374,412)	(507,604)
Other Financing Uses			
Operating transfers out.....	(394,994)	—	(394,994)
Change in Fund Balances	(528,186)	(374,412)	(902,598)
Fund Balances - Beginning of Year	2,782,785	1,536,398	4,319,183
Fund Balances - End of Year	\$ 2,254,599	\$ 1,161,986	\$ 3,416,585

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Funds

Year Ended June 30, 2017

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
General Assets				
Cash, cash equivalents and investments.....	\$ 42,317	\$ 185,947	\$ 170,890	\$ 57,374
Other receivable	<u>1,781</u>	<u>666</u>	<u>1,781</u>	<u>666</u>
Total Assets	<u>\$ 44,098</u>	<u>\$ 186,613</u>	<u>\$ 172,671</u>	<u>\$ 58,040</u>
Liabilities				
Accounts payable	\$ 44,098	\$ 168,893	\$ 172,671	\$ 40,320
Due to other funds	<u>—</u>	<u>17,720</u>	<u>—</u>	<u>17,720</u>
Total Liabilities	<u>\$ 44,098</u>	<u>\$ 186,613</u>	<u>\$ 172,671</u>	<u>\$ 58,040</u>
Lied Center Consortium Assets				
Cash, cash equivalents and investments.....	\$ 12,521	\$ 2,538,187	\$ 2,190,439	\$ 360,269
Other receivable	—	812	—	812
Due from other funds.....	83,368	21,931	83,368	21,931
Due from other governments	<u>551,915</u>	<u>3,481,182</u>	<u>3,485,454</u>	<u>547,643</u>
Total Assets	<u>\$ 647,804</u>	<u>\$ 6,042,112</u>	<u>\$ 5,759,261</u>	<u>\$ 930,655</u>
Liabilities				
Accounts payable	\$ 521,000	\$ 5,120,294	\$ 5,632,457	\$ 8,837
Due to other funds	<u>126,804</u>	<u>921,818</u>	<u>126,804</u>	<u>921,818</u>
Total Liabilities	<u>\$ 647,804</u>	<u>\$ 6,042,112</u>	<u>\$ 5,759,261</u>	<u>\$ 930,655</u>

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

Last Ten Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenue										
Local Sources										
Local tax	\$ 13,009,152	\$ 12,880,739	\$ 12,719,631	\$ 12,194,972	\$ 10,234,580	\$ 10,014,538	\$ 9,041,122	\$ 7,842,434	\$ 7,670,444	\$ 7,251,512
Tuition	2,272,044	2,309,211	4,634,026	2,593,242	3,163,448	1,416,410	1,049,102	968,240	807,288	799,477
Other	2,418,743	1,710,598	1,429,343	1,264,502	1,442,585	1,779,259	2,714,181	1,865,455	1,463,780	1,751,178
State sources	12,896,790	12,933,595	11,628,354	11,506,104	11,760,299	10,412,073	9,784,985	8,319,827	9,264,724	8,592,584
Federal sources.....	<u>750,295</u>	<u>681,432</u>	<u>902,678</u>	<u>1,230,445</u>	<u>1,324,583</u>	<u>947,285</u>	<u>1,078,784</u>	<u>1,598,254</u>	<u>516,035</u>	<u>393,148</u>
Total	<u>\$ 31,347,024</u>	<u>\$ 30,515,575</u>	<u>\$ 31,314,032</u>	<u>\$ 28,789,265</u>	<u>\$ 27,925,495</u>	<u>\$ 24,569,565</u>	<u>\$ 23,668,174</u>	<u>\$ 20,594,210</u>	<u>\$ 19,722,271</u>	<u>\$ 18,787,899</u>
Expenditures										
Instruction										
Regular	\$ 9,862,166	\$ 10,024,803	\$ 10,181,707	\$ 9,432,483	\$ 8,963,113	\$ 9,260,173	\$ 15,122,534	\$ 14,074,567	\$ 13,650,217	\$ 12,106,920
Special	5,006,929	4,106,149	5,715,033	5,139,679	5,373,882	3,661,644	*	*	*	*
Other	3,091,240	2,964,093	2,843,556	2,749,354	2,776,714	2,699,473	*	*	*	*
Support Services										
Student	551,018	533,890	525,186	477,278	454,820	457,869	387,765	391,926	373,380	348,133
Instructional staff.....	1,427,738	713,015	975,213	1,018,138	976,561	796,332	668,934	592,436	609,775	597,333
Administration	2,029,780	2,091,851	1,876,840	1,779,251	1,743,251	1,695,351	1,659,660	1,834,695	1,535,002	1,459,945
Operations and maintenance of plant.....	1,780,925	1,674,078	1,702,303	1,749,550	1,638,014	1,584,543	1,660,045	1,622,878	3,519,618	1,674,624
Transportation.....	947,636	911,758	1,037,628	949,445	845,520	751,148	827,750	594,974	824,863	702,297
Noninstitutional programs.....	26,258	33,190	33,105	—	—	—	—	—	—	—
Other Expenditures										
Facilities acquisition	1,787,863	869,889	556,098	2,131,814	245,442	5,808,087	15,671,194	7,871,906	800,562	2,640,810
Long-Term Debt										
Principal	1,477,000	3,480,000	1,480,000	2,425,000	3,310,000	1,205,000	975,000	525,000	910,000	880,000
Interest and fiscal charges.....	490,846	626,952	623,156	667,011	711,358	776,576	950,031	261,043	254,238	259,853
AEA flowthrough	<u>883,732</u>	<u>895,143</u>	<u>861,393</u>	<u>822,849</u>	<u>759,250</u>	<u>781,384</u>	<u>850,882</u>	<u>834,410</u>	<u>688,570</u>	<u>633,205</u>
Total	<u>\$ 29,363,131</u>	<u>\$ 28,924,811</u>	<u>\$ 28,411,218</u>	<u>\$ 29,341,852</u>	<u>\$ 27,797,925</u>	<u>\$ 29,477,580</u>	<u>\$ 38,773,795</u>	<u>\$ 28,603,835</u>	<u>\$ 23,166,225</u>	<u>\$ 21,303,120</u>

* Allocation between instructional functions not available.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Expenditures
U.S. Department of Agriculture - Indirect				
Pass-Through From Iowa Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	N/A	\$ —	\$ 31,338
National School Lunch Program...	10.555	N/A	—	270,883
National School Lunch Program - Food Donation (noncash)	10.555	N/A	—	86,216
Total Child Nutrition Cluster ...			—	<u>388,437</u>
Healthier US School Challenge: Smarter Lunchrooms.....	10.543	N/A	—	36
Total U.S. Department of Agriculture			<u>—</u>	<u>388,473</u>
U.S. Department of Education - Indirect				
Pass-Through From Area Education Agency 267				
Special Education - Grants to States	84.027	N/A	—	<u>108,398</u>
Pass-Through From Iowa Department of Education				
Title I Grants to Local Educational Agencies	84.010	N/A	—	<u>211,357</u>
Career and Technical Education - Basic Grants to States	84.048	N/A	—	<u>12,631</u>
Improving Teacher Quality State Grants	84.367	N/A	—	<u>42,944</u>
Grants for State Assessments and Related Activities	84.369	N/A	—	<u>4,356</u>
Title III English Language Acquisition	84.365	N/A	—	<u>3,328</u>
Total U.S. Department of Education			<u>—</u>	<u>383,014</u>
U.S. Department of Health and Human Services - Indirect				
Pass-Through From Iowa Department of Education				
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	N/A	—	<u>165</u>
Total			<u>\$ —</u>	<u>\$ 771,652</u>

Schedule of Expenditures of Federal Awards ---

Year Ended June 30, 2017

Basis of Presentation

The accompanying schedule of expenditures of federal awards (schedule) includes the federal award activity of Waverly-Shell Rock Community School District under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2, U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of Waverly-Shell Rock Community School District, it is not indented to and does not present the financial position, changes in financial position or cash flows of Waverly-Shell Rock Community School District.

Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

Waverly-Shell Rock Community School District has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

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

Board of Education
Waverly-Shell Rock Community School District
Waverly, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Waverly-Shell Rock Community School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated November 1, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2017 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.

Waverly-Shell Rock Community School District's Responses to Findings

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



HOGAN - HANSEN

Waterloo, Iowa
November 1, 2017

Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Education
Waverly-Shell Rock Community School District
Waverly, Iowa

Report on Compliance for the Major Federal Program

We have audited Waverly-Shell Rock Community School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2017. Waverly-Shell Rock Community School District's major federal programs are identified in Part I of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Waverly-Shell Rock Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Waverly-Shell Rock Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on Waverly-Shell Rock Community School District's compliance.

Opinion on the Major Federal Program

In our opinion, Waverly-Shell Rock Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The management of Waverly-Shell Rock Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Waverly-Shell Rock Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Waverly-Shell Rock Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over compliance we consider to be a material weakness.

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

Waverly-Shell Rock Community School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Waverly-Shell Rock Community School District's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance, a public record by law, is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
November 1, 2017

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? yes no

Significant deficiency identified not considered to be material weakness? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major program:

Material weakness identified? yes no

Significant deficiency identified not considered to be material weakness? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of the Uniform Guidance? yes no

Identification of major programs:

CFDA Numbers or Cluster

Child Nutrition Cluster
10.553
10.555

Name of Federal Program

School Breakfast Program
National School Lunch Program

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

\$750,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

17-II-A Segregation of Duties

Criteria - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition - We noted that the business manager and one other employee has the ability to set up new vendors within the accounting software and those same two employees each have the ability to generate checks which are electronically signed by the software. As a compensating control, the superintendent is obtaining the unopened bank statements each month and reviewing the items that clear the bank.

The business manager makes all of the adjusting journal entries to the general ledger which are being reviewed and approved by the superintendent; however, there are no procedures in place to ensure that the superintendent is being provided all of the adjusting entries which were actually made to the general ledger.

The business manager has full administrative rights within the accounting software which allows for the opportunity to make changes that would override other compensating controls that have been placed in operation.

Cause - Limited number of business office employees and limitation of electronic data access controls.

Effect or Potential Effect - The potential effect of this control weakness is that fraud or errors could occur and not be detected by management or others within the District in a reasonable period of time.

Context - Pervasive.

Identification of Repeat Finding - We found the same condition existed in our prior year audit.

Auditor's Recommendation - We realize segregation of duties is difficult with a limited number of business office employees. However, the District should continually review its procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. The District should consider contacting its software vendor to discuss programming changes which could alert others with the District when things such as changes are made by the business manager using the administrative rights; when new vendors are set up; when a transaction has been changed from its original recording; or when a payroll rate or salary amount is changed.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

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

Auditor's Conclusion - Response accepted.

17-II-B Financial Statement Preparation

Criteria - The District should have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with generally accepted accounting principles.

Condition - The District relies upon the audit firm to draft the financial statements and disclosures.

Cause - As is inherent in many governmental entities of this size, the District has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully apply generally accepted accounting principles in preparing the financial statements and the related disclosures.

Effect or Potential Effect - The potential effect of this control weakness is that errors could occur in the financial statements and not be detected by management.

Context - Pervasive.

Identification of Repeat Finding - We found the same condition existed in our prior year audit.

Auditor's Recommendation - We recommend that the business office staff look for educational opportunities to increase their knowledge of generally accepted accounting principles as they relate to the District's financial statements.

District's Response - We will look for opportunities to improve our knowledge; however, we will continue to rely on our auditors to assist us in drafting the financial statements and required disclosures.

Auditor's Response - Response accepted.

17-II-C Proper Supporting Documentation

Criteria - Proper supporting documentation should be maintained for all expenditures of District funds.

Condition - In a sample of expenditures made with District credit cards, we noted several charges that were either not supported with appropriate documentation or completely lacked any documentation.

Cause - The cause of the control weakness was a lack of adherence to District policies by those using the credit cards and failure to hold those staff accountable when the receipts were missing.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Effect or Potential Effect - The potential effect of this control weakness is that fraud could occur and not be detected by management or amounts could be paid for goods and services which do not meet a proper public purpose.

Context - The dollar amount of the transactions with insufficient or missing documentation totaled \$1,736.65 out of sample of \$60,037.75 or an error rate of approximately 3%. Expanding that to a population of annual credit card charges of approximately \$720,000 results in a projected error of \$21,600.

Identification of Repeat Finding - We found the same condition existed in our prior year audit.

Auditor's Recommendation - The District should review its internal controls over approval and payment of expenditures and make the necessary changes to ensure that all expenditures of District funds are supported with proper documentation to prove an appropriate public purpose. Employees who do not comply with the policy should be held accountable for payment of the unsupported charges.

District's Response - The District will communicate this matter to all staff and ensure they understand the importance of obtaining the proper receipts. Further, we will make necessary changes to ensure that all expenditures of District funds have proper documentation to prove an appropriate public purpose.

Auditor's Conclusion - Response accepted.

17-II-D Negative School Breakfast and Lunch Accounts

Criteria - The District should have policies in place to ensure that student breakfast and lunch accounts are not allowed to fall below zero, and if they do, to have a system for recovering those negative balances.

Condition - We found that several students have negative balances in their school breakfast and lunch accounts indicating amounts owed to the District for meals consumed which were not paid for. Some of these account balances were in excess of \$1,000 and had been outstanding for over a year.

Cause - The cause of this matter resulted from a lack of a policy to prevent student breakfast and lunch accounts from having a negative balance. During the year ended June 30, 2017, the District implemented new policies which will prevent accounts from becoming negative in the future.

Effect - The effect of this matter is that the School Nutrition Fund assets may be overstated if the balances due from these accounts cannot be collected.

Context - This finding impacts the assets of the School Nutrition Fund.

Identification of Repeat Finding - We found the same condition existed in our prior year audit.

Auditor's Recommendation - The District should make reasonable attempts to collect the unpaid balances of all students and if an amount is deemed uncollectible then it should be written off.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

District's Response - As noted above, the Board of Education approved a policy which will prevent accounts from becoming negative and is taking proactive steps to notify parents when their students' account balance falls below \$10. The District continues to attempt to collect the amounts due from prior years and will be studying alternatives to accelerate the collections or charge them off as uncollectible if the likelihood of collection is deemed remote.

Auditor's Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

All programs listed in the schedule of expenditures of federal awards.

17-III-A Segregation of Duties - As previously identified in the fiscal year 2015 audit report as item (2017-001) 2015-001, one important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. See Finding 17-II-A for additional information.

Part IV: Other Findings Related to Statutory Reporting

17-IV-A Certified Budget - Expenditures for the year ended June 30, 2017 did not exceed the certified budget.

17-IV-B Questionable Expenditures - We found credit card expenditures which were not supported with proper documentation; therefore, it was impossible to determine if the expenditures met a proper public purpose. We also noted a Student Activity Fund expenditure which had proper supporting documentation but was for flowers which do not appear to meet a proper public purpose.

Auditor's Recommendation - District staff should continue to improve internal controls to ensure that expenditures made with credit cards are supported and all expenditures meet a proper public purpose.

District's Response - The District will make necessary changes to ensure that all expenditures made with credit cards are properly supported and that we continue to monitor proper public purpose.

Auditor's Conclusion - Response accepted.

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

17-IV-D Business Transactions - No material business transactions between the District and District officials or employees were noted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

- 17-IV-E Bond Coverage** - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- 17-IV-F Board Minutes** - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 17-IV-G Certified Enrollment** - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- 17-IV-H Supplementary Weighting** - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- 17-IV-I Deposits and Investments** - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- 17-IV-J Certified Annual Report** - The Certified Annual Report was certified timely to the Iowa Department of Education.
- 17-IV-K Categorical Funding** - No instances were found of categorical funding being used to supplant rather than supplement other funds.
- 17-IV-L Statewide Sales, Services and Use Tax** - No instances of noncompliance with the allowable use 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 submitted to the Iowa Department of Education.

For the year ended June 30, 2017, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's Certified Annual Report including adjustments identified during the fiscal year 2017 audit:

Beginning balance.....		\$ 2,782,785
Revenue		
Sales tax revenue	\$ 1,911,957	
Other local revenue	<u>153,929</u>	2,065,886
Expenditures/Transfers Out		
School infrastructure construction	\$ 1,783,138	
Equipment.....	369,718	
Other.....	46,222	
Transfer to Other Funds		
Debt Service Fund.....	<u>394,994</u>	<u>2,594,072</u>
Ending Balance		<u>\$ 2,254,599</u>

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

For the year ended June 30, 2017, the District reduced the following levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	\$ 0.5287	\$ 394,994

17-IV-M Deficit Fund Balance - The District reported a \$11,922 deficit School Nutrition Fund balance as of June 30, 2017.

Auditor's Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate this deficit.

District's Response - The deficit is primarily due to recording the net pension liability and pension-related deferred outflows and inflows of resources. While the entries are required and accurate according to the Governmental Accounting Standards Board, the District believes the deficit is due to an accounting entry that does not provide a practical reflection of this fund's financial condition. The District will continue to monitor this fund.

Auditor's Conclusion - Response accepted.