

**HOWARD-WINNESHIEK  
COMMUNITY SCHOOL DISTRICT  
CRESCO, IOWA**

**FINANCIAL REPORT**

**JUNE 30, 2018**

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HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

BOARD OF EDUCATION AND SCHOOL OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
<u>Board of Education</u>			
Duane Bodermann	President	District 4	September 2021
Toni Johnson	Vice-President	District 3	September 2019
Todd Hill	Board Member	Director at Large	September 2019
Alison Holten	Board Member	District 1	September 2021
Karlos McClure	Board Member	District 2	September 2019

School Officials

Theodore Ihns - Superintendent  
Robyn Lane - Business Manager and District Secretary/Treasurer  
Elwood, O'Donohoe, Braun and White, LLP - Attorney

INDEPENDENT AUDITOR'S REPORT  
ON THE FINANCIAL STATEMENTS

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Howard-Winneshiek Community School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Howard-Winneshiek Community School District, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### Emphasis of a Matter

As discussed in Note 19 to the financial statements, Howard-Winneshiek Community School District adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

### Other Matters

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the 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 changes in the District's total OPEB liability, related ratios and notes on pages 4 through 4g and pages 37 through 42 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Howard-Winneshiek Community School District's June 30, 2018 basic financial statements. The supplementary information included in Schedules 1 through 8, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements.

The supplementary information shown on Schedules 1 through 9, including the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information shown on Schedules 1 through 9, including the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the year ended June 30, 2018 basic financial statements as a whole. The financial statements of Howard-Winneshiek Community School District for the years ended June 30, 2009 through 2017 were audited by other auditors who expressed unmodified opinions on those financial statements for the years 2009 through 2017. Their reports on the information presented on page 49 related to 2009 through 2017 financial statements stated that, in their opinion, such information was fairly stated in all material respects in relation to the 2009 through 2017 financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2019, on our consideration of Howard-Winneshiek Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Howard-Winneshiek Community School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Howard-Winneshiek Community School District's internal control over financial reporting and compliance.

Decorah, Iowa  
January 18, 2019

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
CRESCO, IOWA

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018

Management of the Howard-Winneshiek Community School District provides this management's discussion and analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2018.

The intent of this discussion and analysis is to look at Howard-Winneshiek Community School District's financial performance as a whole with comparisons to the previous fiscal year activities. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

2018 FINANCIAL HIGHLIGHTS

The District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year 2018. The District also restated net position as of July 1, 2017 due to a change in fixed assets of the governmental funds. The beginning net position for governmental activities and business-type activities were restated by \$680,175 and \$16,891, respectively, to retroactively report the increase in the OPEB liability and increase in capital assets as of July 1, 2017. OPEB expense for fiscal year 2017 and deferred outflows of resources at June 30, 2017 were not restated because the information needed to restate those amounts was not available.

In total, net position decreased by \$473,959 or 4.68% from fiscal year 2017. Net position in governmental activities decreased by \$442,092, which represented a 4.51% decrease from fiscal year 2017. The District received less revenue from property taxes and a small decrease in sales, services and use tax. The District also increased expenses for student, administration and transportation services during the year. Net position in the business-type activities, which represents the District's food service operations decreased \$31,867, which represented a 10.02% decrease from fiscal year 2017. The decrease is due to a decrease in revenue.

General fund revenues (which include the instructional support fund) accounted for \$14,112,722 in revenue or 84.63% of all governmental revenues. General fund expenditures (which include the instructional support fund) accounted for \$14,359,328 in expenditures or 77.78% of all governmental expenditures.

USING THIS ANNUAL REPORT

These statements are organized so the reader can understand Howard-Winneshiek Community School District as a financial whole or as an entire operating entity. The annual report consists of a series of financial statements, notes to those statements and other information, as follows:

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

The government-wide financial statements consist of a statement of net position and a statement of activities. These provide information about the activities of Howard-Winneshiek Community School District as a whole and present an overall view of the District's finances.

## USING THIS ANNUAL REPORT (Continued)

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Howard-Winneshiek Community School District's operations in more detail than the government-wide financial statements by providing information about the most significant funds with all other nonmajor funds presented in total in a single column. The remaining financial statements provide information about activities for which Howard-Winneshiek Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to 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 changes in the District's total OPEB liability, related ratios and notes.

Other supplementary information provides detailed information about the nonmajor funds, the individual agency fund, and compares governmental fund activity to prior years. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the District.

### 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 programs and services are reported here, including instruction, co-curricular activities, support services, (nursing, guidance, media, administration), custodial, building operations and maintenance and pupil transportation. Property tax and state aid finance most of these activities.
- *Business-type Activities:* these services are provided on a charge for goods or services basis to recover all of the expenses for the goods or services provided. These types of activities are also known as enterprise funds. The school nutrition fund is included here.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's major funds. The District uses different funds in accordance with the Uniform Financial Accounting for Iowa LEA's, as required by the Iowa Department of Education, to record its financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds for fiscal year 2018 are the general fund, the statewide sales, services and use tax-capital project fund, and the debt service fund.

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES (Continued)

### *Fund Financial Statements (Continued)*

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. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps one to 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 and are reported in the same way as the government-wide financial statements. The District's enterprise fund, one type of proprietary fund, is the same as its business-type activities but provides more detail and additional information, such as cash flows. The District's enterprise fund is the school nutrition fund.

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

- 3) *Fiduciary Fund:* the District is the fiduciary, for assets that belong to others. The District's fiduciary fund includes the following:

- *Agency Fund:* this is a fund through which the District administers and accounts for certain revenue as a fiscal agent.

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

The required financial statement for the fiduciary fund includes a statement of fiduciary 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**

As noted earlier, net position may serve over time as a useful indicator of financial position. The District's net position at the end of fiscal year 2018 for governmental activities were \$9,364,241 and for business-type activities were \$286,235, a decrease of 4.51% and 10.02% from the restated previous fiscal year, respectively. The following is a summary perspective of the statement of net position of the District as a whole:

	Condensed Statement of Net Position					
	(Expressed in Thousands)					
	Governmental Activities		Business-type Activities		Total	
	2018	2017 (Not Restated)	2018	2017 (Not Restated)	2018	2017 (Not Restated)
Current and other assets	\$ 13,717	\$ 14,443	\$ 464	\$ 466	\$ 14,181	\$ 14,909
Capital assets	13,298	13,030	82	94	13,380	13,124
<b>Total assets</b>	<b>27,015</b>	<b>27,473</b>	<b>546</b>	<b>560</b>	<b>27,561</b>	<b>28,033</b>
Deferred outflows of resources	2,125	1,876	55	46	2,180	1,922
Current liabilities	2,393	2,406	71	65	2,464	2,471
Noncurrent liabilities	9,755	10,779	235	197	9,990	10,976
<b>Total liabilities</b>	<b>12,148</b>	<b>13,185</b>	<b>306</b>	<b>262</b>	<b>12,454</b>	<b>13,447</b>
Deferred inflows of resources	7,628	7,038	9	9	7,637	7,047
<b>Net position:</b>						
Net investment in capital assets	11,308	11,438	82	94	11,390	11,532
Restricted	3,279	1,777			3,279	1,777
Unrestricted (deficit)	(5,223)	(4,089)	204	241	(5,019)	(3,848)
<b>Total net position</b>	<b>\$ 9,364</b>	<b>\$ 9,126</b>	<b>\$ 286</b>	<b>\$ 335</b>	<b>\$ 9,650</b>	<b>\$ 9,461</b>

Due to restatement, the District's total net position increased 7.45% or approximately \$680,000 from the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased approximately \$1,497,000 or 84.24%, from the prior year. The increase was primarily a result of an increase in school infrastructure and categorical funding.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased approximately \$1,142,000 or 27.93%. The reduction in unrestricted net position was primarily a result of the increase in the District's total OPEB liability.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

The following analysis shows the change in net position for the years ended June 30, 2018 and 2017 as shown below:

	Changes in Net Position (Expressed in Thousands)					
	Governmental Activities		Business-type Activities		Total	
	2018	2017 (Not Restated)	2018	2017 (Not Restated)	2018	2017 (Not Restated)
Revenues:						
Program revenue:						
Charges for service	\$ 414	\$ 798	\$ 320	\$ 322	\$ 734	\$ 1,120
Operating grants	2,548	2,613	430	467	2,978	3,080
General revenue:						
Property taxes	6,518	6,657			6,518	6,657
Sales tax and surtax	1,113	1,148			1,113	1,148
Unrestricted state grants	5,245	5,057			5,245	5,057
Unrestricted investment earnings	322	29	4		326	29
Gain on the sale of capital assets	3				3	-
Other revenue	111	200		1	111	201
Total revenues	16,274	16,502	754	790	17,028	17,292
Program expenses:						
Instruction	10,305	10,489			10,305	10,489
Student support	4,830	5,883			4,830	5,883
Non-instructional programs	6		786	816	792	816
Other expenses	1,575	1,149			1,575	1,149
Total expenses	16,716	17,521	786	816	17,502	18,337
(Decrease) in net position	(442)	(1,019)	(32)	(26)	(474)	(1,045)
Net position, beginning of year, as restated	9,806	10,145	318	361	10,124	10,506
Net position, end of year	\$ 9,364	\$ 9,126	\$ 286	\$ 335	\$ 9,650	\$ 9,461

**INDIVIDUAL FUND ANALYSIS**

The Howard-Winneshiek Community School District uses fund accounting on the modified accrual basis of accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds Highlights*

As the District completed the year, its governmental funds reported a combined fund balance of \$4,730,768, a \$352,757 decrease from the 2017 fiscal year end balance of \$5,083,525.

- The general fund expenditures increased during fiscal year 2018 for instruction while revenues increased for property taxes. The ending fund balance showed a decrease of \$246,971 from the prior year.
- The statewide sales, services and use tax-capital project fund revenue from local option sales tax decreased in fiscal year 2018. Expenditures decreased with no major capital purchases or construction projects during the fiscal year. The ending fund balance showed a decrease of \$164,352 from the prior year due to a transfer to the debt service fund.

INDIVIDUAL FUND ANALYSIS (Continued)

*Governmental Funds Highlights (Continued)*

- The debt service fund ending fund balance showed a decrease of \$134,581 for fiscal year 2018. This decrease is mainly due to paying off debt.

*Proprietary Funds Highlights*

The school nutrition fund net position decreased from \$318,102 at June 30, 2017 to \$286,235 at June 30, 2018, representing a decrease of approximately 10.02%. The decrease is due to declining revenues and an increase in salaries and benefits. The District increased meal prices to help cover this shortfall.

BUDGETARY HIGHLIGHTS

The District’s Board of Education annually adopts a budget as required by Iowa law. Proper public notice and a required public hearing are held before final approval of the budget. State statute requires approval of the budget on or before April 15 of each year. The budget document presents functional expenditures by fund and the legal level of control is at the expense level by total instruction, total support services, total non-instructional programs, total other expenditures and total expenditures. The District amends the budget, as allowed by Iowa law, generally once per year to reflect the additional revenues and expenditures that may occur during the school year. The District adopted one budget amendment, increasing budgeted expenditures by \$9,103,921.

The District’s total revenues were \$130,288 less than total budgeted revenues, a variance of 0.75%. State sources and federal sources decreased in fiscal year 2018, which caused the total amount received to be less than originally anticipated.

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

The following chart shows the original and final budget for fiscal year 2018 as well as the actual revenue and expenditures for the year:

	Budgetary Comparison Schedule (Expressed in Thousands)			
	Actual Basis	Budgeted Amounts		
		Original	Final	Variance
<b>Revenues:</b>				
Local sources	\$ 8,099	\$ 7,984	\$ 7,984	\$ 115
State sources	8,346	8,568	8,568	(222)
Federal sources	986	1,009	1,009	(23)
<b>Total revenues</b>	<b>\$ 17,431</b>	<b>\$ 17,561</b>	<b>\$ 17,561</b>	<b>\$ (130)</b>
<b>Expenditures:</b>				
Instruction	\$ 10,201	\$ 10,540	\$ 16,540	\$ 6,339
Support services	4,626	4,781	5,500	874
Non-instructional programs	792	831	900	108
Other expenditures	3,629	1,684	4,000	371
<b>Total expenditures</b>	<b>\$ 19,248</b>	<b>\$ 17,836</b>	<b>\$ 26,940</b>	<b>\$ 7,692</b>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets*

At the end of fiscal year 2018, the District's governmental activities had invested \$13,297,599 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, vehicles, technology (including computer equipment), media/audio visual equipment and classroom equipment. The District had depreciation expense of \$849,403 for fiscal year 2018 and total accumulated depreciation of \$11,001,074 as of June 30, 2018. The District's business-type activities had invested \$81,561 (net of accumulated depreciation) in capital assets of equipment. The District had depreciation expense of \$12,725 for fiscal year 2018 and total accumulated depreciation of \$270,673 as of June 30, 2018.

More detailed information about capital assets is available in Note 5 to the financial statements. The following chart shows the comparison in capital assets for 2018 and 2017.

	Capital Assets (net of depreciation)					
	(Expressed in Thousands)					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 801	\$ 801			\$ 801	\$ 801
Construction in progress		15				15
Land improvements	660	631			660	631
Buildings	9,386	9,608			9,386	9,608
Furniture and equipment	2,451	2,684	\$ 82	\$ 94	2,533	2,778
<b>Total</b>	<b>\$ 13,298</b>	<b>\$ 13,739</b>	<b>\$ 82</b>	<b>\$ 94</b>	<b>\$ 13,380</b>	<b>\$ 13,833</b>

*Debt*

As of June 30, 2018, the District had \$2,401,351 in long-term debt outstanding compared to \$3,388,282 from the prior year. More detailed information about the District's long-term debt can be found in Note 6 to the financial statements. The following chart shows the debt comparison between 2018 and 2017.

	Long-term Debt Obligations			
	Balance		Balance	
	June 30, 2017	Additions	Reductions	June 30, 2018
<b>Bonds/Capital Loan Notes:</b>				
Tax Revenue Bonds	\$ 1,810,000	\$ 1,420,000	\$ 1,923,381	\$ 1,306,619
Total bonds/capital loan notes	1,810,000	1,420,000	1,923,381	1,306,619
<b>Other Liabilities:</b>				
Capital leases	886,605		204,147	682,458
Early retirement	691,677		279,403	412,274
OPEB obligation	871,000	184,679	49,368	1,006,311
Total other liabilities	2,449,282	184,679	532,918	2,101,043
<b>Total long-term debt</b>	<b>\$ 4,259,282</b>	<b>\$ 1,604,679</b>	<b>\$ 2,456,299</b>	<b>\$ 3,407,662</b>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

### Current Issues

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

- The District received notification that the Lime Springs Beef, LLC will be foreclosed during fiscal year 2019.
- Declining enrollment has been a challenge for the District. Howard-Winneshiek Community School District is one of the many school districts in the state experiencing a decline in enrollment. Providing students with a 21st century learning experience, nationally recognized for being progressive and innovative, along with actively partnering with locally elected government officials, business and industry, the intent is that these actions will recruit and retain families to the region. It is important to note that the certified enrollment has been declining for the last 8 years with the exception of 2018. Certified enrollment (line 7 of Certified Enrollment Form) for 2018 was up 10.84 students (.9%); whereas 2017 was down 34 students (2.9%) compared to the District's enrollment decline of 3 students (0.3%) in 2016.
- Utilizing Secure an Advanced Vision for Education (SAVE) and Property Plant and Equipment Levy (PPEL) funding, the District is continuously upgrading the physical plant to provide a quality learning experience for students. It is recognized that the physical plant is a contributing factor for families choosing to have their students attend Howard-Winneshiek Community School District. Projects underway include but are not limited to: upgrading the Softball and Baseball complexes and developing a plan to update and restructure the current facilities.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers and creditors with a general overview of Howard-Winneshiek Community School 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, please contact Ms. Robyn Lane, Business Manager and District Secretary/Treasurer, Howard-Winneshiek Community School District, 1000 Schroder Drive, Cresco, Iowa, 52136.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2018

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 5,919,211	\$ 397,276	\$ 6,316,487
Receivables:			
Property tax:			
Delinquent	36,539		36,539
Succeeding year	6,822,048		6,822,048
Accounts	57,727	4,644	62,371
Prepaid expenses	12,812	300	13,112
Due from other governments	849,320	34,312	883,632
Inventories		28,139	28,139
Other investments	20,000		20,000
Capital assets, non-depreciable	801,220		801,220
Capital assets, net of accumulated depreciation	12,496,379	81,561	12,577,940
Total assets	<u>27,015,256</u>	<u>546,232</u>	<u>27,561,488</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related deferred outflows	2,035,660	52,461	2,088,121
OPEB related deferred outflows	89,466	2,483	91,949
Total deferred outflows of resources	<u>2,125,126</u>	<u>54,944</u>	<u>2,180,070</u>
Total assets and deferred outflows of resources	<u>\$ 29,140,382</u>	<u>\$ 601,176</u>	<u>\$ 29,741,558</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 103,334	\$ 6,075	\$ 109,409
Salaries and benefits payable	1,410,582	52,214	1,462,796
Interfund payable (receivable)	30	(30)	-
Unearned revenues		12,867	12,867
Due to other governments	233,660		233,660
Advances from grantors	28,254		28,254
Accrued interest payable	20,687		20,687
Long-term liabilities:			
Portion due within one year:			
Bonds payable	226,520		226,520
Capital leases	163,729		163,729
Early retirement	206,137		206,137
Portion due after one year:			
Bonds payable	1,080,099		1,080,099
Capital leases	518,729		518,729
Early retirement	206,137		206,137
Net pension liability	6,970,885	207,349	7,178,234
Total OPEB liability	979,140	27,171	1,006,311
Total liabilities	<u>12,147,923</u>	<u>305,646</u>	<u>12,453,569</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Succeeding year property tax	6,822,048		6,822,048
Pension related deferred inflows	421,994	9,295	431,289
Other	384,176		384,176
Total deferred inflows of resources	<u>7,628,218</u>	<u>9,295</u>	<u>7,637,513</u>
<b>NET POSITION</b>			
Net investment in capital assets	11,308,522	81,561	11,390,083
Restricted for:			
School infrastructure	1,023,831		1,023,831
Management levy purposes	894,514		894,514
Student activities	288,676		288,676
Entrepreneurial education	20,000		20,000
Physical plant and equipment	379,351		379,351
Categorical funding	672,523		672,523
Unrestricted (deficit)	(5,223,176)	204,674	(5,018,502)
Total net position	<u>9,364,241</u>	<u>286,235</u>	<u>9,650,476</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 29,140,382</u>	<u>\$ 601,176</u>	<u>\$ 29,741,558</u>

See Notes to Financial Statements.

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HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
<b>GOVERNMENTAL ACTIVITIES</b>			
Instruction:			
Regular instruction	\$ 6,049,420	\$ 63,168	\$ 1,653,950
Special instruction	2,145,160	207,865	322,950
Other instruction	2,110,633	66,631	5,799
	<u>10,305,213</u>	<u>337,664</u>	<u>1,982,699</u>
Support services:			
Student services	455,443	8,708	
Instructional staff services	693,285		
Administration services	1,458,463	61,454	
Operation and maintenance plant services	1,141,060	1,436	
Transportation services	1,081,687	5,102	
	<u>4,829,938</u>	<u>76,700</u>	<u>-</u>
Non-instructional	<u>6,162</u>		
Other:			
Long-term debt interest	31,952		
Bond issuance cost	42,610		
Facilities acquisition	608,028		
AEA flowthrough	565,058		565,058
Depreciation (unallocated)*	327,217		
	<u>1,574,865</u>	<u>-</u>	<u>565,058</u>
Total governmental activities	<u>16,716,178</u>	<u>414,364</u>	<u>2,547,757</u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
Non-instructional programs:			
Nutrition services	786,175	320,206	429,810
Total	<u>\$ 17,502,353</u>	<u>\$ 734,570</u>	<u>\$ 2,977,567</u>

**GENERAL REVENUES**

Property taxes levied for:  
    General purposes  
    Management levy purposes  
    Physical plant and equipment  
Statewide sales, services and use tax  
Unrestricted state grants  
Unrestricted investment earnings  
Gain on sale of capital assets  
Other

Total general revenues

Change in net position

NET POSITION, beginning of year, as restated

NET POSITION, end of year

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

See Notes to Financial Statements.



EXHIBIT B

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
\$ (4,332,302)		\$ (4,332,302)
(1,614,345)		(1,614,345)
(2,038,203)		(2,038,203)
(7,984,850)	\$ -	(7,984,850)
(446,735)		(446,735)
(693,285)		(693,285)
(1,397,009)		(1,397,009)
(1,139,624)		(1,139,624)
(1,076,585)		(1,076,585)
(4,753,238)	-	(4,753,238)
(6,162)		(6,162)
(31,952)		(31,952)
(42,610)		(42,610)
(608,028)		(608,028)
-		-
(327,217)		(327,217)
(1,009,807)	-	(1,009,807)
(13,754,057)	-	(13,754,057)
	(36,159)	(36,159)
(13,754,057)	(36,159)	(13,790,216)
5,419,323		5,419,323
550,592		550,592
547,764		547,764
1,112,554		1,112,554
5,245,597		5,245,597
322,477	4,292	326,769
2,542		2,542
111,116		111,116
13,311,965	4,292	13,316,257
(442,092)	(31,867)	(473,959)
9,806,333	318,102	10,124,435
\$ 9,364,241	\$ 286,235	\$ 9,650,476

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018

	General	Capital Project Fund Statewide Sales, Services and Use Tax	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and pooled investments	\$ 3,403,590	\$ 958,988	\$ 1,555,756	\$ 5,918,334
Receivables:				
Property tax:				
Delinquent	31,537		5,002	36,539
Succeeding year	6,125,080		696,968	6,822,048
Accounts	45,403		12,324	57,727
Due from other funds			2,464	2,464
Due from other governments	562,977	94,255	192,088	849,320
Prepaid expenses	8,092		4,720	12,812
Other investments			20,000	20,000
<b>Total assets</b>	<b>\$ 10,176,679</b>	<b>\$ 1,053,243</b>	<b>\$ 2,489,322</b>	<b>\$ 13,719,244</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 56,197	\$ 29,412	\$ 17,725	\$ 103,334
Salaries and benefits payable	1,410,582			1,410,582
Due to other governments	233,660			233,660
Due to other funds	2,494			2,494
Advances from grantors	28,254			28,254
<b>Total liabilities</b>	<b>1,731,187</b>	<b>29,412</b>	<b>17,725</b>	<b>1,778,324</b>
<b>Deferred inflows of resources:</b>				
<b>Unavailable revenues:</b>				
Succeeding year property tax	6,125,080		696,968	6,822,048
Other	196,016		192,088	388,104
<b>Total deferred inflows of resources</b>	<b>6,321,096</b>	<b>-</b>	<b>889,056</b>	<b>7,210,152</b>
<b>Fund balances:</b>				
Nonspendable: prepaid expenses	8,092			8,092
Restricted for:				
Categorical funding	672,523			672,523
Management levy purposes			894,514	894,514
Student activities			288,676	288,676
Entrepreneurial education			20,000	20,000
Physical plant and equipment			379,351	379,351
School infrastructure		1,023,831		1,023,831
Unassigned	1,443,781			1,443,781
<b>Total fund balances</b>	<b>2,124,396</b>	<b>1,023,831</b>	<b>1,582,541</b>	<b>4,730,768</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 10,176,679</b>	<b>\$ 1,053,243</b>	<b>\$ 2,489,322</b>	<b>\$ 13,719,244</b>

See Notes to Financial Statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET POSITION

Total governmental fund balances		\$	4,730,768
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, net of accumulated depreciation of: \$ 11,001,074			13,297,599
An internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.			877
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.			3,928
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.			(20,687)
Pension and OPEB 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	\$	2,125,126	
Deferred inflows of resources		(421,994)	1,703,132
Long-term liabilities, including bonds payable and accrued interest, total OPEB liability and net pension liability, are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds:			
Bonds payable		(1,306,619)	
Capital leases		(682,458)	
Early retirement		(412,274)	
Net pension liability		(6,970,885)	
Total OPEB liability		(979,140)	(10,351,376)
Net position of governmental activities per Exhibit A		\$	<u>9,364,241</u>

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2018

	General	Capital Project Fund Statewide Sales, Services and Use Tax	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Local sources:					
Local property tax	\$ 5,828,275			\$ 1,098,356	\$ 6,926,631
Tuition	207,865				207,865
Other	291,832	\$ 29,351		318,909	640,092
State sources	7,223,697	1,112,554		4,676	8,340,927
Federal sources	561,053				561,053
Total revenues	<u>14,112,722</u>	<u>1,141,905</u>	<u>\$ -</u>	<u>1,421,941</u>	<u>16,676,568</u>
<b>EXPENDITURES</b>					
Current:					
Instruction:					
Regular instruction	5,534,461			352,395	5,886,856
Special instruction	2,145,160				2,145,160
Other instruction	1,892,424			276,640	2,169,064
	<u>9,572,045</u>	<u>-</u>	<u>-</u>	<u>629,035</u>	<u>10,201,080</u>
Support services:					
Student services	455,443				455,443
Instructional staff services	476,040	17,642		199,603	693,285
Administration services	1,417,166			6,162	1,423,328
Operation and maintenance plant services	1,050,229			116,181	1,166,410
Transportation services	823,347			64,324	887,671
	<u>4,222,225</u>	<u>17,642</u>	<u>-</u>	<u>386,270</u>	<u>4,626,137</u>
Non-instructional				6,162	6,162
Other:					
Long-term debt:					
Principal			2,086,095		2,086,095
Interest and fiscal charges			89,778		89,778
Bond issuance cost			42,610		42,610
Facilities acquisition		639,725		205,872	845,597
AEA flowthrough	565,058				565,058
	<u>565,058</u>	<u>639,725</u>	<u>2,218,483</u>	<u>205,872</u>	<u>3,629,138</u>
Total expenditures	<u>14,359,328</u>	<u>657,367</u>	<u>2,218,483</u>	<u>1,227,339</u>	<u>18,462,517</u>
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	<u>(246,606)</u>	<u>484,538</u>	<u>(2,218,483)</u>	<u>194,602</u>	<u>(1,785,949)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
SILO bond issued		1,420,000			1,420,000
Operating transfers in	2,099	5,000	2,083,902	2,464	2,093,465
Operating transfers (out)	(2,464)	(2,083,902)		(7,099)	(2,093,465)
Sale of capital assets		10,012		3,180	13,192
	<u>(365)</u>	<u>(648,890)</u>	<u>2,083,902</u>	<u>(1,455)</u>	<u>1,433,192</u>
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) OVER EXPENDITURES AND FINANCING USES	<u>(246,971)</u>	<u>(164,352)</u>	<u>(134,581)</u>	<u>193,147</u>	<u>(352,757)</u>
FUND BALANCE, beginning of year	<u>2,371,367</u>	<u>1,188,183</u>	<u>134,581</u>	<u>1,389,394</u>	<u>5,083,525</u>
FUND BALANCE, end of year	<u>\$ 2,124,396</u>	<u>\$ 1,023,831</u>	<u>\$ -</u>	<u>\$ 1,582,541</u>	<u>\$ 4,730,768</u>

See Notes to Financial Statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2018

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balances - total governmental funds	\$	(352,757)
Amounts reported for governmental activities in the statement of activities are different because:		
An internal service fund is used by management to charge the costs of health insurance to individual funds. The change in net position in the internal service fund is reported with governmental activities in the statement of activities.		
		81
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceed capital outlays in the current year, as follows:		
Depreciation	\$	(849,403)
Capital outlays		418,220
		(431,183)
Some revenues not collected for several years, therefore not available to pay current expenditures, they were deferred in the governmental funds in the prior year.		
		3,928
Proceeds of long-term debt issuance are included in the governmental funds but increase long-term liabilities in the statement of net position:		
Issued		(1,420,000)
Repaid		2,127,528
		707,528
The net effect of disposal capital assets.		
		(10,650)
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.		
		16,393
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.		
		703,355
Income surtax not collected for several months after year end is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds.		
		(408,952)
Early retirement payments, pension and OPEB are expenditures in the governmental funds when paid, but reduce long-term liabilities in the statement of net position and affect the statement of activities as accrued, as follows:		
Early retirement		279,403
Pension expense		(907,047)
OPEB expense		(42,191)
		(669,835)
Change in net position of governmental activities per Exhibit B	\$	(442,092)

HOWARD-WINNESHIK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2018

	School Nutrition Fund	Internal Service Fund
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 397,276	\$ 877
Accounts receivable	4,644	
Due from other governments	34,312	
Prepaid expenses	300	
Due from other funds	30	
Inventories	28,139	
<b>Total current assets</b>	<b>464,701</b>	<b>877</b>
<b>NONCURRENT ASSETS</b>		
Furniture and equipment	352,234	
Less accumulated depreciation	(270,673)	
<b>Total noncurrent assets</b>	<b>81,561</b>	<b>-</b>
<b>Total assets</b>	<b>546,262</b>	<b>877</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	52,461	
OPEB related deferred outflows	2,483	
<b>Total deferred outflows of resources</b>	<b>54,944</b>	<b>-</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 601,206</b>	<b>\$ 877</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 6,075	
Salaries and benefits payable	52,214	
Unearned revenues	12,867	
<b>Total current liabilities</b>	<b>71,156</b>	<b>\$ -</b>
<b>NONCURRENT LIABILITIES</b>		
Net pension liability	207,349	
Total OPEB liability	27,171	
<b>Total noncurrent liabilities</b>	<b>234,520</b>	<b>-</b>
<b>Total liabilities</b>	<b>305,676</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related deferred inflows	9,295	
<b>NET POSITION</b>		
Net investment in capital assets	81,561	
Unrestricted	204,674	877
<b>Total net position</b>	<b>286,235</b>	<b>877</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 601,206</b>	<b>\$ 877</b>

See Notes to Financial Statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2018

	School Nutrition Fund	Internal Service Fund
<b>OPERATING REVENUES</b>		
Local sources:		
Charges for services	\$ 320,206	\$ 15,350
<b>OPERATING EXPENSES</b>		
Non-instructional programs:		
Food service operations:		
Salaries and benefits	343,813	
Miscellaneous expenses	4,368	
Purchased services	3,507	
Supplies	421,762	
Depreciation	12,725	
Other		15,301
Total operating expenses	786,175	15,301
Operating (loss) income	(465,969)	49
<b>NONOPERATING REVENUES</b>		
Interest income	4,292	32
State sources	5,044	
Federal sources	424,766	
Total nonoperating revenues	434,102	32
Change in net position	(31,867)	81
Net position, beginning of year, as restated	318,102	796
Net position, end of year	\$ 286,235	\$ 877

See Notes to Financial Statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2018

	School Nutrition Fund	Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from sale of lunches and breakfasts	\$ 258,124	
Cash received from miscellaneous operating activities	69,504	
Cash payments to employees for services	(255,060)	
Cash payments to suppliers for goods and services	(373,558)	\$ (15,301)
Cash payments paid on employees' behalf	(82,665)	
Other payments	(3,507)	15,350
	<u>(387,162)</u>	<u>49</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State and federal grants received	386,957	
	<u>386,957</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	4,292	32
	<u>4,087</u>	<u>81</u>
CASH, beginning of year	393,189	796
CASH, end of year	<u>\$ 397,276</u>	<u>\$ 877</u>
<b>Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:</b>		
Operating (loss) income	\$ (465,969)	\$ 49
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Depreciation	12,725	
Commodities used	45,055	
Increase in accounts receivable	(1,493)	
Increase in prepaid expenses	(300)	
Increase in due from other funds	(30)	
Decrease in inventories	5,903	
Increase in accounts payable	2,535	
Decrease in salaries and benefits payable	(6,364)	
Increase in unearned revenues	8,945	
Decrease in due to other funds	(621)	
Increase in net pension liability	10,230	
Increase in OPEB liability	10,280	
Increase in deferred outflows of resources	(8,669)	
Increase in deferred inflows of resources	611	
	<u>(387,162)</u>	<u>49</u>

Non-cash, noncapital financing activities:

During the year ended June 30, 2018, the District received commodities valued at \$45,055.



HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
June 30, 2018

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	<u>Agency Fund</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 9,399
<b>Total assets</b>	<u>\$ 9,399</u>
<b>LIABILITIES</b>	
<b>LIABILITIES</b>	
Due to other governments	\$ 9,399
<b>Total liabilities</b>	<u>\$ 9,399</u>

# HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### 1. Nature of Operations and Significant Accounting Policies

#### a. Nature of Operations

The Howard-Winneshiek Community School District (the District) is a political subdivision of the State of Iowa. The District's primary purpose is to provide education from grades kindergarten through twelve, including special education and pre-kindergarten. The geographic area served includes the Cities of Cresco, Ridgeway, Lime Springs and Elma, Iowa and the predominate agricultural territory in Howard and Winneshiek Counties. It is supported financially by local property taxes, state aid and state and federal grants for special projects. The District is governed by a five-member Board of Education whose members are elected on a non-partisan basis. The District has taxing authority and fundraising capabilities of its own. Final approval of the District's annual program and budget plans rests with the local Board of Education.

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

#### b. Significant Accounting Policies

##### *Scope of Reporting Entity*

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

##### *Joint Venture*

The District participates in a jointly governed organization that provides services to the District and meets the criteria of a joint venture since there is ongoing financial interest or responsibility by the participating governments. The District is a member of the Northeast Iowa Conference Schools 28E Retention Pool Trust.

##### *Jointly Governed Organizations*

The District participates in jointly governed organizations that provide 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 Winneshiek County and Howard County Assessor's Conference Board.

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

The statement of net position and the statement of activities report information on all of the non-fiduciary 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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Government-wide Financial Statements (Continued)*

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. The general fund, the statewide sales, services and use tax-capital project fund, and the debt service fund are the major governmental funds for the District. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The major funds of the financial reporting entity are described below:

*Governmental*

*General Fund*

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.

*Capital Projects Funds*

The capital projects funds are utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds. The major fund in this category is the statewide sales, services and use tax.

*Debt Service Fund*

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

*Proprietary Funds*

*Enterprise Fund*

The District's proprietary fund is the school nutrition fund. This fund is used to account for the food service operations of the District.

*Internal Service Fund*

The flexible benefits fund is used to account for the District's flexible benefits plans.

*Fiduciary Fund*

*Agency Fund*

The District's fiduciary fund, which focuses on net position and changes in net position. The District's fiduciary fund includes the agency fund which is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The agency fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Measurement Focus and Basis of Accounting*

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

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

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

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

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 nonoperating 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 school nutrition fund are charges to customers for sales and services. Operating expenses for the enterprise fund 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 nonoperating 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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position*

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

*Cash and Pooled Investments*

The District maintains one primary demand deposit account for each fund through which the cash resources are processed. All investment activity is carried on by the District in each individual fund. 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.

*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 to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is reported as a deferred inflow of resources in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2016 assessed property valuations; is for the tax accrual period July 1, 2017 through June 30, 2018 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2017.

*Interfund Transactions*

During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2018, balances of interfund amounts receivable or payable have been recorded in the fund financial statements. Most of the interfund transactions have been eliminated on the government-wide statements.

*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.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position (Continued)*

*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. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years:

Asset Class	Amount
Buildings	\$ 25,000
Improvements other than buildings	25,000
Intangibles	200,000
Furniture and equipment:	
School nutrition fund equipment	500
Other furniture and equipment	5,000

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

Asset Class	Estimated Useful Lives
Buildings	5-50 years
Improvements other than buildings	5-20 years
Intangibles	5-10 years
Furniture and equipment	3-20 years

*Deferred Outflows of Resources*

Deferred outflows of resources represent a consumption of net position 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 and OPEB expense, the unamortized portion of the net difference between projected and actual earnings on pension plan investments and contributions from the District after the measurement date but before the end of the District's reporting period.

*Salaries and Benefits Payable*

Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities. Also, wages for hourly employees earned in June and paid in July have been accrued as liabilities. The rate in effect at June 30, 2018 was used to calculate the salaries payable.

*Advances from Grantors*

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

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position (Continued)*

*Unearned Revenues*

Proprietary funds defer revenue recognition in connection with resources that have been received, but not earned. Unearned revenues consist primarily of hot lunch proceeds collected for the next school year.

*Compensated Absences*

District employees accumulate a limited amount of earned but unused vacation and sick leave. The District's policy is not to reimburse for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability as of June 30, 2018.

*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. Early retirement liability has been paid primarily by the nonmajor governmental management levy fund.

*Pensions*

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

*Total OPEB Liability*

For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and OPEB expense, information has been determined based on the District's actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The total OPEB liability attributable to the governmental activities will be paid primarily by the general fund and the enterprise fund-school nutrition fund.

*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 the succeeding year property tax receivable and the other receivables not collected within sixty days after year-end.

Deferred inflows of resources in the statement of net position consist of succeeding year property tax receivable that will not be recognized until the year for which it is levied, and unrecognized items not yet charged to pension expense.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position (Continued)*

*Fund Balance*

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

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

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

**Unassigned** - is the remaining fund balance, which is not included in other spendable classifications.

*Net Position*

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

Restricted net position consists of net position with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position. Restricted net position is used first when an expense is incurred for purposes for both restricted and unrestricted net positions.

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.

*Budgets and Budgetary Accounting*

The budgetary comparison and related disclosures are reported as required supplementary information.

*Management Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2018 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.



NOTES TO FINANCIAL STATEMENTS

2. Cash and Pooled Investments (Continued)

At June 30, 2018, the District had investments in the Iowa Schools Joint Investment Trust (ISJIT) diversified portfolio which are valued at an amortized cost of \$58 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.

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

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

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2018:

<b>Governmental:</b>	
<b>General fund:</b>	
Open enrollment	\$ 116,376
Title I	97,098
Non-public transportation	71,107
Title IIA	43,727
Income surtax	192,088
Other	42,581
	562,977
<b>Capital projects funds:</b>	
Statewide sales, services and use tax	94,255
	192,088
<b>Total due from other governments</b>	<b>\$ 849,320</b>
<b>Business-type activities:</b>	
School nutrition fund	\$ 34,312
	\$ 34,312

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

	Transfers In	Transfers Out
General fund	\$ 2,099	\$ 2,464
Debt service fund	2,083,902	None
Capital project fund:		
Statewide sales, services and use tax fund	5,000	2,083,902
Nonmajor governmental - capital project fund:		
Physical plant and equipment levy fund	2,464	7,099
	\$ 2,093,465	\$ 2,093,465

Transfers from the statewide sales, services and use tax fund to the debt service fund were to move resources to help pay bond expenses. Transfers from the physical plant and equipment levy fund to statewide sales, services and use tax fund were for an insurance reimbursement. Transfers from the physical plant and equipment levy fund to the general fund were for reimbursements of payroll. Transfers to and from the general fund to the physical plant and equipment levy fund were for a reimbursement for safety equipment.

NOTES TO FINANCIAL STATEMENTS

5. Capital Assets

Capital assets activity for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
<b>Governmental activities:</b>				
Land	\$ 801,320	\$ None	\$ 100	\$ 801,220
Construction in progress	15,316	None	15,316	None
Total capital assets not being depreciated	816,636	None	15,416	801,220
<b>Capital assets being depreciated:</b>				
Land improvements	1,456,244	118,585	24,259	1,550,570
Buildings	17,054,111	None	40,980	17,013,131
Furniture and equipment	5,058,137	315,051	439,436	4,933,752
Total capital assets being depreciated	23,568,492	433,636	504,675	23,497,453
<b>Less accumulated depreciation for:</b>				
Land improvements	824,565	90,194	24,259	890,500
Buildings	7,446,422	215,399	34,542	7,627,279
Furniture and equipment	2,374,709	543,810	435,224	2,483,295
Total accumulated depreciation	10,645,696	849,403	494,025	11,001,074
Total capital assets being depreciated, net	12,922,796	(415,767)	(10,650)	12,496,379
<b>Governmental activities:</b>				
Capital assets, net	\$ 13,739,432	\$ (415,767)	\$ (26,066)	\$ 13,297,599
<b>Business-type activities:</b>				
Furniture and equipment	\$ 352,234	\$ None	\$ None	\$ 352,234
Less accumulated depreciation	257,948	12,725	None	270,673
<b>Business-type activities:</b>				
Capital assets, net	\$ 94,286	\$ (12,725)	\$ None	\$ 81,561

Depreciation expense was charged to the governmental functions of the District as follows:

<b>Governmental activities:</b>	
<b>Instruction:</b>	
Regular	\$ 216,766
Other	22,997
<b>Support services:</b>	
Administration	35,135
Operation and maintenance plant services	39,491
Transportation services	207,797
Unallocated depreciation	327,217
Total depreciation expense-governmental activities	\$ 849,403
<b>Business-type activities:</b>	
Food services	\$ 12,725

NOTES TO FINANCIAL STATEMENTS

6. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
<b>Governmental activities:</b>					
<b>Bonds:</b>					
2009 Tax Revenue Bond	\$ 1,810,000	\$ None	\$ 1,810,000	\$ None	\$ None
2017 Tax Revenue Bond	None	1,420,000	113,381	1,306,619	226,520
	1,810,000	1,420,000	1,923,381	1,306,619	226,520
<b>Other liabilities:</b>					
Capital leases	886,605	None	204,147	682,458	163,729
Early retirement	691,677	None	279,403	412,274	206,137
Total other liabilities	1,578,282	None	483,550	1,094,732	369,866
<b>Governmental activities:</b>					
<b>Long-term liabilities</b>	<b>\$ 3,388,282</b>	<b>\$ 1,420,000</b>	<b>\$ 2,406,931</b>	<b>\$ 2,401,351</b>	<b>\$ 596,386</b>

a. Revenue Bonds

The District has pledged future statewide sales, services and use tax revenue to repay the bonds issued in December 2017. The bonds were issued for the purpose of refinancing the Series 2009 Bond which was issued for the purpose of financing school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District and are payable through 2023. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require 21% of the statewide sales, services and use tax revenue. The total principal and interest remaining to be paid on the bonds is \$1,306,619. For the current year, principal of \$113,381 and interest of \$13,119 was paid on the bonds and total statewide sales, services and use tax revenue was \$1,112,554.

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

- 1) \$300,000 of the proceeds from the issuance of revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- 2) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- 3) Moneys in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- 4) Any moneys remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all the revenue bond provisions during the year ended June 30, 2018. The required reserve account was established by the District and no transfers were made to the sinking account.

NOTES TO FINANCIAL STATEMENTS

6. **Long-term Debt Obligations (Continued)**

b. **Bond Indebtedness**

\$1,810,000 2009 School Infrastructure Local Option Sales and Services Tax Revenue Bonds, with principal due November 1, 2009 through June 1, 2025 plus interest semiannually with interest rate of the bonds varying from 4.00% to 4.30%. The local option sales and services tax revenue bonds were issued for the purpose of providing funds for the items listed within the revenue purpose statement. The bonds were called on June 1, 2018.

\$1,420,000 2017 School Infrastructure Local Option Sales and Services Tax Revenue Bonds, with principal due September 1, 2018 through December 1, 2023 plus interest semiannually with interest rate of the bonds of 2.17%. The local option sales and services tax revenue bonds were issued for the purpose of providing funds for the items listed within the revenue purpose statement. Bonds maturing after June 1, 2020 are callable upon terms of par plus accrued interest to date of call.

Interest costs incurred and charged to expenses was \$73,386 for the year ended June 30, 2018. A summary of the bond principal and interest maturities is as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Tax Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 226,520	\$ 26,480
2020	231,499	21,498
2021	236,701	16,298
2022	241,962	11,038
2023	247,338	5,659
2024	122,599	776
<b>Total</b>	<b>\$ 1,306,619</b>	<b>\$ 81,749</b>

At June 30, 2018, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 981,111,440
Debt limit - 5% of total assessed valuation	\$ 49,055,572
Debt applicable to debt limit:	
General obligation:	
Bonded debt outstanding	(1,306,619)
Capital leases	(682,458)
Legal debt margin	\$ 47,066,495

6. Long-term Debt Obligations (Continued)

c. Early Retirement

The District offered a voluntary early retirement plan to its certified employees only for the years ended June 30, 2015 and 2017. Eligible employees must have completed at least ten years of service to the District and had to be at least age 55 by June 30 in the year of retirement. The application for early retirement under both plans was subject to approval by the Board of Education.

*2015 Early Retirement Plan*

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

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

*2017 Early Retirement Plan*

Early retirement benefits equal the employee's calendar year 2017 gross wages, less any lawful deductions. In addition, the retiring employee shall be entitled to payment for any accrued sick leave at the rate of \$90 per unused day for licensed employees or \$65 per unused day for nonlicensed employees.

The policy requires early retirement benefits be paid in three equal installments beginning in August 2017. The second and third payments will be paid in August 2018 and August 2019, respectively.

As of June 30, 2018, the District has obligations to nine participants with a total liability of \$412,274. Actual early retirement expenditures for the year ended June 30, 2018 totaled \$279,403.

d. Capital Leases

The District is obligated under a lease accounted for as a capital lease for computers. The leased assets are accounted for in the general fund. Capital assets under the capital lease totaled \$531,963 at June 30, 2018. The following is a schedule of future minimum lease payments under capital leases as of June 30, 2018:

Year Ending June 30,	Amount
2019	\$ 183,633
2020	183,633
2021	183,633
2022	183,634
	734,533
Less imputed interest	(52,075)
Present value of minimum lease payments	\$ 682,458

**7. Pension Plan***Plan Description*

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

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general 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.

NOTES TO FINANCIAL STATEMENTS

7. **Pension Plan (Continued)**

*Contributions (Continued)*

In fiscal year 2018, 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, 2018 totaled \$723,045.

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

At June 30, 2018, the District reported a liability of \$7,178,234 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, the District's proportion was 0.107761%, which was a decrease of 0.000202% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$931,663. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 65,903	\$ 62,193
Changes of assumptions	1,247,246	None
Net difference between projected and actual earnings on IPERS' investments	None	74,974
Changes in proportion and differences between District contributions and the District's proportionate share of contributions	51,927	294,122
District contributions subsequent to the measurement date	723,045	None
Total	\$ 2,088,121	\$ 431,289

\$723,045 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2019	\$ 118,223
2020	472,933
2021	243,992
2022	12,855
2023	85,784
Total	\$ 933,787

There were no non-employer contributing entities to IPERS.

NOTES TO FINANCIAL STATEMENTS

7. Pension Plan (Continued)

*Actuarial Assumptions*

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

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

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

Asset Class	Asset Allocation	Long-term Expected Real Rate of Return
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	<u>100.0%</u>	

*Discount Rate*

The discount rate used to measure the total pension liability was 7.00%. 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.



7. Pension Plan (Continued)

*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 7.00%, 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 (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
District's proportionate share of the net pension liability	\$ 11,826,850	\$ 7,178,234	\$ 3,272,504

*IPERS' Fiduciary Net Position*

Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

*Payables to IPERS*

At June 30, 2018, the District had no payables to report for the defined benefit pension plan for legally required District contributions and legally required employee contributions, which had been withheld from employee wages but not yet remitted to IPERS.

8. Other Postemployment Benefits (OPEB)

*Plan Description*

The District administers a single-employer benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

*OPEB Benefits*

Individuals who are employed by the District and are eligible to participate in the group medical and dental plans are eligible to continue healthcare benefits upon retirement after attaining at least age 55. Coverage during retirement continues in the group medical and dental plans up to age 65. The group medical benefits are provided through a fully insured plan with partial self-funding to a lower deductible. Retirees covered by the plan make contributions toward the plan premiums.

Retired participants must be age 55 or older at retirement. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	11
Active employees	140
Total	151

*Total OPEB Liability*

The District's total OPEB liability of \$1,006,311 was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017.

NOTES TO FINANCIAL STATEMENTS

8. Other Postemployment Benefits (OPEB) (Continued)

*Actuarial Assumptions*

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2018)	3.00% per annum.
Rates of salary increase (effective June 30, 2018)	3.25% per annum, based on general wage growth assumption of IPERS actuarial valuation.
Discount rate (effective June 30, 2018)	3.58% compounded annually, including inflation.
Healthcare cost trend rate (effective June 30, 2018)	8.00% initial rate decreasing by .25% annually to an ultimate rate of 5.00%.

*Discount Rate*

The discount rate used to measure the total OPEB liability was 3.58% which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

Mortality rates are from the RP 2014 annuitant distinct mortality table adjusted to 2006 with MP 2017 generational projection of future mortality improvement.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study with dates corresponding to those listed above.

*Changes in the Total OPEB Liability*

	<u>Total OPEB Liability</u>
Total OPEB liability beginning of year, as restated	\$ 871,000
Changes for the year:	
Service cost	47,809
Interest	35,633
Differences between expected and actual experiences	35,433
Changes in assumptions	65,804
Benefit payments	<u>(49,368)</u>
Net changes	<u>135,311</u>
Total OPEB liability end of year	<u>\$ 1,006,311</u>

Changes of assumptions reflect a change in the discount rate from 2.50% in fiscal year 2017 to 3.58% in fiscal year 2018.

NOTES TO FINANCIAL STATEMENTS

8. **Other Postemployment Benefits (OPEB) (Continued)**

*Sensitivity of the District's Total OPEB Liability to Changes in the Discount Rate*

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.58%) or 1% higher (4.58%) than the current discount rate.

	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
Total OPEB liability	\$ 1,081,689	\$ 1,006,311	\$ 936,271

*Sensitivity of the District's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the total OPEB liability of the District as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (7.00%) or 1% higher (9.00%) than the current healthcare cost trend rates.

	1% Decrease (7.00%)	Healthcare Cost Trend Rate (8.00%)	1% Increase (9.00%)
Total OPEB liability	\$ 916,977	\$ 1,006,311	\$ 1,109,903

*OPEB Expense and Deferred Outflows of Resources Related to OPEB*

For the year ended June 30, 2018, the District recognized OPEB expense of \$92,730. At June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following resources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 32,182
Changes in assumptions	59,767
Total	\$ 91,949

The amount reported as deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$ 9,288
2020	9,288
2021	9,288
2022	9,288
2023	9,288
Thereafter	45,509
	\$ 91,949

9. Employee Insurance Plan

Monthly payments of service fees and plan contributions are recorded as expenditures in the general fund at the time of payment to the Northeast Iowa Schools Insurance Trust (trust) maintained by Midwest Group Benefits Consultants, Inc. The trust's Board of Directors decided to terminate the self-funded health plans, effective July 1, 2009 and change to partially self-funded plans using fully insured health plans through Wellmark Blue Cross/Blue Shield. There were three new plans offered to the schools. The trust assumes liability for claims on its three plans as follows:

- Plan 1-between \$500 and \$6,000 for single coverage and \$1,000 and \$12,000 for family coverage,
- Plan 2-between \$1,000 and \$6,850 for single coverage and \$2,000 and \$13,700 for family coverage,
- Plan 3-between \$2,000 and \$6,000 for single coverage and \$4,000 and \$12,000 for family coverage.

All plans include coinsurance and plan 2 includes copayments. Claims in excess of the deductible are insured through the purchase of insurance. The District may be contingently liable for any claims in excess of funds available at June 30, 2018, since the pool arrangement allows the trust to make additional assessments to members. The District's share of the trust's liability for any unreported claim or assessment at June 30, 2018 was unavailable as of January 18, 2019. The District's contributions to the trust for the years ended June 30, 2018, 2017, and 2016 were \$1,808,318, \$1,684,860, and \$1,675,189, respectively, which equaled the required contributions each year.

The District has dental coverage insurance under this 28E organization for employee dental coverage. The District contributes to the self-insurance. Professional services through the plan for the participants are limited to a combined maximum payment of \$1,000 per member per calendar year. The employees paid \$22,136 in dental insurance for the year ended June 30, 2018.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2018, no liability has been recorded in the District's financial statements. As of June 30, 2018, settled claims have not exceeded the risk pool or reinsurance company coverage.

10. Risk Management

Howard-Winneshiek Community School District is exposed to various risks of loss related to torts; theft of; 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.

11. Leases

The District has entered into various rental agreements with the following under the terms as described below.

- Northeast Iowa Community College rents space in the Cresco Center Building with semiannual payments of \$15,000. This agreement expires June 2020.
- The District rents a copier from Marco, Inc. with monthly payments of \$3,026. The agreement expires October 2019.

Future minimum lease payments required under the operating lease is as follows:

Year Ending June 30, 2019	\$ 36,312
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Total lease expense for the year ended June 30, 2018 was \$36,312.

NOTES TO FINANCIAL STATEMENTS

12. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$565,058 for the year ended June 30, 2018 and is recorded in the general fund by making a memorandum adjusting entry to the cash basis financial statements.

13. Commitments

The total outstanding construction and other commitments of the District at June 30, 2018 amounted to \$425,104.

14. Contingencies

a. 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, 2018, 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.

b. Insurance Plan

As discussed in Note 9, the District is contingently liable for any unreported claim or assessment in excess of their balance in the insurance pool.

15. Categorical Funding

In accordance with Iowa Administrative Code Section 98.1, categorical funding is financial support from the state and federal governments targeted for particular categories of students, special programs, or special purposes. This support is in addition to school district or area education agency general purpose revenue, for purposes beyond the basic educational program and most often has restrictions on its use. Any portion of categorical funding provided by the state that is not expended by the end of the fiscal year must be carried forward as a restricted fund balance.

The following is a schedule of the categorical funding restricted in the general fund at June 30, 2018.

Program	Amount
Talented and Gifted Program	\$ 26,903
Teacher Leadership	80,535
Iowa Early Intervention	246,895
Early Literacy Reading	73,888
Textbook Aid for Nonpublic Schools	3,617
School Ready Children	248
Teacher Quality	171,522
Market Factor	5,328
STEM	47
Microsoft	32,213
Professional Development	31,327
	\$ 672,523

16. Net Position Deficit

The unrestricted fund has a deficit net position as of June 30, 2018. The deficit was incurred due to the implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions- an Amendment of GASB No. 27*.

NOTES TO FINANCIAL STATEMENTS

17. Tax Abatements

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

*Tax Abatements of Other Entities*

Property tax revenues of the District were reduced by the following amounts for the year ended June 30, 2018 under agreements entered into by the following entities:

Entity	Tax Abatement Program	Amount of Tax Abated
Howard County	Urban renewal and economic development projects	\$ 61,162
City of Elma	Urban renewal and economic development projects	2,597

18. New Governmental Accounting Standards Board (GASB) Standards

The Governmental Accounting Standards Board (GASB) has issued one statement not yet implemented by the District. The statement which might impact the District is as follows:

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the fiscal year ended June 30, 2020. The Statement increases the usefulness of governments' financial statement by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

The District's management has not yet determined the effect this statement will have on the District's financial statements.

19. Accounting Change/Restatement

Net investment in capital assets was restated due to reclassifications of capital assets as of June 30, 2018 in the amount of \$709,284.

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported. Beginning net position for governmental activities and business-type activities was restated to retroactively report the change in valuation of the beginning total OPEB liability, as follows:

	Governmental Activities	Business-type Activities
Net position June 30, 2017, as previously reported	\$ 9,126,158	\$ 334,993
OPEB obligation measured under previous standards	818,374	None
Total OPEB liability at June 30, 2017	(847,483)	(16,891)
Reclassification of capital assets	709,284	None
Net position July 1, 2017, as restated	\$ 9,806,333	\$ 318,102

## NOTES TO FINANCIAL STATEMENTS

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20. Subsequent Events

The District received notification during the year ending June 30, 2019, Lime Springs Beef, LLC will be foreclosed. This \$20,000 investment is included in the financial statements as the entrepreneurial education fund as other investments, which has been deemed to be worthless.

Management has evaluated subsequent events through January 18, 2019, the date on which the financial statements were available to be issued.

**Required Supplementary Information**



HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE OF  
 REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
 For the Year Ended June 30, 2018

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
<b>REVENUES</b>			
Local sources	\$ 7,774,588	\$ 324,498	\$ 8,099,086
State sources	8,340,927	5,044	8,345,971
Federal sources	561,053	424,766	985,819
<b>Total revenues</b>	<b>16,676,568</b>	<b>754,308</b>	<b>17,430,876</b>
<b>EXPENDITURES/EXPENSES</b>			
Instruction	10,201,080		10,201,080
Support services	4,626,137		4,626,137
Non-instructional programs	6,162	786,175	792,337
Other expenditures	3,629,138		3,629,138
<b>Total expenditures/expenses</b>	<b>18,462,517</b>	<b>786,175</b>	<b>19,248,692</b>
<b>(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES/EXPENSES</b>	<b>(1,785,949)</b>	<b>(31,867)</b>	<b>(1,817,816)</b>
<b>OTHER FINANCING SOURCES (USES), NET</b>	<b>1,433,192</b>		<b>1,433,192</b>
<b>(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) OVER EXPENDITURES/EXPENSES AND OTHER FINANCING USES</b>	<b>(352,757)</b>	<b>(31,867)</b>	<b>(384,624)</b>
<b>FUND BALANCE, beginning of year</b>	<b>5,083,525</b>	<b>318,102</b>	<b>5,401,627</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 4,730,768</b>	<b>\$ 286,235</b>	<b>\$ 5,017,003</b>

See Notes to Required Budgetary Information and Independent Auditor's Report.

Budgeted Amounts		Final to Actual Variance- Positive (Negative)
Original	Final	
\$ 7,984,578	\$ 7,984,578	\$ 114,508
8,567,969	8,567,969	(221,998)
1,008,617	1,008,617	(22,798)
17,561,164	17,561,164	(130,288)
10,540,132	16,540,000	6,338,920
4,780,512	5,500,000	873,863
830,646	900,000	107,663
1,684,789	4,000,000	370,862
17,836,079	26,940,000	7,691,308
(274,915)	(9,378,836)	7,561,020
(1,860)	(1,860)	1,435,052
(276,775)	(9,380,696)	8,996,072
5,095,283	5,095,283	306,344
\$ 4,818,508	\$ (4,285,413)	\$ 9,302,416

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
Year Ended June 30, 2018

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

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

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

During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$9,103,921.

See Independent Auditor's Report.

**HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**For the Last Four Years\***  
**(In Thousands)**

	2018	2017	2016	2015
District's proportion of the net pension liability	0.107761%	0.107559%	0.117669%	0.117805%
District's proportionate share of the net pension liability	\$ 7,178	\$ 6,769	\$ 5,813	\$ 4,768
District's covered payroll	\$ 8,045	\$ 7,695	\$ 8,148	\$ 7,862
District's proportionate share of the net pension liability as a percentage of its covered payroll	89.22%	87.97%	71.34%	60.65%
IPERS' net position as a percentage of the total pension liability	82.21%	81.82%	85.19%	87.61%

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

See Notes to Required Pension Liability Information and Independent Auditor's Report.

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**HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS**  
**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**For the Last Ten Years**  
**(In Thousands)**

	2018	2017	2016	2015
Statutorily required contribution	\$ 723	\$ 718	\$ 687	\$ 728
Contributions in relation to the statutorily required contribution	(723)	(718)	(687)	(728)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 8,097	\$ 8,045	\$ 7,695	\$ 8,148
Contributions as a percentage of covered payroll	8.93%	8.92%	8.93%	8.93%

See Notes to Required Pension Liability Information and Independent Auditor's Report.

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<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 702	\$ 643	\$ 583	\$ 510	\$ 528	\$ 495
<u>(702)</u>	<u>(643)</u>	<u>(583)</u>	<u>(510)</u>	<u>(528)</u>	<u>(495)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 7,862	\$ 7,416	\$ 7,231	\$ 7,337	\$ 7,944	\$ 7,795
8.93%	8.67%	8.06%	6.95%	6.65%	6.35%

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY  
Year Ended June 30, 2018

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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.

Changes of Assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.5% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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 (unfunded actuarial liability) 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.

See Independent Auditor's Report.



HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY, RELATED RATIOS AND NOTES

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	2018
Service cost	\$ 47,809
Interest cost	35,633
Difference between expected and actual experiences	35,433
Changes in assumptions	65,804
Benefit payments	(49,368)
Net change in total OPEB liability	135,311
Total OPEB liability beginning of year, as restated	871,000
Total OPEB liability end of year	\$ 1,006,311
Covered-employee payroll	\$ 6,415,404
Total OPEB liability as a percentage of covered-employee payroll	15.69%

Notes to Schedule of Changes in the District's Total OPEB Liability and Related Ratios

*Changes in Benefit Terms:*

There were no significant changes in benefit terms.

*Changes in Assumptions:*

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

Year Ended June 30, 2018	3.58%
Year Ended June 30, 2017	2.50%

See Independent Auditor's Report.

**Other Supplementary Information**

HOWARD-WINNESHIK COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2018

	Special Revenue Funds	Capital Project Fund Physical Plant and Equipment Levy	Total Nonmajor Funds
<b>ASSETS</b>			
Cash and pooled investments	\$ 1,176,375	\$ 379,381	\$ 1,555,756
Receivables:			
Property tax:			
Delinquent	3,094	1,908	5,002
Succeeding year	336,322	360,646	696,968
Accounts	6,457	5,867	12,324
Due from other funds	2,464		2,464
Due from other governments		192,088	192,088
Prepaid expenses	720	4,000	4,720
Other investments	20,000		20,000
	<u>1,545,432</u>	<u>943,890</u>	<u>2,489,322</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 5,920	\$ 11,805	\$ 17,725
	<u>5,920</u>	<u>11,805</u>	<u>17,725</u>
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	336,322	360,646	696,968
Other		192,088	192,088
	<u>336,322</u>	<u>552,734</u>	<u>889,056</u>
Fund balances:			
Restricted for:			
Management levy	894,514		894,514
Student activities	288,676		288,676
Entrepreneurial education	20,000		20,000
Physical plant and equipment		379,351	379,351
	<u>1,203,190</u>	<u>379,351</u>	<u>1,582,541</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,545,432</u>	<u>\$ 943,890</u>	<u>\$ 2,489,322</u>

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2018

	Special Revenue Funds	Capital Project Fund Physical Plant and Equipment Levy	Total Nonmajor Funds
<b>REVENUES</b>			
Local sources:			
Property taxes	\$ 550,592	\$ 547,764	\$ 1,098,356
Other	305,965	12,944	318,909
State sources	206	4,470	4,676
	<u>856,763</u>	<u>565,178</u>	<u>1,421,941</u>
<b>EXPENDITURES</b>			
Current:			
Instruction:			
Regular instruction	352,395		352,395
Other instruction	276,640		276,640
Support services:			
Instructional staff services		199,603	199,603
Administration services	6,162		6,162
Operation and maintenance plant services	77,049	39,132	116,181
Transportation services	48,493	15,831	64,324
Non-instructional	6,162		6,162
Other:			
Facilities acquisition		205,872	205,872
	<u>766,901</u>	<u>460,438</u>	<u>1,227,339</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>89,862</u>	<u>104,740</u>	<u>194,602</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	2,464		2,464
Operating transfers out	(7,099)		(7,099)
Sale of capital assets		3,180	3,180
	<u>(4,635)</u>	<u>3,180</u>	<u>(1,455)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES</b>	<u>85,227</u>	<u>107,920</u>	<u>193,147</u>
<b>FUND BALANCE, beginning of year</b>	<u>1,117,963</u>	<u>271,431</u>	<u>1,389,394</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 1,203,190</u>	<u>\$ 379,351</u>	<u>\$ 1,582,541</u>

See Independent Auditor's Report.



HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 For the Year Ended June 30, 2018

	Management Levy	Student Activity	Entrepreneurial Education	Total Nonmajor Special Revenue Funds
<b>REVENUES</b>				
Local sources:				
Local property tax	\$ 550,592			\$ 550,592
Other	33,921	\$ 272,044		305,965
State sources	206			206
<b>Total revenues</b>	<b>584,719</b>	<b>272,044</b>	<b>\$ -</b>	<b>856,763</b>
<b>EXPENDITURES</b>				
Current:				
Instruction:				
Regular instruction	352,395			352,395
Other instruction		276,640		276,640
Support services:				
Administration services	6,162			6,162
Operation and maintenance plant services	77,049			77,049
Transportation services	48,493			48,493
Non-instructional	6,162			6,162
<b>Total expenditures</b>	<b>490,261</b>	<b>276,640</b>	<b>-</b>	<b>766,901</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>94,458</b>	<b>(4,596)</b>	<b>-</b>	<b>89,862</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in		2,464		2,464
Operating transfers out	(5,000)	(2,099)		(7,099)
<b>Total other financing (uses) sources</b>	<b>(5,000)</b>	<b>365</b>	<b>-</b>	<b>(4,635)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES</b>	<b>89,458</b>	<b>(4,231)</b>	<b>-</b>	<b>85,227</b>
<b>FUND BALANCE, beginning of year</b>	<b>805,056</b>	<b>292,907</b>	<b>20,000</b>	<b>1,117,963</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 894,514</b>	<b>\$ 288,676</b>	<b>\$ 20,000</b>	<b>\$ 1,203,190</b>

See Independent Auditor's Report.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
For the Year Ended June 30, 2018

	Balance June 30, 2017	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2018
High School Athletic General	\$ 750	\$ 374		\$ 1,124
High School Football	7,715	8,020	\$ 8,435	7,300
Girls High School Basketball	-	15,897	15,897	-
Boys High School Basketball	3,093	7,940	11,033	-
High School Wrestling	1,021	11,480	12,501	-
High School Baseball	-	8,648	8,648	-
High School Golf	(291)	4,820	4,529	-
High School Track	-	9,628	9,628	-
High School Softball	-	7,894	7,894	-
High School Volleyball	-	9,867	9,867	-
High School Cross Country	-	5,901	5,901	-
Weight/Training Room	-	6,047	6,047	-
HS Yearbook (inactive)	(27,594)			(27,594)
HS Yearbook	4,690	13,095	10,223	7,562
HS Honor Roll	1,413			1,413
Business Club	244			244
Alternative	43			43
HS Cheerleaders	2,571	2,896	5,467	-
HS Trapshooting	17			17
Class of 2019	843		843	-
Class of 2018	1,219		1,219	-
HS Concessions	2,469			2,469
Crest News	931			931
FFA	97,512	71,408	64,021	104,899
Horticulture	7,080		7,080	-
Picture Fund	1,874			1,874
Language Club	278			278
National Honor Society	-	1,237	852	385
Robe Fund	85			85
HS Student Council	7,217	6,424	5,499	8,142
SADD	101			101
HS Field Trips	-	80	80	-
Wellness Fair Luther	590			590
Junior Prom	-	2,946	1,498	1,448
Cresco Elementary	48,616	32,628	34,397	46,847
Cresco Elementary Honor Roll	620			620
JH Drama	7,989	1,002	2,116	6,875
JH Vocal	18,342	115	127	18,330
JH Instrumental	15,255	5,667	4,140	16,782
JH Yearbook	558	1,340	1,311	587
JH Magazine Sales	1,569	3,992	5,561	-
JH Student Council	12,855	2,364	1,190	14,029
JH Honor Roll	533			533
JH Cheerleaders	863			863
HS Drama	8,852	4,967	3,397	10,422
HS Speech	-	2,014	2,014	-
HS Vocal	33,237	15,677	13,841	35,073
HS Instrumental	9,188	6,831	6,073	9,946
HS Winter Drumline	169			169
HS General Activity	441			441
Co-Ed Athletics	19,949	74,868	78,969	15,848
	<u>\$ 292,907</u>	<u>\$ 346,067</u>	<u>\$ 350,298</u>	<u>\$ 288,676</u>

See Independent Auditor's Report.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 For the Year Ended June 30, 2018

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>ASSETS</b>				
Cash	\$ 8,980	\$ 28,147	\$ 27,728	\$ 9,399
<b>LIABILITIES</b>				
Accounts payable	\$ 8,980	\$ 28,147	\$ 27,728	\$ 9,399



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HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
 COMPARATIVE SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUNDS  
 For the Years Ended June 30,

	Modified Accrual Basis			
	2018	2017	2016	2015
<b>REVENUES</b>				
<b>Local sources:</b>				
Local tax	\$ 6,926,631	\$ 6,677,252	\$ 6,472,589	\$ 6,695,350
Tuition	207,865	247,294	318,757	342,392
Other	640,092	646,004	562,824	647,737
State sources	8,340,927	8,309,890	8,262,836	8,552,223
Federal sources	561,053	443,448	506,527	593,435
<b>Total revenues</b>	<b>\$ 16,676,568</b>	<b>\$ 16,323,888</b>	<b>\$ 16,123,533</b>	<b>\$ 16,831,137</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular instruction	\$ 5,886,856	\$ 6,190,192	\$ 5,975,635	\$ 6,524,483
Special instruction	2,145,160	2,132,660	1,979,203	1,816,409
Other instruction	2,169,064	1,995,299	1,990,107	1,856,198
<b>Support services:</b>				
Student services	455,443	429,452	454,743	456,869
Instructional staff services	693,285	1,488,882	414,337	440,222
Administration services	1,423,328	1,296,560	1,328,790	1,562,157
Operation and maintenance plant services	1,166,410	1,172,093	1,173,308	1,472,265
Transportation services	887,671	1,084,715	1,136,095	1,287,282
Non-instructional	6,162	6,274	10,259	20,068
<b>Other:</b>				
Facilities acquisition	845,597	2,515,840	821,272	1,081,443
<b>Long-term debt:</b>				
Principal	2,086,095	190,000	428,436	243,088
Interest and fiscal charges	89,778	82,572	93,413	99,069
Bond issuance cost	42,610			
AEA flowthrough	565,058	551,687	564,600	565,287
<b>Total expenditures</b>	<b>\$ 18,462,517</b>	<b>\$ 19,136,226</b>	<b>\$ 16,370,198</b>	<b>\$ 17,424,840</b>

See Independent Auditor's Report.

## SCHEDULE 7

Modified Accrual Basis					
2014	2013	2012	2011	2010	2009
\$ 7,138,428	\$ 8,096,621	\$ 7,671,340	\$ 7,209,612	\$ 6,577,455	\$ 6,821,984
414,707	373,108	280,217	215,829	319,924	227,553
821,750	602,319	724,921	730,909	699,332	838,776
8,591,488	7,436,402	7,584,557	7,126,600	6,289,365	7,522,536
583,782	1,362,133	897,573	948,442	1,423,069	562,688
<u>\$ 17,550,155</u>	<u>\$ 17,870,583</u>	<u>\$ 17,158,608</u>	<u>\$ 16,231,392</u>	<u>\$ 15,309,145</u>	<u>\$ 15,973,537</u>
\$ 6,260,318	\$ 6,193,132	\$ 5,751,496	\$ 5,521,930	\$ 5,663,075	\$ 5,667,894
1,750,538	1,961,159	1,821,307	1,748,611	1,793,307	1,794,833
1,788,504	2,167,596	2,013,024	1,932,675	1,982,077	1,983,763
390,141	397,838	346,167	308,468	381,992	445,080
528,603	370,300	652,069	498,324	747,430	565,222
1,502,743	1,412,033	1,295,175	1,304,088	1,339,120	1,370,113
1,748,137	1,382,162	1,094,810	1,189,005	1,229,526	1,333,747
1,165,476	1,095,210	1,091,216	994,951	1,225,877	1,083,458
19,246	25,252	24,253	25,141	32,461	25,615
731,901	1,238,707	631,166	158,279	906,176	1,001,601
657,855	420,000	600,000	645,000	995,000	996,364
123,304	125,108	151,307	194,239	185,572	167,855
561,136	544,490	545,142	594,473	578,150	534,196
<u>\$ 17,227,902</u>	<u>\$ 17,332,987</u>	<u>\$ 16,017,132</u>	<u>\$ 15,115,184</u>	<u>\$ 17,059,763</u>	<u>\$ 16,969,741</u>

## HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2018

---

**Part I: Summary of the Independent Auditor's Results:**

- (a) The auditor's report expresses unmodified opinions on whether the financial statements of Howard-Winneshiek Community School District were prepared in accordance with U.S. generally accepted accounting principles.
- (b) One significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements. No material weaknesses noted.
- (c) No instances of noncompliance material to the financial statements of Howard-Winneshiek Community School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (d) One significant deficiency in internal control over the major programs was disclosed by the audit of the financial statements. No material weaknesses noted.
- (e) The auditor's report on compliance for the major federal award programs for Howard-Winneshiek Community School District expresses an unmodified opinion on all major federal programs.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with 2 CFR Section 200.516(a).
- (g) The programs tested as major programs were as follows:
  - Clustered programs:
    - Child Nutrition Cluster:
      - CFDA Number 10.553 - U.S. Department of Agriculture - School Breakfast Program
      - CFDA Number 10.555 - U.S. Department of Agriculture - National School Lunch Program
      - CFDA Number 10.559 - U.S. Department of Agriculture - Summer Food Service Program for Children
      - CFDA Number 10.574 - U.S. Department of Agriculture - Team Nutrition Grants
- (h) The threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) Howard-Winneshiek Community School District did not qualify as a low-risk auditee.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018

---

Part II: Findings Related to the Financial Statements:

Instances of noncompliance: no matters were noted.

Internal control deficiencies:

Finding 2018-001      Overlapping Duties

**Condition:**            The District's offices are not large enough to permit an adequate segregation of duties for effective internal controls. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

**Criteria:**            Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the District's financial statements.

**Cause:**            The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records.

**Effect:**            This deficiency results in a reasonable possibility that the District would not be able to detect misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Recommendation:**    The District should review the operating procedures of the District offices to obtain the maximum internal control possible under the circumstances utilizing currently available staff. While we do recognize that the District is not large enough to permit a segregation of duties for effective internal controls, we believe it is important the Board be aware that this condition does exist.

**Views of Responsible  
Officials and Planned**

**Corrective Actions:**    Management is cognizant of this limitation and will implement additional procedures where possible.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018

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**Part III: Findings and Questioned Costs for Federal Awards:**

Instances of noncompliance: no matters were noted.

**Internal control deficiencies:**

**Clustered programs:**

**Child Nutrition Cluster:**

- CFDA Number 10.553 - U.S. Department of Agriculture - School Breakfast Program
- CFDA Number 10.555 - U.S. Department of Agriculture - National School Lunch Program
- CFDA Number 10.559 - U.S. Department of Agriculture - Summer Food Service Program for Children
- CFDA Number 10.574 - U.S. Department of Agriculture - Team Nutrition Grants

**Federal Award Year: 2018**

See 2018-001 above.

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

See management letter dated January 18, 2019

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2018

Grantor/Program Title	Federal CFDA Number	Grant Number	Program Expenditures
<b>Indirect</b>			
U.S. Department of Agriculture:			
Passed through Iowa Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	FY18	\$ 48,949
National School Lunch Program	10.555	FY18	307,292
Summer Food Service Program for Children	10.559	FY18	71,731
Team Nutrition Grants	10.574	FY18	<u>3,257</u>
Total U.S. Department of Agriculture			<u>431,229</u>
U.S. Department of Education:			
Passed through Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY18	202,039
Career and Technical Education - Basic Grants to States	84.048	FY18	13,853
Supporting Effective Instruction State Grant	84.367	FY18	43,727
Rural Education Achievement Program	84.298	FY18	<u>62,150</u>
Total U.S. Department of Education			<u>321,769</u>
U.S. Department of Health and Human Services			
Passed through Iowa Department of Education:			
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	FY18	<u>233</u>
Total Federal Financial Assistance			<u>\$ 753,231</u>

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2018

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**Basis of Presentation:**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Howard-Winneshiek Community School District under programs of the Federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Howard-Winneshiek Community School District, it is not intended to and does not present the financial position, changes in net position or cash flows of Howard-Winneshiek Community School District.

**Summary of Significant Accounting Policies:**

- 1) Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
  
- 2) Pass-through entity identifying numbers are presented where available.

**Indirect Cost Rate:**

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

**Subrecipients:**

There were no awards passed through to subrecipients.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the 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 Howard-Winneshiek Community School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Howard-Winneshiek Community School District's basic financial statements and have issued our report thereon dated January 18, 2019.

**Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

### Compliance and Other Matters

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

### Howard-Winneshiek Community School District's Response to Finding

Howard-Winneshiek Community School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Howard-Winneshiek Community School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

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

*Hacher, Nelson & Co., P.C.*

Decorah, Iowa  
January 18, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited Howard-Winneshiek Community School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Howard-Winneshiek Community School District's major federal programs for the year ended June 30, 2018. Howard-Winneshiek Community School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Howard-Winneshiek Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Howard-Winneshiek Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Howard-Winneshiek Community School District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Howard-Winneshiek Community School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## Report on Internal Control over Compliance

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

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

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

*Hacher, Nelson & Co., P.C.*

Decorah, Iowa  
January 18, 2019

## MANAGEMENT LETTER

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

In planning and performing our audit of the basic financial statements of Howard-Winneshiek Community School District for the year ended June 30, 2018, we considered the District's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control or state statutory compliance matters, accordingly, we provide no such assurance.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the District's compliance with certain sections of the Iowa Code, Attorney General's opinions and other matters. Items 1 through 12 below are compliance comments required by the Iowa Auditor of State. A separate report dated January 18, 2019, contains our report on the District's internal control over financial reporting. This letter does not affect our report dated January 18, 2019, on the basic financial statements of the Howard-Winneshiek Community School District. Comment number 4 is a repeat comment from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the District's responses and, accordingly, we express no opinion on them.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

1. Certified Budget  
Expenditures for the year ended June 30, 2018 did not exceed the amounts budgeted.
2. Questionable Expenditures  
We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense  
No expenditures of District money for travel expenses of spouses of District officials and/or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions  
The District had business transactions between the District and the following District employees:
  - \* The transaction with Stephanie Scholbrock consisted of total payments to Scholbrock Masonry of \$2,958. Stephanie Scholbrock is the owner of Scholbrock Masonry.
  - \* The transaction with Tanya Riehle consisted of total payments to Blue House Studio of \$1,525. Tanya Riehle is the owner of Blue House Studio.

4. Business Transactions (Continued)

The District had business transactions between the District and the following District employees (continued):

- \* The transaction with Tammy Courtney consisted of total payments to Cresco Fire Safety Equipment of \$2,171. Tammy Courtney is part owner of Cresco Fire Safety Equipment.
- \* The transaction with Paula Greenfield consisted of total payments to Enchanted Santa and Mrs. Claus of \$150. Paula Greenfield is the owner of Enchanted Santa and Mrs. Claus.
- \* The transaction with Kim Kerian consisted of total payments to Culligan Water Conditioning of \$3,242.88. Kim Kerian's husband owns Culligan Water Conditioning.
- \* The transaction with Ryan McCarville and Kelly McCarville consisted of total payments to Camp-Site RV of \$7,659.43. Ryan and Kelly's father is a 50% owner.
- \* The transaction with Denise Sheehy consisted of total payments to H&S Motors of \$2,683. Denise Sheehy's husband owns H&S Motors.

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

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

We noted no transactions requiring Board approval which had not been approved by the Board. We also noted no minutes and bills that had not been published as required.

7. Certified Enrollment

No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

8. Supplementary Weighting

No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

9. Deposits and Investments

There was one CD in the activity fund that matured in March 2018 and was not renewed until April 2018.

Recommendation

We recommend the District monitor to make sure CD's maturing in the future are reinvested right away.

Response and Corrective Action Planned

We will further investigate this instance of noncompliance.

Conclusion

Response accepted.

10. Certified Annual Report

The Certified Annual Report (CAR) was certified timely to the Iowa Department of Education.

11. Categorical Funding

No instances were noted of categorical funding being used to supplant rather than supplement other funds.

12. Statewide Sales, Services and Use Tax

No instances of noncompliance with the allowable uses of the statewide sales, services and use tax revenue provided in Chapter 423F.3 of the Code of Iowa were noted.

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

For the year ended June 30, 2018, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	1,188,183	
Statewide sales, services and use tax	\$	1,112,554		
Bond issuance		1,420,000		
Other		39,363		
Transfers from other funds		<u>5,000</u>		2,576,917
Expenditures/transfers out:				
School infrastructure:				
Equipment and architect		657,367		
Transfers to other funds		<u>2,083,902</u>		<u>2,741,269</u>
Ending balance			\$	<u>1,023,831</u>

For the year ended June 30, 2018, the District reduced the following levies as a result of the moneys received under Chapters 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	\$ 3.89	\$ <u>1,112,554</u>

13. Student Activity Fund

For the items tested, no instances of noncompliance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), for moneys in the student activity fund which should be used to support only the extracurricular and co-curricular activities offered as part of the District's educational program were noted.

However, as of June 30, 2018, one individual student activity account had a negative account balance.

Recommendation

The District should continue to investigate alternatives to eliminate this deficit in order to return this account to a sound financial condition. The District should reallocate funds to help fund the activity.

Response and Corrective Action Planned

The Board will actively review the deficit amount and try to bring the account to a positive balance.

Conclusion

Response accepted.

14. Account Balances

During our review of the nutrition fund it was noted several lunch accounts were over the \$30 negative balance.

Recommendation

Personnel should be reminded not to charge lunch accounts over the (\$30) threshold.

Response and Corrective Action Planned

Management will remind personnel they cannot charge over the threshold.

Conclusion

Response accepted.

15. Disbursements

During our audit, out of ninety-five invoices tested, we noted the following:

- One general fund disbursement and two activity fund disbursements paid sales tax.
- Five general fund checks were issued prior to acquiring an approved purchase order.
- One student activity fund disbursement had only one approval on the purchase order.
- Three invoices in the student activity fund used estimated mileage for reimbursement.

Recommendation

The District should remind staff of the policy of receiving an approved purchase order prior to any purchase. The District should also remind personnel of the Board's disbursement policies.

Response and Corrective Action Planned

Management is aware of the issue and committed to reinforce existing policy.

Conclusion

Response accepted.

16. Payroll

During our review of payroll deductions, it was noted employee payroll deduction authorizations were not being kept in the employee payroll file.

Recommendation

All employee payroll deduction authorizations should be kept in the employee file.

Response and Corrective Action Planned

They will begin to include this information in employee payroll files.

Conclusion

Response accepted.

We have also provided you under separate cover a listing of general steps that you should review and consider implementing to strengthen controls. This list is not all inclusive. You should review all aspects of your operations and implement appropriate controls as deemed necessary. Some of these items may not be applicable or you may have already implemented them.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Howard-Winneshiek Community School District during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Hacher, Nelson & Co., P.C.*