

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2016

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Independent Auditor's Report

To the Board of Education of
Galva-Holstein Community School District:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Galva-Holstein Community School District, Holstein, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I 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, I 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.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Disclaimer of Opinion

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

Disclaimer of Opinion

Because the Foundation's financial statements have not been audited, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the financial statements of the discretely presented component unit of the Galva-Holstein Community School District, as of and for the year ended June 30, 2016.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Galva-Holstein Community School District as of June 30, 2016, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 12 and 48 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted

auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Galva-Holstein Community School District's basic financial statements. The financial statements for the nine years ended June 30, 2015 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my 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, I have also issued my report dated March 2, 2017 on my consideration of Galva-Holstein Community School District's internal control over financial reporting and on my 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 my 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 Galva-Holstein Community School District's internal control over financial reporting and compliance.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 2, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2016 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,614,870 in fiscal year 2015 to \$5,959,869 in fiscal year 2016, while General Fund expenditures decreased from \$5,509,101 in fiscal year 2015 to \$5,473,283 in fiscal year 2016. The District's General Fund balance increased from \$626,052 at the end of fiscal year 2015 to \$1,112,636 at the end of fiscal year 2016, 78% increase.
- The fiscal year 2016 General Fund revenue increase was attributable to increase in property tax and tuition revenue. The decrease in expenditures is attributed to the District's ability to exhibit sound financial decisions when staff vacancies occur for the utilization of staff. In addition, costs of transportation decreased by over 10%.

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 Galva-Holstein 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 Galva-Holstein 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 Galva-Holstein Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, 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 currently has one Enterprise Fund, the School Nutrition Fund.

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-1 below provides a summary of the District's net position at June 30, 2016 compared to June 30, 2015.

Figure A-1
Condensed Statement of Net Position

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|----------------------------------|-------------------------|---------------------|--------------------------|--------------------|---------------------|---------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2015-2016 |
| Current and other assets | \$ 5,575,835 | \$ 5,300,484 | \$ 10,033 | \$ (2,424) | \$ 5,585,868 | \$ 5,298,060 | 5.43% |
| Capital assets | <u>9,573,069</u> | <u>9,658,437</u> | <u>21,826</u> | <u>24,540</u> | <u>9,594,895</u> | <u>9,682,977</u> | -0.91% |
| Total assets | <u>15,148,904</u> | <u>14,958,921</u> | <u>31,859</u> | <u>22,116</u> | <u>15,180,763</u> | <u>14,981,037</u> | 1.33% |
| Deferred outflows of resources | <u>354,320</u> | <u>335,204</u> | <u>12,236</u> | <u>11,841</u> | <u>366,556</u> | <u>347,045</u> | 5.62% |
| Long-term liabilities | 4,521,496 | 4,532,804 | 65,038 | 57,116 | 4,586,534 | 4,589,920 | -0.07% |
| Other liabilities | <u>90,907</u> | <u>251,532</u> | <u>3,790</u> | <u>-</u> | <u>94,697</u> | <u>251,532</u> | -62.35% |
| Total liabilities | <u>4,612,403</u> | <u>4,784,336</u> | <u>68,828</u> | <u>57,116</u> | <u>4,681,231</u> | <u>4,841,452</u> | -3.31% |
| Deferred inflows of resources | <u>2,990,034</u> | <u>3,364,734</u> | <u>12,265</u> | <u>25,085</u> | <u>3,002,299</u> | <u>3,389,819</u> | -11.43% |
| Net position | | | | | | | |
| Net investment in capital assets | 7,223,069 | 6,935,933 | 21,826 | 24,540 | 7,244,895 | 6,960,473 | 4.09% |
| Restricted | 1,498,902 | 1,476,926 | - | - | 1,498,902 | 1,476,926 | 1.49% |
| Unrestricted | <u>(821,184)</u> | <u>(1,267,804)</u> | <u>(58,824)</u> | <u>(72,784)</u> | <u>(880,008)</u> | <u>(1,340,588)</u> | 34.36% |
| Total net position | <u>\$ 7,900,787</u> | <u>\$ 7,145,055</u> | <u>\$ (36,998)</u> | <u>\$ (48,244)</u> | <u>\$ 7,863,789</u> | <u>\$ 7,096,811</u> | 10.81% |

The District's total net position increased by approximately 11%, or \$766,978, over the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$21,976 or approximately 1% over the prior year. The increase was primarily a result of less expenditures in the District's Physical Plant and Equipment Fund.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$460,580, or approximately 34%. This increase in unrestricted net position was primarily a result of a realignment of categorical funding to match salaries.

Figure A-2 shows the changes in net position for the years ended June 30, 2016 compared to the year ended June 30, 2015.

Figure A-2
Change in Net Position

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|---------------------------------------|-------------------------|---------------------|--------------------------|--------------------|---------------------|---------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2015-2016 |
| Revenues | | | | | | | |
| Program revenues | | | | | | | |
| Charges for service and sales | \$ 1,564,226 | \$ 1,514,984 | \$ 141,526 | \$ 141,056 | \$ 1,705,752 | \$ 1,656,040 | 3.00% |
| Operating grants | 755,052 | 741,374 | 126,518 | 103,110 | 881,570 | 844,484 | 4.39% |
| General revenues | | | | | | | |
| Property tax | 3,019,532 | 3,034,357 | - | - | 3,019,532 | 3,034,357 | -0.49% |
| Statewide sales, services and use tax | 401,738 | 436,155 | - | - | 401,738 | 436,155 | -7.89% |
| Unrestricted state grants | 1,431,023 | 1,708,273 | - | - | 1,431,023 | 1,708,273 | -16.23% |
| Unrestricted investment earnings | 9,280 | 7,274 | 34 | 21 | 9,314 | 7,295 | 27.68% |
| Other | 61,119 | 134,801 | - | - | 61,119 | 134,801 | -54.66% |
| Total revenues | <u>7,241,970</u> | <u>7,577,218</u> | <u>268,078</u> | <u>244,187</u> | <u>7,510,048</u> | <u>7,821,405</u> | -3.98% |
| Program expenses | | | | | | | |
| Governmental activities | | | | | | | |
| Instruction | 4,001,816 | 4,141,378 | - | - | 4,001,816 | 4,141,378 | -3.37% |
| Support services | 1,683,713 | 1,693,910 | - | - | 1,683,713 | 1,693,910 | -0.60% |
| Non-instructional programs | 174 | - | 256,832 | 253,212 | 257,006 | 253,212 | 1.50% |
| Other expenses | 800,535 | 935,199 | - | - | 800,535 | 935,199 | -14.40% |
| Total expenses | <u>6,486,238</u> | <u>6,770,487</u> | <u>256,832</u> | <u>253,212</u> | <u>6,743,070</u> | <u>7,023,699</u> | -4.00% |
| Increase (decrease) in net position | 755,732 | 806,731 | 11,246 | (9,025) | 766,978 | 797,706 | -3.85% |
| Net position, beginning of year | 7,145,055 | 6,338,324 | (48,244) | (39,219) | 7,096,811 | 6,299,105 | 12.66% |
| Net position, end of year | <u>\$ 7,900,787</u> | <u>\$ 7,145,055</u> | <u>\$ (36,998)</u> | <u>\$ (48,244)</u> | <u>\$ 7,863,789</u> | <u>\$ 7,096,811</u> | 10.81% |

In fiscal year 2016, property tax and unrestricted state grants account for 61% of governmental activities revenues while charges for service and operating grants, contributions and restricted interest account for 100% of business type activities revenues. The District's total revenues were \$7,510,048, of which \$7,241,970 was for governmental activities and \$268,078 was for business type activities. The District's expenses primarily relate to instruction and support services, which account for 84% of the total expenses.

As shown in figure A-2, the District as a whole experienced a 4% decrease in revenues and a 4% decrease in expenses. Charges for services increased \$49,712 and operating grants increased by \$37,086 to fund expenses. The decrease in expenses is primarily related to the District's completion of a building project and the District's ability to show prudent financial decisions when staff vacancies occur with the utilization of staff.

Governmental Activities

Revenues for governmental activities were \$7,241,970 and expenses were \$6,486,238 for the year ended June 30, 2016. The District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2016 compared to those expenses for the year ended June 30, 2015.

Figure A-3

| | Total and Net Cost of Governmental Activities | | | | | |
|----------------------------|---|---------------------|---------------------|----------------------|---------------------|---------------------|
| | Total Cost of Services | | | Net Cost of Services | | |
| | 2016 | 2015 | Change 2015-2016 | 2016 | 2015 | Change 2015-2016 |
| Instruction | \$ 4,001,816 | \$ 4,141,378 | -3.4% | \$ 2,007,408 | \$ 2,201,018 | -8.8% |
| Support services | 1,683,713 | 1,693,910 | -0.6% | 1,540,433 | 1,649,160 | -6.6% |
| Non-instructional programs | 174 | - | 100.0% | 174 | - | 100.0% |
| Other expenses | <u>800,535</u> | <u>935,199</u> | -14.4% | <u>618,945</u> | <u>663,951</u> | -6.8% |
| Total expenses | <u>\$ 6,486,238</u> | <u>\$ 6,770,487</u> | -4.2% | <u>\$ 4,166,960</u> | <u>\$ 4,514,129</u> | -7.7% |

For the year ended June 30, 2016:

- The cost financed by users of the District's programs was \$1,564,226.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$755,052.
- The net cost of governmental activities was financed with \$3,421,270 of property and other taxes and \$1,431,023 of unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2016 were \$268,078, representing an increase of approximately 10% over the prior year, while expenses totaled \$256,832, approximately a 1% increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2016, the District increased meal prices per state lunch guidelines and streamlined staff duties to allow additional revenues and only slightly increased expenses.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,386,746, well above last year's ending fund balances of \$1,950,347. The primary reason for the increase in combined fund balances in fiscal 2016 is an increase in cash as well as accounts receivables (monies due the District as of June 30, 2016).

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. Growth during the year in the area of property taxes and state sources as well as increased tuition represented an increase in revenues. The District's expenditures were less than the District's revenues, therefore the District did not have to use carryover fund balance to meet its financial obligations during the year and was able to show an increase fund balance of \$486,584.

- The General Fund balance increased from \$626,052 to \$1,112,636. This increase is attributed to the additional revenues derived from property tax and tuition as well as a decrease in expenditures related to instructional and support services salaries and benefits.
- The Capital Projects, Statewide Sales, Services and Use Tax Fund balance decreased by \$116,070. The decrease is due to remaining Statewide Sales and Service (SAVE) funds expended toward the building project upon its completion. In addition, the District used funds to complete the paving of a parking lot, purchase a skidloader and snow blade, and began the demolition of the District's gym floors as it was being replaced.
- The Management Fund balance increased by \$6,832 during the year. The Management Fund may be used to pay for property and liability insurance premiums, legal settlements, unemployment benefits and early retirement benefits.

Proprietary Fund Highlights

School Nutrition Fund net position increased from \$(48,244) at June 30, 2015 to \$(36,998) at June 30, 2016 an increase of approximately 23%. The District reflected the related expenses for the net OPEB liability, which caused an overall reduction of net position.

BUDGETARY HIGHLIGHTS

The District's receipts were \$394,105 more than budgeted receipts, a variance of approximately 6%. The most significant variance resulted from the District receiving more than anticipated money from property tax as well as income surtax. The District also received over \$100,000 more in tuition than budgeted. Finally, the 2016 school year was the first year in which the District held the superintendent contract in the whole grade sharing agreement with Schaller Crestland. Because of that, the District, while incurring the expense of the superintendent, also received reimbursement from the sharing District for those expenses, resulting in almost \$100,000.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs and other expenditures functional areas due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had invested \$9,594,895, 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-4) More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$292,216.

The original cost of the District's capital assets was \$17,641,404. Governmental funds account for \$17,472,133, with the remainder of \$169,271 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category, which decreased from \$2,174,202 at June 30, 2015 compared to zero at June 30, 2016. This decrease was a result of the building construction project being completed in fiscal 2016 and the asset being moved from the construction in progress category to the buildings and improvements category.

Figure A-4
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business-Type Activities | | Total District | | Total Change |
|------------------------------------|-------------------------|--------------------|--------------------------|-----------------|--------------------|--------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2015-2016 |
| Land | \$ 254,818 | \$ 254,818 | \$ - | \$ - | \$ 254,818 | \$ 254,818 | 0.00% |
| Construction in progress | - | 2,174,202 | - | - | - | 2,174,202 | -100.00% |
| Buildings and improvements | 8,521,591 | 6,391,589 | - | - | 8,521,591 | 6,391,589 | 33.33% |
| Improvements, other than buildings | 314,849 | 324,879 | - | - | 314,849 | 324,879 | -3.09% |
| Furniture and equipment | <u>481,811</u> | <u>512,949</u> | <u>21,826</u> | <u>24,540</u> | <u>503,637</u> | <u>537,489</u> | -6.30% |
| Totals | <u>\$9,573,069</u> | <u>\$9,658,437</u> | <u>\$ 21,826</u> | <u>\$24,540</u> | <u>\$9,594,895</u> | <u>\$9,682,977</u> | -0.91% |

Long-Term Debt

At June 30, 2016 the District had \$4,586,534 in general obligation bonds, revenue bonds, capital loan notes and other long-term debt outstanding. This represents a decrease of less than 1% from last year. (See Figure A-5) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The District bonds are not rated.

The constitution of the State of Iowa limits the amount of debt school districts can issue to 5% of the assessed value of all taxable property within the district. The District's outstanding bonded and note indebtedness is significantly below its constitutional debt limit of approximately \$11.3 million.

Figure A-5
Outstanding Long-term Obligations

| | Total District | | Total Change |
|---------------------------------|---------------------|--------------------|--------------|
| | June 30, 2016 | June 30, 2015 | 2015-2016 |
| Governmental activities | | | |
| General obligation bonds | \$ - | \$ 250,000 | -100.00% |
| Revenue bonds | 2,350,000 | 2,490,000 | -5.62% |
| Capital loan notes | - | 45,000 | -100.00% |
| Termination benefits | 18,553 | - | 100.00% |
| Compensated absences | 17,967 | 13,310 | 34.99% |
| Net pension liability | 2,003,158 | 1,622,766 | 23.44% |
| Net OPEB liability | <u>131,818</u> | <u>111,728</u> | 17.98% |
| | 4,521,496 | 4,532,804 | -0.25% |
| Business type activities | | | |
| Net pension liability | <u>65,038</u> | <u>57,116</u> | 13.87% |
| Totals | <u>\$ 4,586,534</u> | <u>\$4,589,920</u> | -0.07% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The outlook for our District, in reference to rising property valuations, will result in a 3% increase for the 2016-2017 school year.
- School financing is highly dependent upon student enrollment. The District's October 2016 enrollment showed a decrease of 19 students. This will result in a \$127,072 decrease in funding in 2017-2018 from enrollment. The decrease in revenue due to the enrollment will have a tremendous impact on the financial picture within the District. The District will need to look at a possible reduction of staff. The District is aware that the budget guarantee, derived from property tax, will give them some time to problem solve.
- The District is in a one year 2.80% negotiated agreement with teachers.
- The District continues to be proactive regarding projects to maintain our buildings and grounds. The District completed the paving of a parking lot as well as paying off the remaining costs of the new Science addition and HVAC system. In addition, at the end of 2016 the District began a project of replacing the gym floor at the high school. This was completed in the fall of 2016. Other projects for the building and grounds in the 2016-2017 school year included switching the lighting from fluorescent bulbs to LED lighting at both the Galva and Holstein locations, and replacing the boilers at the Holstein facility.
- The District completed its last bond payment for General Obligation Bonds in 2015-2016.
- The District will begin the seventh year (2016-2017) of a whole grade sharing agreement involving grades 6-12 with the Schaller-Crestland School District. We will also continue the sharing of superintendent. The state will reinstate the supplemental weightings for the operational sharing.

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 Cynthia Dittmer, District Secretary/Treasurer and Business Manager, Galva-Holstein Community School District, 519 East Maple Street, Holstein, IA 51025.

Basic Financial Statements

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Statement of Net Position
June 30, 2016

Exhibit A

| | Governmental Activities | Business Type Activities | Total | <u>Component Unit Foundation</u> |
|---|----------------------------|-----------------------------|-------------------|--|
| Assets | | | | |
| Cash, cash equivalents and pooled investments | \$ 2,122,699 | \$ 2,264 | \$2,124,963 | \$ 605,667 |
| Receivables | | | | |
| Property tax | | | | |
| Delinquent | 31,619 | - | 31,619 | - |
| Succeeding year | 2,829,220 | - | 2,829,220 | - |
| Accounts receivable | 73,047 | - | 73,047 | - |
| Income surtaxes | 300,262 | - | 300,262 | - |
| Due from other governments | 218,988 | - | 218,988 | - |
| Inventories | - | 7,769 | 7,769 | - |
| Non-depreciable capital assets | 254,818 | 21,826 | 276,644 | - |
| Capital assets, net of accumulated depreciation | 9,318,251 | - | 9,318,251 | - |
| Total assets | <u>15,148,904</u> | <u>31,859</u> | <u>15,180,763</u> | <u>605,667</u> |
| Deferred Outflows of Resources | | | | |
| Pension related deferred outflows | <u>354,320</u> | <u>12,236</u> | <u>366,556</u> | - |
| Liabilities | | | | |
| Accounts payable | 59,607 | 25 | 59,632 | - |
| Salaries and benefits payable | - | 3,765 | 3,765 | - |
| Accrued interest payable | 31,300 | - | 31,300 | - |
| Long-term liabilities | | | | |
| Portion due within one year | | | | |
| Revenue bonds payable | 140,000 | - | 140,000 | - |
| Termination benefits payable | 18,553 | - | 18,553 | - |
| Portion due after one year | | | | |
| Revenue bonds payable | 2,210,000 | - | 2,210,000 | - |
| Compensateb absences | 17,967 | - | 17,967 | - |
| Net pension liability | 2,003,158 | 65,038 | 2,068,196 | - |
| Net OPEB liability | 131,818 | - | 131,818 | - |
| Total liabilities | <u>4,612,403</u> | <u>68,828</u> | <u>4,681,231</u> | - |
| Deferred Inflows of Resources | | | | |
| Unavailable property tax revenue | 2,829,220 | - | 2,829,220 | - |
| Pension related deferred inflows | 160,814 | 12,265 | 173,079 | - |
| Total deferred inflows of resources | <u>2,990,034</u> | <u>12,265</u> | <u>3,002,299</u> | - |

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Statement of Net Position
June 30, 2016

Exhibit A

| | Governmental Activities | Business Type Activities | Total | Component Unit Foundation |
|----------------------------------|----------------------------|-----------------------------|-------------|---------------------------------|
| Net Position | | | | |
| Net investment in capital assets | \$ 7,223,069 | \$ 21,826 | \$7,244,895 | \$ - |
| Restricted for | | | | |
| Categorical funding | 167,938 | - | 167,938 | - |
| Management levy | 381,835 | - | 381,835 | - |
| Physical plant and equipment | 184,221 | - | 184,221 | - |
| Student activities | 45,985 | - | 45,985 | - |
| School infrastructure | 718,923 | - | 718,923 | - |
| Assigned for scholarships | - | - | - | 605,667 |
| Unrestricted | (821,184) | (58,824) | (880,008) | - |
| Total net position | \$ 7,900,787 | \$ (36,998) | \$7,863,789 | \$ 605,667 |

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Exhibit B

Statement of Activities

For the Year Ended June 30, 2016

| <u>Functions/Programs</u> <u>Primary Government</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue</u> <u>and Changes in Net Position</u> | | | <u>Component Unit</u> | |
|--|-------------------------|---------------------------------------|--|--|---------------------------|----------------------|-----------------------|-------------------|
| | <u>Expenses</u> | <u>Charges</u> <u>for Services</u> | <u>Operating Grants,</u> <u>Contributions</u> <u>and Restricted</u> <u>Interest</u> | <u>Capital Grants,</u> <u>Contributions</u> <u>and Restricted</u> <u>Interest</u> | <u>Primary Government</u> | | | <u>Foundation</u> |
| | | | | | <u>Governmental</u> | <u>Business Type</u> | | |
| Governmental activities | | | | | | | | |
| Instruction | | | | | | | | |
| Regular instruction | \$ 2,673,949 | \$ 755,831 | \$ 544,599 | \$ - | \$ (1,373,519) | \$ - | \$ (1,373,519) | |
| Special instruction | 523,324 | 410,816 | 18,453 | - | (94,055) | - | (94,055) | |
| Other instruction | 804,543 | 257,891 | 6,818 | - | (539,834) | - | (539,834) | |
| | 4,001,816 | 1,424,538 | 569,870 | - | (2,007,408) | - | (2,007,408) | |
| Support services | | | | | | | | |
| Student | 133,215 | - | - | - | (133,215) | - | (133,215) | |
| Instructional staff | 40,425 | - | - | - | (40,425) | - | (40,425) | |
| Administration | 734,002 | 139,688 | - | - | (594,314) | - | (594,314) | |
| Operation and maintenance of plant | 462,126 | - | 3,592 | - | (458,534) | - | (458,534) | |
| Transportation | 313,945 | - | - | - | (313,945) | - | (313,945) | |
| | 1,683,713 | 139,688 | 3,592 | - | (1,540,433) | - | (1,540,433) | |
| | 174 | - | - | - | (174) | - | (174) | |
| Non-instructional programs | | | | | | | | |
| Other expenses | | | | | | | | |
| Facilities acquisition | 363,656 | - | - | - | (363,656) | - | (363,656) | |
| Long-term debt interest | 65,288 | - | - | - | (65,288) | - | (65,288) | |
| AEA flowthrough | 181,590 | - | 181,590 | - | - | - | - | |
| Depreciation (unallocated) * | 190,001 | - | - | - | (190,001) | - | (190,001) | |
| | 800,535 | - | 181,590 | - | (618,945) | - | (618,945) | |
| Total governmental activities | 6,486,238 | 1,564,226 | 755,052 | - | (4,166,960) | - | (4,166,960) | |

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2016

Exhibit B

| Functions/Programs (continued) Primary Government (continued) | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | Component Unit |
|--|------------------|-------------------------|--|--|--------------------|--------------|----------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Primary Government | Total | |
| Business type activities | | | | | | | |
| Non-instructional programs | | | | | | | |
| Food service operations | \$ 256,832 | \$ 141,526 | \$ 126,518 | \$ - | \$ 11,212 | \$ 11,212 | |
| Total primary government | \$ 6,743,070 | \$ 1,705,752 | \$ 881,570 | \$ - | 11,212 | (4,155,748) | |
| Component Unit | | | | | | | |
| Foundation | \$ - | \$ - | \$ - | \$ - | | | \$ 138,199 |
| General Revenues | | | | | | | |
| Property tax levied for | | | | | | | |
| General purposes | | | | | | 2,622,471 | - |
| Debt service | | | | | | 259,947 | - |
| Capital outlay | | | | | | 137,114 | - |
| Statewide sales, services and use tax | | | | | | 401,738 | - |
| Unrestricted state grants | | | | | | 1,431,023 | - |
| Contributions and donations | | | | | | - | 66,780 |
| Unrestricted investment earnings | | | | | 34 | 9,314 | 4,645 |
| Miscellaneous | | | | | | 61,119 | - |
| Total general revenues | | | | | 34 | 4,922,726 | 71,425 |
| Change in net position | | | | | 11,246 | 766,978 | (66,774) |
| Net position beginning of year | | | | | (48,244) | 7,096,811 | 672,441 |
| Net position end of year | | | | | \$ (36,998) | \$ 7,863,789 | \$ 605,667 |

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

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2016

Exhibit C

| | | <u>Special Revenue Management Levy</u> | <u>Capital Projects Statewide Sales, Services and Use Tax</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|---|--------------------|--|---|--|--------------------|
| Assets | | | | | |
| Cash, cash equivalents and pooled investments | \$ 920,545 | \$ 399,232 | \$652,473 | \$150,449 | \$2,122,699 |
| Receivables | | | | | |
| Property tax | | | | | |
| Delinquent | 26,066 | 1,156 | - | 4,397 | 31,619 |
| Succeeding year | 2,488,324 | 200,000 | - | 140,896 | 2,829,220 |
| Accounts receivable | 73,047 | - | - | - | 73,047 |
| Income surtax | 210,183 | - | - | 90,079 | 300,262 |
| Due from other governments | 152,538 | - | 66,450 | - | 218,988 |
| Total assets | <u>\$3,870,703</u> | <u>\$ 600,388</u> | <u>\$718,923</u> | <u>\$385,821</u> | <u>\$5,575,835</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | <u>\$ 59,560</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 47</u> | <u>\$ 59,607</u> |
| Deferred inflows of resources | | | | | |
| Unavailable revenue | | | | | |
| Succeeding year property tax | 2,488,324 | 200,000 | - | 140,896 | 2,829,220 |
| Income surtax | 210,183 | - | - | 90,079 | 300,262 |
| Total deferred inflows of resources | <u>2,698,507</u> | <u>200,000</u> | <u>-</u> | <u>230,975</u> | <u>3,129,482</u> |
| Fund balances | | | | | |
| Restricted for | | | | | |
| Categorical funding | 167,938 | - | - | - | 167,938 |
| School infrastructure | - | - | 718,923 | - | 718,923 |
| Debt service | - | - | - | 14,672 | 14,672 |
| Student activities | - | - | - | 45,985 | 45,985 |
| Management levy purposes | - | 400,388 | - | - | 400,388 |
| Physical plant and equipment | - | - | - | 94,142 | 94,142 |
| Unassigned | 944,698 | - | - | - | 944,698 |
| Total fund balances | <u>1,112,636</u> | <u>400,388</u> | <u>718,923</u> | <u>154,799</u> | <u>2,386,746</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$3,870,703</u> | <u>\$ 600,388</u> | <u>\$718,923</u> | <u>\$385,821</u> | <u>\$5,575,835</u> |

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Balance Sheet - Governmental Funds
 to the Statement of Net Position
 June 30, 2016

Exhibit D

| | |
|---|-------------------------------|
| Total fund balances of governmental funds | \$2,386,746 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 9,573,069 |
| Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds. | 300,262 |
| 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. | (31,300) |
| 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 | \$354,320 |
| Deferred inflows of resources | <u>(160,814)</u> 193,506 |
| Long-term liabilities, including bonds payable, early retirement payable and other postemployment benefits payable and net pension liability, are not due and payable in the current year and, therefore, are not reported in the governmental funds. | <u>(4,521,496)</u> |
| Net position of governmental activities | <u>\$7,900,787</u> |

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

Exhibit E

| | <u>General</u> | <u>Special Revenue Management</u> | <u>Capital Projects Statewide Sales, Services and Use Tax</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|---------------------------------------|------------------|---|---|--|------------------|
| Revenues | | | | | |
| Local sources | | | | | |
| Local tax | \$ 2,498,055 | \$100,899 | \$ - | \$ 486,751 | \$3,085,705 |
| Tuition | 855,393 | - | - | - | 855,393 |
| Other | 382,895 | 10,543 | 6,458 | 289,257 | 689,153 |
| State sources | 2,108,383 | 1,692 | 401,738 | 7,085 | 2,518,898 |
| Federal sources | 115,143 | - | - | - | 115,143 |
| Total revenues | <u>5,959,869</u> | <u>113,134</u> | <u>408,196</u> | <u>783,093</u> | <u>7,264,292</u> |
| Expenditures | | | | | |
| Current | | | | | |
| Instruction | | | | | |
| Regular | 2,654,707 | - | - | - | 2,654,707 |
| Special | 533,522 | - | - | - | 533,522 |
| Other | 578,108 | - | - | 237,490 | 815,598 |
| | <u>3,766,337</u> | <u>-</u> | <u>-</u> | <u>237,490</u> | <u>4,003,827</u> |
| Support services | | | | | |
| Student | 135,881 | - | - | - | 135,881 |
| Instructional staff | 40,903 | - | - | - | 40,903 |
| Administration | 738,377 | - | - | - | 738,377 |
| Operation and maintenance of plant | 352,352 | 90,761 | - | 18,500 | 461,613 |
| Transportation | 257,666 | 15,541 | - | - | 273,207 |
| | <u>1,525,179</u> | <u>106,302</u> | <u>-</u> | <u>18,500</u> | <u>1,649,981</u> |
| Non-instructional programs | 179 | - | - | - | 179 |
| Other expenditures | | | | | |
| Facilities acquisition | - | - | 321,071 | 169,925 | 490,996 |
| Long-term debt | - | - | - | - | - |
| Principal | - | - | - | 435,000 | 435,000 |
| Interest and fiscal charges | - | - | - | 66,320 | 66,320 |
| AEA flowthrough | 181,590 | - | - | - | 181,590 |
| | <u>181,590</u> | <u>-</u> | <u>321,071</u> | <u>671,245</u> | <u>1,173,906</u> |
| Total expenditures | <u>5,473,285</u> | <u>106,302</u> | <u>321,071</u> | <u>927,235</u> | <u>6,827,893</u> |

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

Exhibit E

| | <u>General</u> | <u>Special Revenue Management Levy</u> | <u>Capital Projects Statewide Sales, Services and Use Tax</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|--|---------------------|--|---|--|--------------------|
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ 486,584</u> | <u>\$ 6,832</u> | <u>\$ 87,125</u> | <u>\$(144,142)</u> | <u>\$ 436,399</u> |
| Other financing sources (uses) | | | | | |
| Transfers in | - | - | - | 203,195 | 203,195 |
| Transfers (out) | - | - | (203,195) | - | (203,195) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(203,195)</u> | <u>203,195</u> | <u>-</u> |
| Change in fund balances | 486,584 | 6,832 | (116,070) | 59,053 | 436,399 |
| Fund balance, beginning of year | <u>626,052</u> | <u>393,556</u> | <u>834,993</u> | <u>95,746</u> | <u>1,950,347</u> |
| Fund balance, end of year | <u>\$ 1,112,636</u> | <u>\$400,388</u> | <u>\$718,923</u> | <u>\$ 154,799</u> | <u>\$2,386,746</u> |

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2016

Exhibit F

| | |
|---|----------------------------|
| Change in fund balances - total governmental funds | \$436,399 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| <p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. These costs are not reported in the Statement of Activities, but they are allocated over the estimated useful lives of the capital assets as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense for the current year, are as follows:</p> | |
| Expenditures for capital assets | \$141,638 |
| Depreciation expense | <u>(289,502)</u> (147,864) |
| | |
| Certain revenues not collected for several months after year end are not considered available revenue and are recognized as deferred inflows of resources in the governmental funds. | (22,322) |
| | |
| 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. | 435,000 |
| | |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows: | |
| Termination benefits | (18,553) |
| Compensated absences | (4,657) |
| Pension expense | (176,982) |
| Other postemployment benefits | <u>(20,090)</u> (220,282) |
| | |
| Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. | 1,032 |
| | |
| The current year District IPERS contributions are reported as expenditures in the governmental funds but are reported as deferred outflows of resources in the Statement of Net Position. | <u>273,769</u> |
| | |
| Change in net position of governmental activities | <u>\$755,732</u> |

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Statement of Net Position
Proprietary Fund
June 30, 2016

Exhibit G

| | <u>Nonmajor School Nutrition</u> |
|---|--|
| Assets | |
| Current assets | |
| Cash and cash equivalents | \$ 2,264 |
| Inventories | 7,769 |
| Total current assets | <u>10,033</u> |
| Noncurrent assets | |
| Capital assets, net of accumulated depreciation | <u>21,826</u> |
| Total assets | <u>31,859</u> |
| Deferred Outflows of Resources | |
| Pension realated deferred outflows | <u>12,236</u> |
| Liabilities | |
| Current liabilities | |
| Accounts payable | 25 |
| Unearned revenue | <u>3,765</u> |
| Total current liabilities | <u>3,790</u> |
| Noncurrent liabilities | |
| Net pension liability | <u>65,038</u> |
| Total liabilities | <u>68,828</u> |
| Deferred Inflows of Resources | |
| Pension related deferred inflows | <u>12,265</u> |
| Net Position | |
| Net investment in capital assets | 21,826 |
| Unrestricted | <u>(58,824)</u> |
| Total net position | <u>\$ (36,998)</u> |

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2016

Exhibit H

| | <u>Nonmajor School Nutrition</u> |
|--------------------------------|--|
| Operating revenue | |
| Local sources | |
| Charges for service | \$ 141,526 |
| Operating expenses | |
| Non-instructional programs | |
| Food service operations | |
| Salaries | 67,711 |
| Benefits | 8,796 |
| Purchased services | 38 |
| Supplies | 172,312 |
| Depreciation | 2,714 |
| Miscellaneous | <u>5,261</u> |
| Total operating expenses | <u>256,832</u> |
| Operating (loss) | <u>(115,306)</u> |
| Non-operating revenues | |
| Interest income | 34 |
| State sources | 2,058 |
| Federal sources | <u>124,460</u> |
| Total non-operating revenues | <u>126,552</u> |
| Change in net position | 11,246 |
| Net position beginning of year | <u>(48,244)</u> |
| Net position end of year | <u>\$ (36,998)</u> |

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2016

Exhibit I

| | <u>Nonmajor School Nutrition</u> |
|---|--|
| Cash flows from operating activities | |
| Cash received from sale of services | \$ 142,299 |
| Cash payments to employees for services | (92,421) |
| Cash payments to suppliers for goods and services | <u>(137,993)</u> |
| Net cash (used in) operating activities | <u>(88,115)</u> |
| Cash flows from non-capital financing activities | |
| State grants received | 2,058 |
| Federal grants received | <u>86,484</u> |
| Net cash provided by non-capital financing activities | <u>88,542</u> |
| Cash flows from capital and related financing activities | <u>-</u> |
| Cash flows from investing activities | |
| Interest on investments | <u>34</u> |
| Net increase (decrease) in cash and cash equivalents | 461 |
| Cash and cash equivalents, beginning of year | <u>1,803</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 2,264</u></u> |
| Reconciliation of operating (loss) to net cash | |
| (used in) operating activities | |
| Operating (loss) | \$ (115,306) |
| Adjustments to reconcile operating (loss) to net cash (used in) operating activities | |
| Depreciation | 2,714 |
| Commodities used | 37,976 |
| Decrease in inventory | 1,617 |
| Decrease in accounts receivable | 269 |
| Increase in accounts payable | 25 |
| Increase in net pension liability | 7,922 |
| (Increase) in deferred outflows of resources | (395) |
| (Decrease) in deferred inflows of resources | (9,559) |
| Increase in unearned revenue | 504 |
| (Decrease) in due to other fund | <u>(13,882)</u> |
| Net cash (used in) operating activities | <u><u>\$ (88,115)</u></u> |

Non-cash investing, capital and related financing activities.

During the year ended June 30, 2016, the District received \$37,976 of federal commodities.

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2016

Exhibit J

| | <u>Private Purpose Trust Scholarships</u> |
|---|---|
| Assets | |
| Cash, cash equivalents and pooled investments | \$ 26,211 |
| Liabilities | <u>-</u> |
| Net position | |
| Reserved for scholarships | <u>\$ 26,211</u> |

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2016

Exhibit K

| | Private Purpose Trust <u>Scholarships</u> |
|--------------------------------|--|
| Additions | \$ - |
| Deductions | <u>-</u> |
| Change in net position | - |
| Net position beginning of year | <u>26,211</u> |
| Net position end of year | <u>\$ 26,211</u> |

See notes to financial statements.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies

Galva-Holstein Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the Cities of Galva and Holstein, Iowa, and the predominately agricultural territory in a portion of Ida, Cherokee, Buena Vista and Sac Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Galva-Holstein 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. Galva-Holstein Community School District has one component unit which meets the Governmental Accounting Standards Board criteria. The Galva-Holstein Community School District Foundation is included in the financial statements as a discretely presented component unit, because of the nature and significance of its relationship with the Galva-Holstein Community School District.

Discretely Presented Component Unit

The Galva-Holstein Community School District Foundation was established to maintain, develop, increase and extend the facilities and services of the Galva-Holstein Community School District, and to provide broader educational service opportunities to its students, staff, faculty and the residents of the geographical area which it serves. The Foundation has a December 31 year-end. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental Fund in these financial statements. The Foundation financial statements are shown in the Statement of Net Position and the Statement of Activities in separate columns. As explained in the Independent Auditor's opinion, the Foundation financial statements have not been audited.

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 County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

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

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

The District reports the following major governmental funds:

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

The Capital Projects Statewide Sales, Services and Use Tax Fund is used to account for the collection of the 1% statewide sales, services and use tax to be expended for school infrastructure purposes.

The Management Fund is utilized to account for the property tax and other revenues used for tort liability insurance premiums, unemployment compensation insurance claims and early retirement incentive payments.

The District reports no major proprietary funds; however, it reports one nonmajor proprietary fund. The District's School Nutrition Fund is used to account for the food service operations of the District.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

Cash, Cash Equivalents and Pooled Investments - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

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

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

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

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

Capital Assets - Capital assets, which include property, furniture and equipment and intangibles are reported in 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 acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| Land | \$ 500 |
| Buildings | \$30,000 |
| Improvements other than buildings | \$30,000 |
| Intangibles | \$30,000 |
| 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:

| <u>Asset Class</u> | <u>Useful Life</u> |
|---------------------------|--------------------|
| Buildings | 50 years |
| Improvements to buildings | 5-20 years |
| Intangibles | 3-20 years |
| Furniture and equipment | 5-10 years |

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which 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 District after the measurement date but before the end of the District's reporting period.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2016. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches.

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

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected

within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and income surtax not collected within sixty 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 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.

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.

Fund Equity - In the governmental fund financial statements, fund equity is classified as follows:

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

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year-end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in the preceding classifications.

Net Position - In the district-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Net position restricted through enabling legislation includes \$184,221 for physical plant and equipment, \$45,985 for student activities, \$718,923 for school infrastructure and \$381,835 for management levy purposes.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2016, expenditures exceeded the amounts budgeted in the non-instructional programs and other expenditures functional areas.

F. Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Cash, Cash Equivalents and Pooled Investments

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

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

At June 30, 2016, the District had investments in the Iowa Schools Joint Investment Diversified Portfolio which are valued at an amortized cost of \$695,245 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals of the ISJIT investments. The investments in ISJIT were rated AAAm by Standard & Poor's Financial Services.

Credit Risk. This is the risk that a security's credit rating will be downgraded or that the issuer of a security or a guarantor will default (fail to make scheduled interest and principal payments or fail to fulfill its promise to repurchase securities). The investments in the ISJIT were rated AAAm by Standard & Poor's Financial Services. The District places no limit on the amount that may be invested in any one issuer.

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

Component Unit Investments - The Foundation had investments in mutual funds as follows:

Mutual funds \$605,667

Note 3. Interfund Transfers

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

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|--------------------------------------|---------------|
| | Capital Projects | |
| Debt Service | Statewide Sales, Service and Use Tax | \$ 203,195 |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfer from the Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was for principal and interest payments on debt.

Note 4. Capital Assets

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

| | Balance, Beginning of Year | Increases | Decreases | Balance, End of Year |
|--|----------------------------------|---------------------|----------------------|----------------------------|
| <u>Governmental activities</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 254,818 | \$ - | \$ - | \$ 254,818 |
| Construction in progress | <u>2,174,202</u> | <u>109,545</u> | <u>(2,283,747)</u> | <u>-</u> |
| Total capital assets, not being depreciated | <u>2,429,020</u> | <u>109,545</u> | <u>(2,283,747)</u> | <u>254,818</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 10,339,324 | 2,283,747 | - | 12,623,071 |
| Improvements other than buildings | 997,636 | - | - | 997,636 |
| Furniture and equipment | <u>3,502,019</u> | <u>94,589</u> | <u>-</u> | <u>3,596,608</u> |
| Total capital assets being depreciated | <u>14,838,979</u> | <u>2,378,336</u> | <u>-</u> | <u>17,217,315</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 3,947,735 | 153,745 | - | 4,101,480 |
| Improvements other than buildings | 672,757 | 10,030 | - | 682,787 |
| Furniture and equipment | <u>2,989,070</u> | <u>125,727</u> | <u>-</u> | <u>3,114,797</u> |
| Total accumulated depreciation | <u>7,609,562</u> | <u>289,502</u> | <u>-</u> | <u>7,899,064</u> |
| Total capital assets being depreciated, net | <u>7,229,417</u> | <u>2,088,834</u> | <u>-</u> | <u>9,318,251</u> |
| Governmental activities capital assets, net | <u>\$ 9,658,437</u> | <u>\$ 2,198,379</u> | <u>\$(2,283,747)</u> | <u>\$ 9,573,069</u> |
| <u>Business type activities</u> | | | | |
| Furniture and equipment | \$ 169,271 | \$ - | \$ - | \$ 169,271 |
| Less accumulated depreciation | <u>144,731</u> | <u>2,714</u> | <u>-</u> | <u>147,445</u> |
| Business type activities capital assets, net | <u>\$ 24,540</u> | <u>\$ (2,714)</u> | <u>\$ -</u> | <u>\$ 21,826</u> |

Depreciation expense was charged to the following functions:

Governmental activities

| | |
|--|-------------------|
| Instruction | |
| Regular | \$ 47,853 |
| Other | 552 |
| Support services | |
| Student support | 1,427 |
| Operation and maintenance of plant | 4,255 |
| Transportation | <u>45,414</u> |
| | 99,501 |
| Unallocated depreciation | <u>190,001</u> |
| Total governmental activities depreciation expense | <u>\$ 289,502</u> |

Business type activities

| | |
|---------------|-----------------|
| Food services | <u>\$ 2,714</u> |
|---------------|-----------------|

Note 5. Long-term Liabilities

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

| | Balance, Beginning of Year | Additions | Reductions | Balance, End of Year | Due Within One Year |
|---------------------------------|----------------------------------|-------------------|-------------------|----------------------------|---------------------------|
| Governmental activities | | | | | |
| General obligation bonds | \$ 250,000 | \$ - | \$ 250,000 | \$ - | \$ - |
| Revenue bonds | 2,490,000 | - | 140,000 | 2,350,000 | 140,000 |
| Capital loan notes | 45,000 | - | 45,000 | - | - |
| Termination benefits | - | 18,553 | - | 18,553 | 18,553 |
| Compensated absences | 13,310 | 4,657 | - | 17,967 | - |
| Net pension liability | 1,622,766 | 380,392 | - | 2,003,158 | - |
| OPEB liability | <u>111,728</u> | <u>25,298</u> | <u>5,208</u> | <u>131,818</u> | <u>-</u> |
| Totals | <u>\$ 4,532,804</u> | <u>\$ 428,900</u> | <u>\$ 440,208</u> | <u>\$ 4,521,496</u> | <u>\$ 158,553</u> |
| Business type activities | | | | | |
| Net pension liability | <u>\$ 57,116</u> | <u>\$ 7,922</u> | <u>\$ -</u> | <u>\$ 65,038</u> | <u>\$ -</u> |

Interest costs incurred and charged to expense on all long-term debt was \$65,288 for the year ended June 30, 2016. During the year ended June 30, 2016, the District made principal payments on total long-term debt of \$435,000.

Termination Benefits

The District offered a voluntary early retirement plan to its full-time employees during fiscal year 2016. Eligible employees must have completed at least twenty years of continuous full service to the Galva-Holstein Community School District and must have reached the age of fifty-five on or before June 30 of the calendar year in which early retirement commences. The application for early retirement benefits is subject to approval by the Board of Education.

Under the plan certified staff retirees may receive a cash payment of \$20,000, noncertified staff receive 30% of their fiscal year 2016 salary, and supervisory noncertified staff receive 40% of their fiscal year 2016 salary. The benefits will be paid in one payment on July 1, 2016.

At June 30, 2016, the District had two retirees receiving benefits and reported \$18,553 of termination benefit liabilities. There were no early retirement expenditures for the year ended June 30, 2016.

Revenue Bonds

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

| Year Ending June 30, | Bond issue of August 2013 | | | |
|----------------------------|---------------------------|---------------------|-------------------|---------------------|
| | Interest Rates | Principal | Interest | Total |
| 2017 | 1.15% | \$ 140,000 | \$ 61,795 | \$ 201,795 |
| 2018 | 1.50% | 145,000 | 59,902 | 204,902 |
| 2019 | 1.70% | 150,000 | 57,540 | 207,540 |
| 2020 | 2.00% | 150,000 | 54,765 | 204,765 |
| 2021 | 2.20% | 155,000 | 51,560 | 206,560 |
| 2022-2026 | 2.40-3.20% | 850,000 | 194,456 | 1,044,456 |
| 2027-2030 | 3.30-3.55% | 760,000 | 53,359 | 813,359 |
| Totals | | <u>\$ 2,350,000</u> | <u>\$ 533,377</u> | <u>\$ 2,883,377</u> |

The District has pledged future statewide sales, services and use tax revenues to repay the \$2,590,000 bonds issued August 2013. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 90% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$2,883,377 at June 30, 2016. For the current year, \$140,000 of principal and \$63,195 of interest was paid on the bonds. Total statewide sales, services and use tax revenues were \$401,738 for the year ended June 30, 2016.

Note 6. Pension Plan

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

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

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

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

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month 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 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the District contributed 8.93% of covered payroll, for a total rate of 14.88%.

The District's contributions to IPERS for the year ended June 30, 2016 totaled \$273,769.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the District reported a liability of \$2,068,196 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the District's proportion was 0.041603%, which was a decrease of 0.000747 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$175,500. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 31,249 | \$ - |
| Changes of assumptions | 56,944 | - |
| Net difference between projected and actual earnings on IPERS' investments | - | 172,133 |
| Changes in proportion and differences between District contributions and the District's proportionate share of contributions | 4,594 | 946 |
| District contributions subsequent to the measurement date | <u>273,769</u> | <u>-</u> |
| Total | <u>\$ 366,556</u> | <u>\$ 173,079</u> |

\$273,769 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended <u>June 30,</u> | |
|----------------------------------|--------------------|
| 2017 | \$ (56,696) |
| 2018 | (56,696) |
| 2019 | (56,696) |
| 2020 | 88,465 |
| 2021 | 1,331 |
| Total | <u>\$ (80,292)</u> |

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, as follows:

| | |
|--|---|
| Rate of inflation (effective June 30, 2014) | 3.00% per annum. |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 17.00% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 1996) | 7.50% compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 1990) | 4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation. |

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

The long-term expected rate of return on 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:

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

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and 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 to 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 1% lower (6.5%) or 1% higher (8.5%) than the current rate.

| | 1% Decrease <u>(6.50%)</u> | Discount Rate <u>(7.50%)</u> | 1% Increase <u>(8.50%)</u> |
|--|----------------------------------|------------------------------------|----------------------------------|
| District's proportionate share of the net pension liability | \$3,621,137 | \$2,068,196 | \$757,505 |

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

Payables to IPERS - At June 30, 2016, the District reported no payables to IPERS for legally required District contributions or for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees, and their spouses. There are 75 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

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

| | |
|--|--------------------------|
| Annual required contribution | \$ 22,205 |
| Interest on net OPEB obligation | 2,793 |
| Adjustment to annual required contribution | <u>(4,908)</u> |
| Annual OPEB cost | 20,090 |
| Contributions made | <u>-</u> |
| Increase in net OPEB obligation | 20,090 |
| Net OPEB obligation beginning of year | <u>111,728</u> |
| Net OPEB obligation end of year | <u><u>\$ 131,818</u></u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

For the year ended June 30, 2016, the District contributed nothing to the medical plan. Plan members eligible for benefits contributed nothing to the medical plan.

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

| <u>Year Ended June 30</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|---------------------------|-------------------------|---|----------------------------|
| 2014 | \$ 26,239 | 11.0% | \$ 85,842 |
| 2015 | \$ 26,579 | 3.0% | \$ 111,728 |
| 2016 | \$ 19,790 | 0.0% | \$ 131,818 |

Funded Status and Funding Progress - As of July 1, 2015, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was \$187,420, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$187,420. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2.9 million and the ratio of the UAAL to covered payroll was 6.4%. As of June 30, 2016, there were no trust fund assets.

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

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

As of July 1, 2015 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the RP-2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2014 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2014.

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

Note 8. 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.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$181,590 for the year ended June 30, 2016 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2016, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if

any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 11. Categorical Funding

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

| <u>Program</u> | |
|--|-------------------|
| Returning dropout and dropout prevention program | \$ 8,385 |
| Beginning teacher mentoring and induction program | 1,552 |
| Teacher salary supplement | 78,217 |
| Statewide voluntary preschool | 14,716 |
| Early literacy | 19,973 |
| Educator quality, professional development for model core curriculum | 34,210 |
| Educator quality, professional development | 8,499 |
| Educator quality, market factor incentives | <u>2,386</u> |
| | <u>\$ 167,938</u> |

Note 12. Deficit Net Position

The District’s Enterprise Fund - School Nutrition Fund had negative unrestricted net position of \$58,824 and negative total net position of \$36,998 at June 30, 2016. The Total Enterprise Funds and Business Type Activities also had negative unrestricted net position of \$58,824 and negative total net position of \$36,998 at June 30, 2016. The District’s Governmental Activities had an unrestricted net position deficit of \$821,184 at June 30, 2016.

Note 13. Lease Commitment

The District entered into a contract to lease copiers. The payments the District will make during the year ending June 30, 2017, the final year of the contract, is \$14,640. The District paid \$14,640 of lease payments during the year ended June 30, 2016.

Note 14. Related Party Transactions

During the year ended June 30, 2016, the District had business transactions between the District and a board member totaling \$480. These transactions were for medical services performed by the board member for the District.

Required Supplementary Information

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
 All Governmental Funds and Enterprise Funds
 Required Supplementary Information
 For the Year Ended June 30, 2016

| | Governmental Funds | | Enterprise Funds | | Total Actual | Budgeted Amounts | | Final to Actual Variance |
|---|---------------------|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------------|
| | Actual | | Actual | | | Original | Final | |
| | | | | | | | | |
| Revenues | | | | | | | | |
| Local sources | \$ 4,630,251 | \$ 141,560 | \$ 4,771,811 | \$ 4,780,508 | \$ 4,780,508 | \$ 4,780,508 | \$ (8,697) | |
| State sources | 2,518,898 | 2,058 | 2,520,956 | 2,047,069 | 2,047,069 | 2,047,069 | 473,887 | |
| Federal sources | 115,143 | 124,460 | 239,603 | 310,688 | 310,688 | 310,688 | (71,085) | |
| Total revenues | <u>7,264,292</u> | <u>268,078</u> | <u>7,532,370</u> | <u>7,138,265</u> | <u>7,138,265</u> | <u>7,138,265</u> | <u>394,105</u> | |
| Expenditures/Expenses | | | | | | | | |
| Instruction | 4,003,827 | - | 4,003,827 | 4,405,150 | 4,405,150 | 4,405,150 | 401,323 | |
| Support services | 1,649,981 | - | 1,649,981 | 2,346,000 | 2,346,000 | 2,346,000 | 696,019 | |
| Non-instructional programs | 179 | 256,832 | 257,011 | 244,000 | 244,000 | 244,000 | (13,011) | |
| Other expenditures | 1,173,906 | - | 1,173,906 | 768,286 | 768,286 | 768,286 | (405,620) | |
| Total expenditures/expenses | <u>6,827,893</u> | <u>256,832</u> | <u>7,084,725</u> | <u>7,763,436</u> | <u>7,763,436</u> | <u>7,763,436</u> | <u>678,711</u> | |
| Excess (deficiency) of revenues over (under) expenditures/expenses | 436,399 | 11,246 | 447,645 | (625,171) | (625,171) | (625,171) | 1,072,816 | |
| Balance, beginning of year | <u>1,950,347</u> | <u>(48,244)</u> | <u>1,902,103</u> | <u>1,923,193</u> | <u>1,923,193</u> | <u>1,923,193</u> | <u>(21,090)</u> | |
| Balance, end of year | <u>\$ 2,386,746</u> | <u>\$ (36,998)</u> | <u>\$ 2,349,748</u> | <u>\$ 1,298,022</u> | <u>\$ 1,298,022</u> | <u>\$ 1,298,022</u> | <u>\$ 1,051,726</u> | |

See accompanying Independent Auditor's Report.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2016

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. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

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

During the year ended June 30, 2016, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
For the Last Two Years*
Required Supplementary Information

| | 2016 | 2015 |
|---|--------------|--------------|
| District's proportion of the net pension liability | 0.041603% | 0.04235% |
| District's proportionate share of the net pension liability | \$ 2,068,196 | \$ 1,679,882 |
| District's covered-employee payroll | \$ 3,065,722 | \$ 2,864,991 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 67.46% | 58.63% |
| IPERS' net position as a percentage of the total pension liability | 85.19% | 87.61% |

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

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

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Schedule of District Contributions
Iowa Public Employees' Retirement System
For the Last Ten Years
Required Supplementary Information

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Statutorily required contributions | \$ 273,769 | \$ 255,844 | \$ 247,516 | \$ 232,878 | \$ 198,940 | \$ 169,615 | \$ 177,003 | \$ 171,334 | \$ 154,222 | \$ 139,300 |
| Contributions in relation to the statutorily required contribution | <u>(273,769)</u> | <u>(255,844)</u> | <u>(247,516)</u> | <u>(232,878)</u> | <u>(198,940)</u> | <u>(169,615)</u> | <u>(177,003)</u> | <u>(171,334)</u> | <u>(154,222)</u> | <u>(139,300)</u> |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| District's covered-employee payroll | \$3,065,722 | \$ 2,864,991 | \$ 2,771,733 | \$ 2,686,021 | \$ 2,465,186 | \$ 2,440,503 | \$ 2,661,692 | \$ 2,698,172 | \$ 2,549,124 | \$ 2,422,609 |
| Contributions as a percentage of covered-employee payroll | 8.93% | 8.93% | 8.93% | 8.67% | 8.07% | 6.95% | 6.65% | 6.35% | 6.05% | 5.75% |

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Pension Liability
For the Year Ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for 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.

Legislative action in 2008 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.

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

GALVA-HOSTEIN COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 2010 | July 1, 2009 | \$ - | \$206,427 | \$206,427 | 0% | \$1,800,000 | 11.5% |
| 2011 | July 1, 2009 | \$ - | \$200,423 | \$200,423 | 0% | \$1,700,000 | 11.8% |
| 2012 | July 1, 2009 | \$ - | \$200,423 | \$200,423 | 0% | \$1,900,000 | 10.5% |
| 2013 | July 1, 2012 | \$ - | \$213,653 | \$213,653 | 0% | \$1,850,000 | 11.5% |
| 2014 | July 1, 2012 | \$ - | \$213,164 | \$213,164 | 0% | \$2,100,000 | 10.2% |
| 2015 | July 1, 2012 | \$ - | \$212,528 | \$212,528 | 0% | \$2,180,000 | 9.7% |
| 2016 | July 1, 2015 | \$ - | \$187,420 | \$187,420 | 0% | \$2,922,024 | 6.4% |

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2016

Schedule 1

| | <u>Special</u> | <u>Capital Project</u> | | |
|---|-----------------|----------------------------|-----------------|------------------|
| | <u>Revenue</u> | <u>Physical</u> | <u>Debt</u> | <u>Total</u> |
| | <u>Student</u> | <u>Plant and</u> | <u>Service</u> | |
| | <u>Activity</u> | <u>Equipment</u> | | |
| | | <u>Levy</u> | | |
| Assets | | | | |
| Cash, cash equivalents and pooled investments | \$46,032 | \$ 92,603 | \$11,814 | \$150,449 |
| Receivables | | | | |
| Property tax | | | | |
| Delinquent | - | 1,539 | 2,858 | 4,397 |
| Succeeding year | - | 140,896 | - | 140,896 |
| Income surtax | - | 90,079 | - | 90,079 |
| Total assets | <u>\$46,032</u> | <u>\$325,117</u> | <u>\$14,672</u> | <u>\$385,821</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 47 | \$ - | \$ - | \$ 47 |
| Deferred inflows of resources | | | | |
| Unavailable revenue | | | | |
| Succeeding year property tax | - | 140,896 | - | 140,896 |
| Income surtax | - | 90,079 | - | 90,079 |
| Total deferred inflows of resources | <u>-</u> | <u>230,975</u> | <u>-</u> | <u>230,975</u> |
| Fund balances | | | | |
| Restricted for | | | | |
| Student activities | 45,985 | - | - | 45,985 |
| Physical plant and equipment | - | 94,142 | - | 94,142 |
| Debt service | - | - | 14,672 | 14,672 |
| Total fund balances | <u>45,985</u> | <u>94,142</u> | <u>14,672</u> | <u>154,799</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$46,032</u> | <u>\$325,117</u> | <u>\$14,672</u> | <u>\$385,821</u> |

See accompanying Independent Auditor's Report.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2016

Schedule 2

| | <u>Special Revenue</u> | <u>Capital Projects Physical Plant and Equipment</u> | <u>Debt Service</u> | <u>Total</u> |
|--|-----------------------------|--|-------------------------|------------------|
| | <u>Student Activity</u> | <u>Levy</u> | | |
| Revenues | | | | |
| Local sources | | | | |
| Local taxes | \$ - | \$231,410 | \$255,341 | \$486,751 |
| Other | 257,921 | 31,336 | - | 289,257 |
| State sources | - | 2,479 | 4,606 | 7,085 |
| Total revenues | <u>257,921</u> | <u>265,225</u> | <u>259,947</u> | <u>783,093</u> |
| Expenditures | | | | |
| Current | | | | |
| Instruction | | | | |
| Other | 237,490 | - | - | 237,490 |
| Support services | | | | |
| Operation and maintenance of plant | - | 18,500 | - | 18,500 |
| Other expenditures | | | | |
| Facilities acquisition | - | 169,925 | - | 169,925 |
| Long-term debt | | | | |
| Principal | - | - | 435,000 | 435,000 |
| Interest and fiscal charges | - | - | 66,320 | 66,320 |
| Total other expenditures | - | 169,925 | 501,320 | 671,245 |
| Total expenditures | <u>237,490</u> | <u>188,425</u> | <u>501,320</u> | <u>927,235</u> |
| Excess (deficiency) of revenues over (under) expenditures | 20,431 | 76,800 | (241,373) | (144,142) |
| Other financing sources | | | | |
| Transfers in | - | - | 203,195 | 203,195 |
| Change in fund balances | 20,431 | 76,800 | (38,178) | 59,053 |
| Fund balances, beginning of year | <u>25,554</u> | <u>17,342</u> | <u>52,850</u> | <u>95,746</u> |
| Fund balances, end of year | <u>\$45,985</u> | <u>\$ 94,142</u> | <u>\$ 14,672</u> | <u>\$154,799</u> |

See accompanying Independent Auditor's Report.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2016

Schedule 3

| Account | Balance, Beginning of Year | Revenues | Expenditures | Intra-fund Transfers | Balance, End of Year |
|-----------------------------|----------------------------------|-------------------|-------------------|-------------------------|----------------------------|
| Dramatics | \$ - | \$ 3,439 | \$ 3,005 | \$ - | \$ 434 |
| Speech | - | 1,641 | 1,641 | - | - |
| Quiz bowl | 71 | 365 | 436 | - | - |
| Model UN | - | 1,636 | 1,636 | - | - |
| Mock trial | - | 355 | 355 | - | - |
| Music-vocal | 620 | 3,124 | 2,983 | (204) | 557 |
| Drill team | 67 | 14,195 | 14,466 | 204 | - |
| Fundraiser | - | 1,582 | 1,582 | - | - |
| Cheerleaders | - | 4,394 | 4,482 | 88 | - |
| Basketball | - | 18,704 | 18,704 | - | - |
| Volleyball | - | 9,881 | 9,881 | - | - |
| Girls basketball camp | - | - | 233 | 233 | - |
| Football | 4,003 | 29,210 | 30,652 | - | 2,561 |
| Baseball | - | 14,749 | 14,203 | - | 546 |
| Softball | - | 11,543 | 11,543 | - | - |
| Track | - | 24,775 | 24,775 | - | - |
| Cross country | 444 | 6,134 | 6,084 | - | 494 |
| Golf | - | 2,442 | 2,442 | - | - |
| Wrestling | 337 | 11,815 | 12,152 | - | - |
| Sophomores | 2,813 | 401 | - | - | 3,214 |
| Juniors | 1,525 | 6,382 | 5,635 | - | 2,272 |
| Seniors | - | 105 | 174 | 69 | - |
| Yearbook | 911 | 15,308 | 8,065 | - | 8,154 |
| Student council | - | 8,940 | 8,925 | - | 15 |
| Elementary classes | - | 2,442 | 842 | (116) | 1,484 |
| NHS | - | 792 | 792 | - | - |
| Pop fundraiser | - | - | 1,207 | 1,207 | - |
| Activity tickets | - | 45 | 45 | - | - |
| Student fundraiser | - | 31,528 | 28,925 | (1,452) | 1,151 |
| Undistributed interest | 2 | 30 | - | (29) | 3 |
| Weight training fundraisers | 14,761 | 31,964 | 21,625 | - | 25,100 |
| Totals | <u>\$ 25,554</u> | <u>\$ 257,921</u> | <u>\$ 237,490</u> | <u>\$ -</u> | <u>\$ 45,985</u> |

See accompanying Independent Auditor's Report.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
 Schedule of Revenues by Source and Expenditures by Function
 All Governmental Funds
 For the Last Ten Years

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Revenues | | | | | | | | | | |
| Local sources | | | | | | | | | | |
| Local tax | \$3,085,705 | \$2,817,121 | \$2,649,203 | \$2,893,635 | \$2,690,841 | \$2,482,578 | \$2,622,327 | \$2,434,511 | \$2,265,873 | \$2,283,899 |
| Tuition | 855,393 | 753,701 | 813,288 | 837,450 | 706,735 | 634,586 | 299,454 | 257,073 | 218,413 | 144,288 |
| Construction donations | - | 5,055 | - | - | - | 370,954 | 899,917 | - | - | - |
| Other | 689,153 | 765,099 | 660,125 | 636,633 | 609,111 | 614,649 | 297,442 | 330,998 | 331,396 | 453,142 |
| State sources | 2,518,898 | 2,762,967 | 2,456,788 | 2,100,884 | 2,150,213 | 2,079,325 | 1,827,233 | 2,123,262 | 2,117,741 | 2,053,387 |
| Federal sources | 115,143 | 122,835 | 121,463 | 128,843 | 245,701 | 303,666 | 328,017 | 133,646 | 202,715 | 185,249 |
| Total revenues | \$7,264,292 | \$7,226,778 | \$6,700,867 | \$6,597,445 | \$6,402,601 | \$6,485,758 | \$6,274,390 | \$5,279,490 | \$5,136,138 | \$5,119,965 |
| Expenditures | | | | | | | | | | |
| Current | | | | | | | | | | |
| Instruction | | | | | | | | | | |
| Regular | \$2,654,707 | \$2,762,657 | \$2,742,536 | \$2,584,632 | \$2,553,206 | \$2,578,428 | \$1,935,608 | \$1,912,770 | \$1,874,020 | \$1,804,737 |
| Special | 533,522 | 517,802 | 527,395 | 535,546 | 576,280 | 462,765 | 520,317 | 320,362 | 499,964 | 373,395 |
| Other | 815,598 | 826,326 | 703,567 | 679,431 | 678,887 | 709,224 | 491,466 | 658,667 | 420,560 | 522,296 |
| Support services | | | | | | | | | | |
| Student | 135,881 | 169,629 | 166,007 | 152,623 | 115,083 | 118,535 | 75,070 | 84,491 | 82,599 | 82,318 |
| Instructional staff | 40,903 | 62,616 | 76,799 | 91,137 | 131,169 | 104,615 | 165,667 | 122,442 | 126,266 | 116,769 |
| Administration | 738,377 | 651,920 | 639,057 | 597,033 | 616,847 | 521,380 | 473,205 | 546,658 | 536,469 | 518,908 |
| Operation and maintenance of plant | 461,613 | 435,929 | 444,998 | 397,149 | 371,022 | 416,404 | 440,495 | 410,346 | 407,347 | 403,686 |
| Transportation | 273,207 | 457,025 | 354,929 | 346,264 | 487,171 | 315,528 | 178,306 | 167,803 | 174,764 | 230,846 |
| Non-instructional programs | 179 | - | 542 | - | - | 1,034 | 1,068 | - | - | - |
| Other expenditures | | | | | | | | | | |
| Facilities acquisition | 490,996 | 1,650,672 | 1,514,438 | 439,386 | 341,276 | 1,075,831 | 1,514,620 | 374,676 | 94,455 | 385,445 |
| Long-term debt | | | | | | | | | | |
| Principal | 435,000 | 575,000 | 480,000 | 475,000 | 1,910,000 | 385,000 | 355,000 | 350,000 | 340,000 | 3,360,000 |
| Interest and other charge | 66,320 | 91,606 | 8,965 | 11,005 | 90,719 | 74,400 | 83,935 | 92,335 | 99,875 | 280,376 |
| AEA flowthrough | 181,590 | 184,890 | 171,099 | 163,419 | 163,357 | 181,962 | 182,079 | 170,206 | 165,990 | 162,330 |
| Total expenditures | \$6,827,893 | \$8,386,072 | \$7,830,332 | \$6,472,625 | \$8,035,017 | \$6,945,106 | \$6,416,836 | \$5,210,756 | \$4,822,309 | \$8,241,106 |

See accompanying Independent Auditor's Report.

Kay L. Chapman, CPA PC

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

To the Board of Education of
Galva-Holstein Community School District:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Galva-Holstein Community School District as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated March 2, 2017.

Internal Control Over Financial Reporting

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

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

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

consider the deficiencies described in Part I of the accompanying Schedule of Findings as items A and B to be material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my 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.

Galva-Holstein Community School District's Responses to the Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Galva-Holstein Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 2, 2017

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2016

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- B. Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation - District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response - As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion - Response accepted.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2016

Part II. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2016 exceeded the amounts budgeted in the non-instructional programs and other expenditures functions.

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

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

Conclusion - Response accepted.

2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. 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.
4. Business Transactions – Business transactions between the District and a District official are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|--------------------------------|---------------|
| Jamie Whitmer, vice president | Physicals | \$480 |

The transactions with the board member does not appear to present a potential conflict of interest since the totals paid were less than \$2,500 (as allowed by Chapter 279.7A of the Code of Iowa) during the fiscal year.

5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2016

8. Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was certified timely to the Iowa Department of Education.
11. Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of non-compliance with the allowable uses of the statewide sales, services and use tax revenue provided in Chapter 423F.3 of the Code of Iowa were noted.

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

| | | |
|--|----------------|-------------------|
| Beginning balance | | \$ 834,993 |
| Revenues | | |
| Statewide sales, services and use tax | \$ 401,738 | |
| Interest earned | <u>6,458</u> | 408,196 |
| Expenditures/transfers out | | |
| School infrastructure | | |
| Equipment | \$ 106,302 | |
| Debt service for school infrastructure | | |
| Revenue debt | <u>203,195</u> | <u>309,497</u> |
| Ending balance | | <u>\$ 933,692</u> |

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

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2016

13. Deficit Balances - The District's Enterprise Fund – School Nutrition Fund had negative unrestricted net position of \$58,824 and negative total net position of \$36,998 at June 30, 2016. The Total Enterprise Funds and Business Type Activities also had negative unrestricted net position of \$58,824 and negative total net position of \$36,998 at June 30, 2016. The District's Governmental Activities had an unrestricted net position deficit of \$821,184.

Recommendation - The District should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response - These deficits are a result of implementing GASB 68 and recording the applicable pension related deferred outflows, net pension liability, pension related deferred inflows and pension expense.

Conclusion - Response accepted.

GALVA-HOLSTEIN COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2016

This audit was performed by

Kay Chapman, CPA
Terri Slater, staff accountant
Rhonda Draeger, accountant