



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 16, 2016

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Auditor of State Mary Mosiman today released an audit report on Clarke Community School District in Osceola, Iowa.

The District's revenues totaled \$18,400,246 for the year ended June 30, 2016, a less than 1% decrease from the prior year. The revenues included \$4,794,916 of local tax, \$1,360,034 of statewide sales, services and use tax, \$275,754 of income surtax, charges for service of \$956,736, operating grants, contributions and restricted interest of \$3,115,466, capital grants, contributions and restricted interest of \$15,300, unrestricted investment earnings of \$43,746, unrestricted state grants of \$7,797,744 and other general revenues of \$40,550.

Expenses for District operations for the year ended June 30, 2016 totaled \$17,238,992, a 9.4% increase over the prior year, and included \$6,251,272 for regular instruction, \$2,457,505 for special instruction and \$2,085,423 for other instruction.

A copy of the audit report is available for review in the District Secretary's office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1630-1211-B00F>.

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CLARKE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2016

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Clarke Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------------------------------------|------------------------------------------------------|---------------------|
| Board of Education | | |
| (Before September 2015 Election) | | |
| Gerard Linskens | President | 2017 |
| James Bair | Vice President | 2015 |
| Kelly Bailey | Board Member | 2015 |
| Lori Helgevold | Board Member | 2015 |
| Steve O'Tool | Board Member | 2015 |
| Joseph Deutsch | Board Member | 2017 |
| Dena White | Board Member | 2017 |
| (After September 2015 Election) | | |
| Gerard Linskens | President | 2017 |
| James Bair | Vice President | 2019 |
| Brian Crawford (Appointed) | Board Member | 2016 |
| Joseph Deutsch | Board Member | 2017 |
| Dena White | Board Member | 2017 |
| Lori Helgevold | Board Member | 2019 |
| Bert Houge | Board Member | 2019 |
| School Officials | | |
| Steve Seid | Superintendent | Indefinite |
| Ruth White | District Secretary/Treasurer and Business Manager | Indefinite |
| Danielle Hainfield, Ahlers & Cooney Law, P.C. | Attorney | Indefinite |



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Independent Auditor's Report

To the Board of Education of Clarke Community School District:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions, the Schedules of Funding Progress for the Retiree Health and the Supplemental Pension Plans and the Schedule of District Contributions for the Supplemental Pension Plan on pages 9 through 16 and 50 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clarke Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 29, 2016 on our consideration of Clarke 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Clarke Community School District's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

November 29, 2016

Clarke Community School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2016 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$14,914,701 in fiscal year 2015 to \$14,468,281 in fiscal year 2016 while General Fund expenditures increased from \$13,875,784 in fiscal year 2015 to \$14,530,548 in fiscal year 2016. The District's General Fund balance decreased from \$3,768,488 at the end of fiscal year 2015 to \$3,706,221 at the end of fiscal year 2016, a 1.7% decrease.
- The decrease in General Fund revenues was primarily attributable to an decrease in federal sources and local tax revenue. The increase in expenditures was due primarily to increases in spending for regular instruction, special instruction and other instruction which included a 3.51% increase in negotiated salaries.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Clarke Community School District's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining financial statements provide information about activities for which Clarke 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 Schedules of Funding Progress for the Retiree Health and the Supplemental Pension Plans and a Schedule of District Contributions for the Supplemental Pension Plan.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.
- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants as a fiscal agent.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The analysis which follows provides a summary of the District's net position at June 30, 2016 compared to June 30, 2015.

| | Condensed Statement of Net Position | | | | | | |
|----------------------------------|--------------------------------------------|---------|-----------------------------|------|-------------------|---------|-----------------|
| | (Expressed in Thousands) | | | | | | |
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2015-2016 |
| Current and other assets | \$ 13,439 | 13,376 | 344 | 255 | 13,783 | 13,631 | 152 |
| Capital assets | 13,384 | 12,634 | 64 | 78 | 13,448 | 12,712 | 736 |
| Total assets | 26,823 | 26,010 | 408 | 333 | 27,231 | 26,343 | 888 |
| Deferred outflows of resources | 1,033 | 1,006 | 24 | 24 | 1,057 | 1,030 | 27 |
| Long-term liabilities | 7,596 | 6,695 | 154 | 126 | 7,750 | 6,821 | 929 |
| Other liabilities | 1,788 | 1,925 | 62 | 62 | 1,850 | 1,987 | (137) |
| Total liabilities | 9,384 | 8,620 | 216 | 188 | 9,600 | 8,808 | 792 |
| Deferred inflows of resources | 5,134 | 6,140 | 12 | 43 | 5,146 | 6,183 | (1,037) |
| Net position: | | | | | | | |
| Net investment in capital assets | 12,474 | 11,294 | 64 | 78 | 12,538 | 11,372 | 1,166 |
| Restricted | 3,045 | 3,313 | - | - | 3,045 | 3,313 | (268) |
| Unrestricted | (2,181) | (2,351) | 140 | 48 | (2,041) | (2,303) | 262 |
| Total net position | \$ 13,338 | 12,256 | 204 | 126 | 13,542 | 12,382 | 1,160 |

The District's total net position increased 9.4%, or approximately \$1,160,000, over the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. This net position category increased 10.3%, or approximately \$1,166,000, over the prior year, primarily due to progress on the high school renovation project and the purchase of two buses.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased approximately \$268,000, or 8.1%, from the prior year. The decrease is primarily due to the District starting a major high school renovation project in the year ended June 30, 2016.

Unrestricted net position - the part of net position which can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$ 262,000, or 11.4%.

The analysis which follows shows the change in net position for the year ended June 30, 2016 compared to the year ended June 30, 2015.

| | Change in Net Position | | | | | | | |
|---------------------------------------------------------|---------------------------------|---------------|---------------|------------|---------------|---------------|--------------|--|
| | (Expressed in Thousands) | | | | | | | |
| | Governmental | | Business Type | | Total | | Total | |
| | Activities | | Activities | | District | | Change | |
| June 30 | | June 30 | | June 30 | | June 30 | | |
| 2016 | | 2015 | | 2016 | | 2015 | | |
| | | | | | | 2015-2016 | | |
| Revenues: | | | | | | | | |
| Program revenues: | | | | | | | | |
| Charges for service | \$ 710 | 653 | 247 | 240 | 957 | 893 | 64 | |
| Operating grants, contributions and restricted interest | 2,593 | 2,398 | 522 | 521 | 3,115 | 2,919 | 196 | |
| Capital grants, contributions and restricted interest | 15 | 13 | - | - | 15 | 13 | 2 | |
| General revenues: | | | | | | | | |
| Property tax | 4,795 | 4,885 | - | - | 4,795 | 4,885 | (90) | |
| Statewide sales, services and use tax | 1,360 | 1,366 | - | - | 1,360 | 1,366 | (6) | |
| Income surtax | 276 | 212 | - | - | 276 | 212 | 64 | |
| Unrestricted state grants | 7,798 | 7,901 | - | - | 7,798 | 7,901 | (103) | |
| Unrestricted investment earnings | 41 | 30 | 2 | - | 43 | 30 | 13 | |
| Other | 40 | 257 | - | - | 40 | 257 | (217) | |
| Total revenues | 17,628 | 17,715 | 771 | 761 | 18,399 | 18,476 | (77) | |
| Program expenses: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Instruction | 10,794 | 10,114 | - | - | 10,794 | 10,114 | 680 | |
| Support services | 4,697 | 3,868 | - | - | 4,697 | 3,868 | 829 | |
| Non-instructional programs | 12 | 20 | 693 | 699 | 705 | 719 | (14) | |
| Other expenses | 1,043 | 1,060 | - | - | 1,043 | 1,060 | (17) | |
| Total expenses | 16,546 | 15,062 | 693 | 699 | 17,239 | 15,761 | 1,478 | |
| Change in net position | 1,082 | 2,653 | 78 | 62 | 1,160 | 2,715 | (1,555) | |
| Net position beginning of year | 12,256 | 9,603 | 126 | 64 | 12,382 | 9,667 | 2,715 | |
| Net position end of year | \$ 13,338 | 12,256 | 204 | 126 | 13,542 | 12,382 | 1,160 | |

In fiscal year 2016, property tax and unrestricted state grants accounted for 71.4% of governmental activities revenues while charges for service and operating grants, contributions and restricted interest accounted for 100% of business type activities revenue. The District's total revenues were approximately \$18.4 million, of which approximately \$17.6 million was for governmental activities and approximately \$.8 million was for business type activities.

As shown in the analysis, the District as a whole experienced a .41% decrease in revenues and a 9.4% increase in expenses. The increase in expenses was primarily due to increase in instruction expenses and an increase in operation and maintenance of plant services.

Governmental Activities

Revenues for governmental activities were \$17,628,588 and expenses were \$16,546,225 for the year ended June 30, 2016.

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

| | Total and Net Cost of Governmental Activities | | | |
|----------------------------|------------------------------------------------------|---------------|-------------------------|---------------|
| | (Expressed in Thousands) | | | |
| | Total Cost of Services | | Net Cost of Services | |
| | 2016 | 2015 | 2016 | 2015 |
| Instruction | \$ 10,794 | \$ 10,114 | 8,163 | 7,738 |
| Support services | 4,697 | 3,868 | 4,635 | 3,804 |
| Non-instructional programs | 12 | 20 | 12 | 20 |
| Other expenses | 1,043 | 1,060 | 418 | 437 |
| Total | <u>\$ 16,546</u> | <u>15,062</u> | <u>13,228</u> | <u>11,999</u> |

- The cost financed by users of the District’s programs was \$710,041.
- Federal and state governments subsidized certain operating programs with grants and contributions totaling \$2,592,952.
- The net cost of governmental activities was financed with \$6,430,704 of property and other tax and \$7,797,744 of unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2016 were \$771,658, a 1.5% increase over the prior year, while expenses totaled \$692,767, a 1% decrease from the prior year. The District’s business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$6,749,967, a 1.5% decrease from last year’s ending fund balance of \$6,850,623.

Governmental Fund Highlights

- The General Fund balance decreased from \$3,768,488 at June 30, 2015 to \$3,706,221 at June 30, 2016, due primarily to decreases in local tax revenue and revenue from federal sources and increases in instruction expense.
- The Capital Projects Fund balance decreased from \$2,491,165 at June 30, 2015 to \$2,370,122 at June 30, 2016. Revenues decreased less than 1% from the prior year, while expenditures increased 85% over the prior year due to the District undertaking a large high school renovation project in the year ended June 30, 2016.
- The Debt Service Fund balance increased from \$14,249 on June 30, 2015 to \$29,652 on June 30, 2016.

Proprietary Fund Highlights

School Nutrition Fund net position increased from \$125,518 at June 30, 2015 to \$204,409 at June 30, 2016, representing an increase of 62.9%. Revenues increased 1.5% due to increased federal reimbursements and charges for service for the student meal program and expenses decreased .9%.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on a GAAP basis. No budget amendments were certified during fiscal year 2016.

The District's total revenues were \$1,011,425 less than budgeted revenues, a variance of 5.2%. The variance resulted from the District receiving less revenue from all sources than originally anticipated.

Total expenditures were \$5,932,738 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 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 District's certified budget was not exceeded in any program function.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had invested approximately \$13.45 million, net of accumulated depreciation, in a broad range of capital assets, including a recently constructed administration and alternative classroom building, recently remodeled school buildings not significantly depreciated, athletic facilities, computer and audio-visual equipment and vehicles. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Total depreciation expense for the year was \$673,384.

The original cost of the District's capital assets was approximately \$22.6 million. Governmental funds account for approximately \$22.2 million of the District's capital assets, with the remaining \$.4 million accounted for in the Proprietary, School Nutrition Fund.

| | Capital Assets, net of Depreciation | | | | | | | |
|-----------------------------------|--------------------------------------------|---------------|--------------------------|-----------|----------------|---------------|--------------|-------------|
| | (expressed in thousands) | | | | | | | |
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change | |
| | June 30, | | June 30, | | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | | |
| Land | \$ 78 | 78 | - | - | 78 | 78 | - | 0.0% |
| Construction in progress | 939 | 108 | - | - | 939 | 108 | 831 | 769.4% |
| Buildings | 10,778 | 10,821 | - | - | 10,778 | 10,821 | (43) | -0.4% |
| Improvements other than buildings | 666 | 657 | - | - | 666 | 657 | 9 | 1.4% |
| Furniture and equipment | 923 | 970 | 64 | 78 | 987 | 1,048 | (61) | -5.8% |
| Total | \$ 13,384 | 12,634 | 64 | 78 | 13,448 | 12,712 | 736 | 5.8% |

Long-Term Debt

At June 30, 2016, the District had \$910,000 of general obligation bonds outstanding. This represents a decrease of approximately 32.1% from last year. Additional information about the District's long-term liabilities is presented in Note 5 to the financial statements.

| | Outstanding Long-Term Liabilities | | | |
|---------------------------|------------------------------------------|--------------|---------------------|--|
| | (expressed in thousands) | | | |
| | Total District | | Total Change | |
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2015-2016 | |
| General obligation bonds | \$ 910 | 1,340 | -32.1% | |
| Lease purchase agreements | 119 | - | 100.0% | |
| Total | \$ 1,029 | 1,340 | -23.2% | |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Local option sales and services tax revenues have a significant impact on building improvements. These funds will also be used to decrease property tax for the physical plant and equipment levy as well as building improvements.
- District enrollment continued to increase slightly in fiscal year 2015-16. Under Iowa's school funding formula, District funding is highly dependant upon District enrollment. Projections indicate the District will continue to remain steady or decrease slightly in 2016-17.
- Grants are sought to help with educational improvements in the district.
- The one to one iPad initiative continues in the District; we are adding 1:1 Chromebooks for grades 7-12.
- Several building and grounds improvements are being done to keep facilities in good condition.
- Several new homes are being constructed in Osceola.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steve Seid, Superintendent, or Ruth White, Business Manager, Clarke Community School District, 802 N. Jackson Street, Osceola, Iowa 50213.

Basic Financial Statements

Exhibit A

Clarke Community School District

Statement of Net Position

June 30, 2016

| | Governmental Activities | Business Type Activities | Total |
|-------------------------------------------------|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Cash, cash equivalents and pooled investments | \$ 7,648,287 | 333,590 | 7,981,877 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 60,629 | - | 60,629 |
| Succeeding year | 4,633,000 | - | 4,633,000 |
| Accounts | 52,104 | 1,278 | 53,382 |
| Due from other governments | 956,786 | - | 956,786 |
| Inventories | - | 6,032 | 6,032 |
| Prepaid insurance | 88,860 | 3,216 | 92,076 |
| Capital assets, net of accumulated depreciation | - | - | - |
| | 13,383,833 | 63,981 | 13,447,814 |
| Total assets | 26,823,499 | 408,097 | 27,231,596 |
| Deferred Outflows of Resources | | | |
| Pension related deferred outflows | 1,033,232 | 24,029 | 1,057,261 |
| Liabilities | | | |
| Accounts payable | 94,303 | 325 | 94,628 |
| Salaries and benefits payable | 1,497,471 | 49,386 | 1,546,857 |
| Due to other governments | 186,955 | - | 186,955 |
| Accrued interest payable | 9,114 | - | 9,114 |
| Unearned student meals | - | 12,383 | 12,383 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| General obligation bonds | 450,000 | - | 450,000 |
| Lease purchase agreement | 58,700 | - | 58,700 |
| Compensated absences | 40,646 | - | 40,646 |
| Portion due after one year: | | | |
| General obligation bonds | 460,000 | - | 460,000 |
| Lease purchase agreement | 60,572 | - | 60,572 |
| Net OPEB liability | 287,659 | 14,241 | 301,900 |
| Net supplemental pension liability | 455,000 | - | 455,000 |
| Net IPERS pension liability | 5,783,440 | 139,303 | 5,922,743 |
| | 9,383,860 | 215,638 | 9,599,498 |
| Deferred Inflows of Resources | | | |
| Unavailable property tax revenue | 4,633,000 | - | 4,633,000 |
| Pension related deferred inflows | 501,477 | 12,079 | 513,556 |
| Total deferred inflows of resources | 5,134,477 | 12,079 | 5,146,556 |

Clarke Community School District

Statement of Net Position

June 30, 2016

| | Governmental Activities | Business Type Activities | Total |
|-----------------------------------|----------------------------|-----------------------------|-------------------|
| Total liabilities | | | |
| Net position | | | |
| Net investment in capital assets | 12,473,833 | 63,981 | 12,537,814 |
| Restricted for: | | | |
| Categorical funding | 328,944 | - | 328,944 |
| Debt service | 20,538 | - | 20,538 |
| Management levy purposes | 87,865 | - | 87,865 |
| Physical plant and equipment levy | 1,683,614 | - | 1,683,614 |
| School infrastructure | 823,540 | - | 823,540 |
| Student activities | 101,107 | - | 101,107 |
| Unrestricted | (2,181,047) | 140,428 | (2,040,619) |
| Total net position | \$ 13,338,394 | 204,409 | 13,542,803 |

See notes to financial statements.

Clarke Community School District

Statement of Activities

Year ended June 30, 2016

| | Expenses | Program Revenues | | |
|---------------------------------------------|---------------|---------------------|---------------------------------------------------------|-------------------------------------------------------|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 6,251,272 | 245,456 | 1,021,892 | - |
| Special instruction | 2,457,505 | 90,253 | 218,058 | - |
| Other instruction | 2,085,423 | 361,778 | 693,404 | - |
| Total instruction | 10,794,200 | 697,487 | 1,933,354 | - |
| Support services: | | | | |
| Student services | 362,976 | - | 49,623 | - |
| Instructional staff services | 577,887 | 123 | - | - |
| Administration services | 1,399,365 | 9,595 | - | - |
| Operation and maintenance of plant services | 1,614,365 | 2,836 | - | - |
| Transportation services | 742,802 | - | - | - |
| Total support services | 4,697,395 | 12,554 | 49,623 | - |
| Non-instructional programs | 11,446 | - | - | - |
| Other expenditures: | | | | |
| Facilities acquisition | - | - | - | 15,300 |
| Long-term debt interest | 49,334 | - | 1,244 | - |
| AEA flowthrough | 608,731 | - | 608,731 | - |
| Depreciation (unallocated)* | 385,119 | - | - | - |
| Total other expenditures | 1,043,184 | - | 609,975 | 15,300 |
| Total governmental activities | 16,546,225 | 710,041 | 2,592,952 | 15,300 |
| Business type activities: | | | | |
| Non-instructional programs: | | | | |
| Food service operations | 692,767 | 246,695 | 522,514 | - |
| Total | \$ 17,238,992 | 956,736 | 3,115,466 | 15,300 |
| General Revenues: | | | | |
| Property tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Capital outlay | | | | |
| Statewide sales, services and use tax | | | | |
| Income surtax | | | | |
| Unrestricted state grants | | | | |
| Unrestricted investment earnings | | | | |
| 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.

| Net (Expense) Revenue and Changes in Net Position | | |
|------------------------------------------------------|-----------------------------|--------------|
| Governmental Activities | Business Type Activities | Total |
| (4,983,924) | - | (4,983,924) |
| (2,149,194) | - | (2,149,194) |
| (1,030,241) | - | (1,030,241) |
| (8,163,359) | - | (8,163,359) |
| (313,353) | - | (313,353) |
| (577,764) | - | (577,764) |
| (1,389,770) | - | (1,389,770) |
| (1,611,529) | - | (1,611,529) |
| (742,802) | - | (742,802) |
| (4,635,218) | - | (4,635,218) |
| (11,446) | - | (11,446) |
| 15,300 | - | 15,300 |
| (48,090) | - | (48,090) |
| - | - | - |
| (385,119) | - | (385,119) |
| (417,909) | - | (417,909) |
| (13,227,932) | - | (13,227,932) |
| - | 76,442 | 76,442 |
| (13,227,932) | 76,442 | (13,151,490) |
| \$ 4,047,463 | - | 4,047,463 |
| 475,754 | - | 475,754 |
| 271,699 | - | 271,699 |
| 1,360,034 | - | 1,360,034 |
| 275,754 | - | 275,754 |
| 7,797,744 | - | 7,797,744 |
| 41,297 | 2,449 | 43,746 |
| 40,550 | - | 40,550 |
| 14,310,295 | 2,449 | 14,312,744 |
| 1,082,363 | 78,891 | 1,161,254 |
| 12,256,031 | 125,518 | 12,381,549 |
| \$ 13,338,394 | 204,409 | 13,542,803 |

Clarke Community School District

Balance Sheet
Governmental Funds

June 30, 2016

| | General | Capital Projects | Debt Service | Nonmajor | Total |
|-------------------------------------------------------------------------------|---------------------|---------------------|-----------------|----------------|-------------------|
| Assets | | | | | |
| Cash, cash equivalents and pooled investments | \$ 4,768,895 | 2,186,490 | 23,847 | 647,389 | 7,626,621 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 47,683 | 3,315 | 5,805 | 3,826 | 60,629 |
| Succeeding year | 3,251,000 | 268,000 | 817,000 | 297,000 | 4,633,000 |
| Accounts | 52,029 | - | - | 75 | 52,104 |
| Due from other governments | 477,420 | 479,366 | - | - | 956,786 |
| Prepaid insurance | 88,860 | - | - | - | 88,860 |
| Total assets | \$ 8,685,887 | 2,937,171 | 846,652 | 948,290 | 13,418,000 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 45,835 | 42,745 | - | 5,723 | 94,303 |
| Salaries and benefits payable | 1,495,876 | - | - | 1,595 | 1,497,471 |
| Due to other governments | 186,955 | - | - | - | 186,955 |
| Total liabilities | 1,728,666 | 42,745 | - | 7,318 | 1,778,729 |
| Deferred inflows of resources: | | | | | |
| Unavailable revenues: | | | | | |
| Succeeding year property tax | 3,251,000 | 268,000 | 817,000 | 297,000 | 4,633,000 |
| Other | - | 256,304 | - | - | 256,304 |
| Total deferred inflows of resources | 3,251,000 | 524,304 | 817,000 | 297,000 | 4,889,304 |
| Fund balances: | | | | | |
| Nonspendable: | | | | | |
| Prepaid insurance | 88,860 | - | - | - | 88,860 |
| Restricted for: | | | | | |
| Categorical funding | 328,944 | - | - | - | 328,944 |
| Management levy purposes | - | - | - | 542,865 | 542,865 |
| Student activities | - | - | - | 101,107 | 101,107 |
| Debt service | - | - | 29,652 | - | 29,652 |
| School infrastructure | - | 1,683,614 | - | - | 1,683,614 |
| Physical plant and equipment | - | 686,508 | - | - | 686,508 |
| Unassigned | 3,288,417 | - | - | - | 3,288,417 |
| Total fund balances | 3,706,221 | 2,370,122 | 29,652 | 643,972 | 6,749,967 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 8,685,887 | 2,937,171 | 846,652 | 948,290 | 13,418,000 |

See notes to financial statements.

Clarke Community School District

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

June 30, 2016

| | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------------------|
| Total fund balances of governmental funds (page 22) | \$ | 6,749,967 |
| 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. | | 13,383,833 |
| The Internal Service Fund is used by management to charge the costs of the District's flexible benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Position. | | 21,666 |
| 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. | | 256,304 |
| 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. | | (9,114) |
| Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows: | | |
| Deferred outflows of resources | \$ 1,033,232 | |
| Deferred inflows of resources | <u>(501,477)</u> | 531,755 |
| Long-term liabilities, including bonds payable, lease purchase payable, compensated absences payable, net OPEB liability, net supplemental pension liability and net IPERS pension liability are not due and payable in the current year and, therefore, are not reported in the governmental funds. | | <u>(7,596,017)</u> |
| Net position of governmental activities (page 19) | \$ | <u>13,338,394</u> |

See notes to financial statements.

Exhibit E

Clarke Community School District

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

Year ended June 30, 2016

| | General | Capital Projects | Debt Service | Nonmajor | Total |
|--------------------------------------------------------------|-------------------|---------------------|-----------------|----------------|-------------------|
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 3,748,975 | 543,261 | 475,754 | 298,488 | 5,066,478 |
| Tuition | 252,433 | - | - | - | 252,433 |
| Other | 135,632 | 19,618 | 1,244 | 420,353 | 576,847 |
| State sources | 9,808,640 | 1,369,561 | 16,680 | 10,993 | 11,205,874 |
| Federal sources | 522,601 | - | - | - | 522,601 |
| Total revenues | 14,468,281 | 1,932,440 | 493,678 | 729,834 | 17,624,233 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular instruction | 6,227,163 | 9,224 | - | 55,441 | 6,291,828 |
| Special instruction | 2,414,818 | - | - | 24,513 | 2,439,331 |
| Other instruction | 1,709,752 | - | - | 422,020 | 2,131,772 |
| Total instruction | 10,351,733 | 9,224 | - | 501,974 | 10,862,931 |
| Support services: | | | | | |
| Student services | 364,055 | - | - | 944 | 364,999 |
| Instructional staff services | 388,101 | 195,585 | - | 983 | 584,669 |
| Administration services | 1,285,928 | 105,509 | 400 | 21,473 | 1,413,310 |
| Operation and maintenance of plant services | 977,207 | 577,522 | - | 91,123 | 1,645,852 |
| Transportation services | 554,793 | 161,994 | - | 34,460 | 751,247 |
| Total support services | 3,570,084 | 1,040,610 | 400 | 148,983 | 4,760,077 |
| Non-instructional programs | - | - | - | 11,446 | 11,446 |
| Other expenditures: | | | | | |
| Facilities acquisition | - | 1,122,921 | - | - | 1,122,921 |
| Long-term debt: | | | | | |
| Principal | - | - | 492,505 | - | 492,505 |
| Interest and other charges | - | - | 48,055 | - | 48,055 |
| AEA flowthrough | 608,731 | - | - | - | 608,731 |
| Total other expenditures | 608,731 | 1,122,921 | 540,560 | - | 2,272,212 |
| Total expenditures | 14,530,548 | 2,172,755 | 540,960 | 662,403 | 17,906,666 |
| Excess (deficiency) of revenues over (under) expenditures | (62,267) | (240,315) | (47,282) | 67,431 | (282,433) |
| Other financing sources (uses): | | | | | |
| Proceeds from lease purchase | - | 181,777 | - | - | 181,777 |
| Transfers in | - | - | 62,505 | - | 62,505 |
| Transfers out | - | (62,505) | - | - | (62,505) |
| Total other financing sources | - | 119,272 | 62,505 | - | 181,777 |
| Change in fund balances | (62,267) | (121,043) | 15,223 | 67,431 | (100,656) |
| Fund balances beginning of year | 3,768,488 | 2,491,165 | 14,429 | 576,541 | 6,850,623 |
| Fund balances end of year | \$ 3,706,221 | 2,370,122 | 29,652 | 643,972 | 6,749,967 |

See notes to financial statements.

Clarke Community School District

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

Year ended June 30, 2016

Change in fund balances - total governmental funds (page 24) \$ (100,656)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. These costs are not reported in the Statement of Activities, but they are allocated over their estimated useful lives of the capital assets as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

| | | |
|---------------------------------|------------------|---------|
| Expenditures for capital assets | \$ 1,415,104 | |
| Depreciation expense | <u>(658,623)</u> | 756,481 |

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. (7,102)

Certain revenues not collected for several months after year end are not considered available revenue and are recognized as deferred inflows of resources in the governmental funds. 4,192

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

| | | |
|----------|----------------|---------|
| Issued | (181,777) | |
| Redeemed | <u>492,505</u> | 310,728 |

The current year District share of IPERS contributions is reported as expenditures in the governmental funds, but is reported as a deferred outflow of resources in the Statement of Net Position. 763,569

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

| | | |
|------------------------------------|----------------|-----------|
| Compensated absences | 3,793 | |
| Net OPEB liability | (31,685) | |
| Net supplemental pension liability | (128,900) | |
| Pension expense | (490,038) | |
| Interest on long-term debt | <u>(1,279)</u> | (648,109) |

The Internal Service Fund is used by management to charge the costs of partial self funding of the District's flexible benefit plan to individual funds. The change in net position of the Internal Service Fund is reported in governmental activities. 3260

Change in net position of governmental activities (page 21) \$ 1,082,363

See notes to financial statements.

Clarke Community School District

Statement of Net Position
Proprietary Funds

June 30, 2016

| | Business Type Activities | Governmental Activities |
|-------------------------------------------------|-------------------------------------|-------------------------------------------|
| | Enterprise - School Nutrition | Internal Service - Flex Spending |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 333,590 | 21,666 |
| Accounts receivable | 1,278 | - |
| Inventories | 6,032 | - |
| Prepaid insurance | 3,216 | - |
| Total current assets | 344,116 | 21,666 |
| Noncurrent assets: | | |
| Capital assets, net of accumulated depreciation | 63,981 | - |
| Total assets | 408,097 | 21,666 |
| Deferred Outflows of Resources | | |
| Pension related deferred outflows | 24,029 | - |
| Liabilities | | |
| Accounts payable | | |
| Current liabilities: | | |
| Accounts payable | 325 | - |
| Salaries and benefits payable | 49,386 | - |
| Unearned student meals | 12,383 | - |
| Total current liabilities | 62,094 | - |
| Noncurrent liabilities: | | |
| Net OPEB liability | 14,241 | - |
| Net IPERS pension liability | 139,303 | - |
| Total noncurrent liabilities | 153,544 | - |
| Total liabilities | 215,638 | - |
| Deferred inflows of resources | | |
| Pension related deferred inflows | 12,079 | - |
| Net Position | | |
| Net investment in capital assets | 63,981 | - |
| Unrestricted | 140,428 | 21,666 |
| Total net position | \$ 204,409 | 21,666 |

See notes to financial statements.

Clarke Community School District

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

Year ended June 30, 2016

| | Business Type Activities | Governmental Activities |
|--------------------------------|-------------------------------------|-------------------------------------------|
| | Enterprise - School Nutrition | Internal Service - Flex Spending |
| Operating revenues: | | |
| Local sources: | | |
| Charges for service | \$ 246,695 | - |
| Employee contributions | - | 26,860 |
| Total operating revenues | 246,695 | 26,860 |
| Operating expenses: | | |
| Non-instructional programs: | | |
| Food service operations: | | |
| Salaries | 199,211 | - |
| Benefits | 92,211 | - |
| Purchased services | 10,710 | - |
| Supplies | 375,874 | - |
| Depreciation | 14,761 | - |
| Other | - | 23,763 |
| Total operating expenses | 692,767 | 23,763 |
| Operating gain (loss) | (446,072) | 3,097 |
| Non-operating revenues: | | |
| State sources | 6,458 | - |
| Federal sources | 516,056 | - |
| Interest income | 2,449 | 163 |
| Net non-operating revenues | 524,963 | 163 |
| Change in net position | 78,891 | 3,260 |
| Net position beginning of year | 125,518 | 18,406 |
| Net position end of year | \$ 204,409 | 21,666 |

See notes to financial statements.

Exhibit I

Clarke Community School District

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2016

| | <u>Business Type</u> <u>Activities</u> | <u>Governmental</u> <u>Activities</u> |
|-----------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| | Enterprise - School Nutrition | Internal Service - Flex Spending |
| Cash flows from operating activities: | | |
| Cash received from sale of lunches and breakfasts | \$ 244,657 | - |
| Cash received from miscellaneous operating activities | - | 26,860 |
| Cash paid to suppliers for goods or services | (624,288) | (23,763) |
| Net cash provided (used) by operating activities | (379,631) | 3,097 |
| Cash flows from non-capital financing activities: | | |
| State grants received | 6,458 | - |
| Federal grants received | 461,237 | - |
| Net cash provided by non-capital financing activities | 467,695 | - |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (570) | - |
| Cash flows from investing activities: | | |
| Interest on investments | 2,449 | 163 |
| Change in cash and cash equivalents | 89,943 | 3,260 |
| Cash and cash equivalents beginning of year | 243,647 | 18,406 |
| Cash and cash equivalents end of year | <u>\$ 333,590</u> | <u>21,666</u> |

See notes to financial statements

Clarke Community School District

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2016

| | Activities | Governmental Activities |
|-------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------|
| | Enterprise - School Nutrition | Internal Service - Flex Spending |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | \$ (446,072) | 3,097 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Commodities used | 54,819 | - |
| Depreciation | 14,761 | - |
| Increase in accounts receivable | (304) | - |
| Decrease in inventories | 1,196 | - |
| Increase in prepaid insurance | (198) | - |
| Decrease in deferred outflows of resources | 210 | - |
| Increase in accounts payables | 281 | - |
| Increase in salaries and benefits payable | 1,535 | - |
| Increase in other postemployment benefits | 1,815 | - |
| Decrease in unearned student meals | (1,734) | - |
| Increase in IPERS pension liability | 25,415 | - |
| Decrease in deferred inflows of resources | (31,355) | - |
| Net cash provided (used) by operating activities | <u>\$ (379,631)</u> | <u>3,097</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2016, the District received \$54,819 of federal commodities.

See notes to financial statements.

Exhibit J

Clarke Community School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

| | Private Purpose Trust | |
|---------------------------|--------------------------|---------|
| | Scholarship | Agency |
| Assets | | |
| Cash and investments | \$ 35,652 | 136,737 |
| Liabilities | | |
| Trusts payable | - | 136,737 |
| Net Position | | |
| Reserved for scholarships | \$ 35,652 | - |

See notes to financial statements.

Clarke Community School District
Statement of Changes in Fiduciary Net Position
Fiduciary Funds

Year ended June 30, 2016

| | <u>Private Purpose Trust Scholarship</u> |
|----------------------------------------------------|--------------------------------------------------|
| Additions: | |
| Local sources: | |
| Interest income, net of depreciation in fair value | \$ (2,869) |
| Deductions: | |
| Support services: | |
| Scholarships awarded | <u>3,200</u> |
| Change in net position | (6,069) |
| Net position beginning of year | <u>41,721</u> |
| Net position end of year | <u>\$ 35,652</u> |

See notes to financial statements.

Clarke Community School District

Notes to Financial Statements

Year ended June 30, 2016

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Clarke 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. Clarke Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

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

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

Additionally, the District reports a nonmajor proprietary fund. The Internal Service, Flex Spending Fund is utilized to account for employee flexible benefits.

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

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the District 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 year 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 non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for 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 non-operating revenues and expenses.

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

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1.5% per month penalty for delinquent payments; is based on January 1, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2015.

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

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

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

| Asset Class | Amount |
|-----------------------------------|----------|
| Land | \$ 5,000 |
| Buildings | 5,000 |
| Improvements other than buildings | 5,000 |
| Intangibles: | |
| School Nutrition Fund | 500 |
| Other | 50,000 |
| Furniture and Equipment: | |
| School Nutrition Fund | 500 |
| Other | 5,000 |

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

| Asset Class | Estimated Useful Lives (In Years) |
|-----------------------------------|-----------------------------------|
| Buildings | 50 years |
| Improvements other than buildings | 20 years |
| Intangibles | 5-10 years |
| Furniture and equipment | 4-12 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 expense 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.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon

termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2016. The compensated absences liability attributable to the governmental activities will be paid by the General Fund.

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

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

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

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

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

Nonspendable - Amounts which cannot be spent because they are in 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 - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2016, expenditures did not exceed the amount budgeted in any program function.

(2) Cash, Cash Equivalents and Pooled Investments

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

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

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At June 30, 2016, the District had the following investment:

| <u>Investment</u> | <u>Fair Value</u> |
|-----------------------------------------|-------------------|
| Alliant Energy Corporation Common stock | <u>\$ 7,781</u> |

The District uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The recurring fair value measurement for the Alliant Energy Corporation Common Stock of \$7,781 was determined using the closing share price on June 30, 2016. (Level 1 input)

(3) Interfund Transfers

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

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|-----------------------------------------------------------|------------------|
| Debt Service | Capital Projects: Physical Plant and Equipment Levy | <u>\$ 62,505</u> |

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

(4) Capital Assets

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

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|----------------------------------------------|---------------------------------|-----------|-----------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 78,000 | - | - | 78,000 |
| Construction in progress | 108,332 | 830,667 | - | 938,999 |
| Total capital assets not being depreciated | 186,332 | 830,667 | - | 1,016,999 |
| Capital assets being depreciated: | | | | |
| Buildings | 16,465,246 | 287,841 | - | 16,753,087 |
| Improvements other than buildings | 1,703,066 | 62,724 | - | 1,765,790 |
| Furniture and equipment | 2,523,026 | 233,872 | (109,985) | 2,646,913 |
| Total capital assets being depreciated | 20,691,338 | 584,437 | (109,985) | 21,165,790 |
| Less accumulated depreciation for: | | | | |
| Buildings | 5,644,381 | 330,772 | - | 5,975,153 |
| Improvements other than buildings | 1,045,850 | 54,347 | - | 1,100,197 |
| Furniture and equipment | 1,552,985 | 273,504 | (102,883) | 1,723,606 |
| Total accumulated depreciation | 8,243,216 | 658,623 | (102,883) | 8,798,956 |
| Total capital assets being depreciated, net | 12,448,122 | (74,186) | (7,102) | 12,366,834 |
| Governmental activities capital assets, net | \$ 12,634,454 | | - | 13,383,833 |
| Business type activities: | | | | |
| Furniture and equipment | \$ 404,822 | 570 | (2,649) | 402,743 |
| Less accumulated depreciation | 326,650 | 14,761 | (2,649) | 338,762 |
| Business type activities capital assets, net | \$ 78,172 | 15,331 | - | 63,981 |

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

| | |
|---------------------|--------|
| Regular instruction | 59,795 |
| Other instruction | 12,722 |

Support services:

| | |
|---------------------------------------------|---------|
| Administration services | 1,638 |
| Operation and maintenance of plant services | 37,154 |
| Transportation services | 162,195 |
| | 273,504 |

Unallocated

| | |
|------------------------------------------------------|------------|
| Total depreciation expense - governmental activities | \$ 658,623 |
|------------------------------------------------------|------------|

Business type activities:

| | |
|-------------------------|-----------|
| Food service operations | \$ 14,761 |
|-------------------------|-----------|

(5) Long-Term Liabilities

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

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|------------------------------------|---------------------------------|-----------|------------|---------------------------|---------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 1,340,000 | - | 430,000 | 910,000 | 450,000 |
| Lease purchase agreements | - | 181,777 | 62,505 | 119,272 | 58,700 |
| Compensated absences | 44,439 | 39,506 | 43,299 | 40,646 | 40,646 |
| Net OPEB liability | 255,974 | 54,839 | 23,154 | 287,659 | - |
| Net supplemental pension liability | 326,100 | 159,000 | 30,100 | 455,000 | - |
| Net IPERS pension liability | 4,728,300 | 1,055,140 | - | 5,783,440 | - |
| Total | \$ 6,694,813 | 1,490,262 | 589,058 | 7,596,017 | 549,346 |

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|-----------------------------|---------------------------------|-----------|------------|---------------------------|---------------------------|
| Business type activities: | | | | | |
| Net OPEB liability | \$ 12,426 | 2,961 | 1,146 | 14,241 | - |
| Net IPERS pension liability | 113,888 | 25,415 | - | 139,303 | - |
| | \$ 126,314 | 28,376 | 1,146 | 153,544 | - |

General Obligation Bonds

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

| Year Ending June 30, | Interest Rates | Bond Issue of April 1, 2008 | | |
|----------------------------|-------------------|-----------------------------|----------|---------|
| | | Principal | Interest | Total |
| 2018 | 3.60% | \$ 450,000 | 33,220 | 483,220 |
| 2019 | 3.70 | 460,000 | 17,020 | 477,020 |
| Total | | \$ 910,000 | 50,240 | 960,240 |

During the year ended June 30, 2016, the District retired \$430,000 of general obligation bonds.

Lease Purchase Agreement

On July 22, 2015, the District entered into a lease purchase agreement with Apple Inc. to purchase iPads for high school students and staff. The District agreed to purchase the iPads for \$181,777 with interest of 3.2% per annum.

Details of the District’s lease purchase agreement are as follows:

| Year Ending June 30, | July 22, 2015 Lease | | | |
|----------------------------|---------------------|------------|----------|---------|
| | Interest Rates | Principal | Interest | Total |
| 2017 | 3.2% | \$ 58,700 | 3,805 | 62,505 |
| 2018 | 3.2 | 60,572 | 1,932 | 62,504 |
| Total | | \$ 119,272 | 5,737 | 125,009 |

During the year ended June 30, 2016, the District paid principal of \$62,505 and paid no interest.

(6) Pension Plan

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

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

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

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

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

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

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

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

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

The District's contributions to IPERS for the year ended June 30, 2016 totaled \$781,102.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the District reported a liability of \$5,922,743 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the District's collective proportion was 0.1198818%, which was a decrease of 0.0022136% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$501,841. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 89,485 | \$ - |
| Changes of assumptions | 163,068 | - |
| Net difference between projected and actual earnings on IPERS' investments | - | 492,927 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 23,606 | 20,629 |
| District contributions subsequent to the measurement date | 781,102 | - |
| Total | <u>\$ 1,057,261</u> | <u>\$ 513,556</u> |

\$781,102 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30, | Amount |
|-------------------------|---------------------|
| 2017 | \$ (162,263) |
| 2018 | (162,263) |
| 2019 | (162,263) |
| 2020 | 247,639 |
| 2021 | 1,753 |
| Total | <u>\$ (237,397)</u> |

There were no non-employer contributing entities to IPERS.

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

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

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

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

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. 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, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, 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 (6.50%) or 1% higher (8.50%) than the current rate.

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|----------------------------------------------------------------|---------------------------|-----------------------------|---------------------------|
| District's proportionate share of the net pension liability | \$ 10,369,657 | 5,922,743 | 2,169,228 |

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.

Payables to IPERS - All legally required District contributions and legally required employee contributions which had been withheld from employee wages were remitted by the District to IPERS by June 30, 2016.

(7) Risk Management

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

(8) 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 \$608,731 for the year ended June 30, 2016 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(9) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for retirees, employees and their spouses. There are 106 active and 12 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

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

| | |
|--------------------------------------------|-------------------|
| Annual required contribution | \$ 79,500 |
| Interest on net OPEB obligation | 6,700 |
| Adjustment to annual required contribution | (28,400) |
| Annual OPEB cost | 57,800 |
| Contributions made | (24,300) |
| Increase in net OPEB obligation | 33,500 |
| Net OPEB obligation beginning of year | 268,400 |
| Net OPEB obligation end of year | <u>\$ 301,900</u> |

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

For the year ended June 30, 2016, the District contributed \$24,300 to the medical plan. Plan members eligible for benefits contributed \$6,600, or 21.4% of the premium costs.

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

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------------|---------------------|--------------------------------------------------|---------------------------|
| 2014 | \$ 73,200 | 27.2% | \$211,200 |
| 2015 | 76,600 | 25.3 | 268,400 |
| 2016 | 57,800 | 42.0 | 301,900 |

Funded Status and Funding Progress - As of July 1, 2015, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was approximately \$422,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$422,000. The covered payroll (annual payroll of active employees eligible for coverage by the plan) was approximately \$8,748,000 and the ratio of the UAAL to covered payroll was 4.8%. As of June 30, 2016, there were no trust fund assets.

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

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

As of the July 1, 2015 actuarial valuation date, entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. An inflation rate of 0% is assumed for purposes of this computation.

Mortality rates are from the 94 Group Annuity Mortality Table projected to 2000. A modest employee turnover rate was assumed for active employees. The assumed rate of retirement was determined by attained age after becoming eligible to retire and continuing health coverage.

Projected claim costs of the medical plan average \$570 per month for retirees less than age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level dollar cost using a closed group method over 30 years.

(10) Supplemental Pension Plan

Plan Description - The District offers a supplemental pension (early retirement incentive) for all eligible employees who attain age 55 with 15 or more years of service, submit an application to the Superintendent, receive Board approval and retire by June 30 of the same year.

There are 189 active members in the plan as of June 30, 2016. The pension benefit is defined as:

- 50% of the value of the employee's unused accumulated sick leave using current salary per day x 50% of accumulated sick days, not to exceed 100 days, plus,
- 5% of the current salary times years of service over 15 years.

The maximum benefit is the lesser of the calculated benefit or \$20,000.

Funding Policy - Payments under the plan are made on a pay-as-you-go basis. There are no invested plan assets accumulated for payment of future benefits. The District makes the contributions from the Special Revenue, Management Levy Fund.

Annual Supplemental Pension Cost and Net Pension Obligation – The District’s annual pension cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 27, as amended by GASB Statement No. 50 and GASB Statement No 68. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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

| | |
|-------------------------------------------------------|--------------------------|
| Annual required contribution | \$ 174,000 |
| Interest on net pension obligation | 8,000 |
| Adjustment to annual required contribution | <u>(23,000)</u> |
| Annual supplemental pension cost | 159,000 |
| Contributions made | <u>(30,100)</u> |
| Increase in net supplemental pension obligation | 128,900 |
| Net supplemental pension obligation beginning of year | <u>326,100</u> |
| Net supplemental pension obligation end of year | <u><u>\$ 455,000</u></u> |

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

For the year ended June 30, 2016, the District contributed \$30,100 to the pension plan. The District’s annual pension cost, the percentage of annual pension cost contributed to the plan and the net pension obligation are summarized as follows:

| Year Ended June 30, | Annual Pension Cost | Percentage of Annual Supplemental Pension Cost Contributed | Net Pension Obligation |
|---------------------|---------------------|------------------------------------------------------------|------------------------|
| 2014 | \$ 131,600 | 146.6% | \$ 241,200 |
| 2015 | 141,900 | 40.2 | 326,100 |
| 2016 | 159,000 | 18.9 | 455,000 |

Funded Status and Funding Progress – As of July 1, 2015, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was \$1,183,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,183,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,748,000 and the ratio of the UAAL to covered payroll was 13.5%. As of June 30, 2016, there were no trust fund assets.

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

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

As of the July 1, 2015 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. An inflation rate of 0% is assumed for purposes of this computation. The actuarial assumptions used for mortality rates, employee termination by age and group, employee retirement by age and group and others are similar to or identical to the GASB Statement No. 45 assumptions used to determine the OPEB. The UAAL is being amortized as a level dollar cost using a closed group method over 30 years.

(11) New Accounting Pronouncement

The District adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Required Supplementary Information

Clarke Community School District

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

Required Supplementary Information

Year ended June 30, 2016

| | Governmental Funds Actual | Proprietary Funds Actual | Total Actual |
|----------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------|-----------------|
| Revenues: | | | |
| Local sources | \$ 5,895,758 | 276,167 | 6,171,925 |
| State sources | 11,205,874 | 6,458 | 11,212,332 |
| Federal sources | 522,601 | 516,056 | 1,038,657 |
| Total revenues | 17,624,233 | 798,681 | 18,422,914 |
| Expenditures/Expenses: | | | |
| Instruction | 10,862,931 | - | 10,862,931 |
| Support services | 4,760,077 | - | 4,760,077 |
| Non-instructional programs | 11,446 | 716,530 | 727,976 |
| Other expenditures | 2,272,212 | - | 2,272,212 |
| Total expenditures/expenses | 17,906,666 | 716,530 | 18,623,196 |
| Excess (deficiency) of revenues over (under) expenditures/expenses | (282,433) | 82,151 | (200,282) |
| Other financing sources, net | 181,777 | - | 181,777 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses | (100,656) | 82,151 | (18,505) |
| Balances beginning of year | 6,850,623 | 143,924 | 6,994,547 |
| Balances end of year | \$ 6,749,967 | 226,075 | 6,976,042 |

See accompanying independent auditor's report.

| Less Funds Not Required to be Budgeted | Net | Original/ Final Budgeted Amounts | Budget to Net Variance |
|-------------------------------------------------|------------|-------------------------------------------|------------------------------|
| 27,023 | 6,144,902 | 6,694,802 | (549,900) |
| - | 11,212,332 | 11,437,514 | (225,182) |
| - | 1,038,657 | 1,275,000 | (236,343) |
| 27,023 | 18,395,891 | 19,407,316 | (1,011,425) |
| - | 10,862,931 | 12,640,000 | 1,777,069 |
| - | 4,760,077 | 7,521,500 | 2,761,423 |
| 23,763 | 704,213 | 915,000 | 210,787 |
| - | 2,272,212 | 3,455,671 | 1,183,459 |
| 23,763 | 18,599,433 | 24,532,171 | 5,932,738 |
| 3,260 | (203,542) | (5,124,855) | 4,921,313 |
| - | 181,777 | - | 181,777 |
| 3,260 | (21,765) | (5,124,855) | 5,103,090 |
| 18,406 | 6,976,141 | 5,697,045 | 1,279,096 |
| 21,666 | 6,954,376 | 572,190 | 6,382,186 |

Clarke Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2016

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

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

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

During the year ended June 30, 2016, expenditures did not exceed the amount budgeted in any program function.

Clarke Community School District

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

Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Required Supplementary Information

| | 2016 | 2015 |
|-------------------------------------------------------------------------------------------------------------|------------|------------|
| District's proportion of the net pension liability | 0.1198818% | 0.1220954% |
| District's proportionate share of the net pension liability | \$ 5,923 | \$ 4,842 |
| District's covered-employee payroll | \$ 8,213 | \$ 7,991 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 72.12% | 60.60% |
| IPERS' net position as a percentage of the total pension liability | 85.19% | 87.61% |

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

See accompanying independent auditor's report.

Clarke Community School District
Schedule of District Contributions
Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Required Supplementary Information

| | 2016 | 2015 | 2014 | 2013 |
|-----------------------------------------------------------------------|----------|-------|-------|-------|
| Statutorily required contribution | \$ 781 | 733 | 714 | 667 |
| Contributions in relation to the statutorily required contribution | (781) | (733) | (714) | (667) |
| Contribution deficiency (excess) | \$ - | - | - | - |
| District's covered-employee payroll | \$ 8,748 | 8,213 | 7,991 | 7,694 |
| Contributions as a percentage of covered-employee payroll * | 8.93% | 8.93% | 8.93% | 8.67% |

* Amounts reported do not agree with calculated amounts due to rounding required contributions and covered payroll to nearest thousandth.

See accompanying independent auditor's report.

| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|-------|-------|-------|-------|-------|-------|
| 512 | 514 | 492 | 445 | 412 | 412 |
| (512) | (514) | (492) | (445) | (412) | (412) |
| - | - | - | - | - | - |
| 7,373 | 7,736 | 7,751 | 7,349 | 7,162 | 7,162 |
| 6.95% | 6.65% | 6.35% | 6.05% | 5.75% | 5.75% |

Clarke Community School District

Notes to Required Supplementary Information – IPERS Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

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

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

Changes of assumptions:

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

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

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

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

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

Clarke Community School District

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

Required Supplementary Information

| Year Ended June 30, | Actuarial Valuation Date | Actuarial | | | Funded Ratio (a/b) | Covered Payroll (c) | UAAAL as a Percentage of Covered Payroll ((b-a)/c) |
|------------------------|--------------------------------|---------------------------|--------------------------------------|------------------------------------|--------------------------|---------------------------|----------------------------------------------------------------|
| | | Value of Assets (a) | Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | | | |
| 2010 | July 1, 2009 | - | \$ 503 | 503 | 0.0% | \$ 7,527 | 6.7% |
| 2011 | July 1, 2009 | - | 482 | 482 | 0.0 | 7,373 | 6.5 |
| 2012 | July 1, 2009 | - | 436 | 436 | 0.0 | 7,389 | 5.9 |
| 2013 | July 1, 2012 | - | 508 | 508 | 0.0 | 7,694 | 6.6 |
| 2014 | July 1, 2012 | - | 476 | 476 | 0.0 | 7,991 | 6.0 |
| 2015 | July 1, 2012 | - | 450 | 450 | 0.0 | 8,213 | 5.5 |
| 2016 | July 1, 2015 | - | 422 | 422 | 0.0 | 8,748 | 4.8 |

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Clarke Community School District

Schedule of Funding Progress for the
Supplemental Pension Plan
(In Thousands)

Required Supplementary Information

| Year Ended June 30, | Actuarial Valuation Date | Actuarial | | | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------|--------------------------------|---------------------------|---------------------------|------------------------------------|--------------------------|---------------------------|---------------------------------------------------------------|
| | | Value of Assets (a) | Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | | | |
| 2012 | July 1, 2011 | - | \$ 838 | 838 | 0.0% | \$7,389 | 11.3% |
| 2013 | July 1, 2011 | - | 838 | 838 | 0.0 | 7,694 | 10.9 |
| 2014 | July 1, 2013 | - | 1,006 | 1,006 | 0.0 | 7,991 | 12.6 |
| 2015 | July 1, 2013 | - | 1,006 | 1,006 | 0.0 | 8,213 | 12.2 |
| 2016 | July 1, 2015 | - | 1,183 | 1,183 | 0.0 | 8,748 | 13.5 |

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual pension cost, net pension obligation, funded status and funding progress.

See accompanying independent auditor's report.

Clarke Community School District
Schedule of District Contributions for the
Supplemental Pension Plan
(In Thousands)

Required Supplementary Information

| Year Ended June 30, | Annual Required Contribution | Actual Contribution | Percentage Contributed |
|---------------------------|------------------------------------|------------------------|---------------------------|
| 2011 | \$ 129 | 7 | 5% |
| 2012 | 105 | 24 | 23 |
| 2013 | 113 | 60 | 53 |
| 2014 | 138 | 193 | 140 |
| 2015 | 157 | 57 | 36 |
| 2016 | 174 | 30 | 17 |

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual pension cost, net pension obligation, funded status and funding progress.

See accompanying independent auditor's report.

Clarke Community School District

Supplementary Information

Schedule 1

Clarke Community School District

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2016

| | <u>Special Revenue</u> | | |
|-------------------------------------------------------------------------------|------------------------|-----------------|----------------|
| | <u>Management</u> | <u>Student</u> | |
| | <u>Levy</u> | <u>Activity</u> | <u>Total</u> |
| Assets | | | |
| Cash, cash equivalents and pooled investments | \$ 540,706 | 106,683 | 647,389 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 3,826 | - | 3,826 |
| Succeeding year | 297,000 | - | 297,000 |
| Accounts | - | 75 | 75 |
| Total assets | \$ 841,532 | 106,758 | 948,290 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 1,667 | 4,056 | 5,723 |
| Salaries and benefits payable | - | 1,595 | 1,595 |
| Total liabilities | <u>1,667</u> | <u>5,651</u> | <u>7,318</u> |
| Deferred inflows of resources: | | | |
| Unavailable revenues: | | | |
| Succeeding year property tax | 297,000 | - | 297,000 |
| Fund equity: | | | |
| Fund balances: | | | |
| Restricted for: | | | |
| Management levy purposes | 542,865 | - | 542,865 |
| Student activities | - | 101,107 | 101,107 |
| Total fund balances | <u>542,865</u> | <u>101,107</u> | <u>643,972</u> |
| Total liabilities, deferred inflows of resources and fund balances | \$ 841,532 | 106,758 | 948,290 |

See accompanying independent auditor's report.

Clarke Community School District

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

Year ended June 30, 2016

| | Special Revenue | | Total |
|--------------------------------------------------------------|--------------------|---------------------|---------|
| | Management Levy | Student Activity | |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ 298,488 | - | 298,488 |
| Other | 21,525 | 398,828 | 420,353 |
| State sources | 10,993 | - | 10,993 |
| Total revenues | 331,006 | 398,828 | 729,834 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular instruction | 55,441 | - | 55,441 |
| Special instruction | 24,513 | - | 24,513 |
| Other instruction | 1,765 | 420,255 | 422,020 |
| Support services: | | | |
| Student services | 944 | - | 944 |
| Instructional staff services | 983 | - | 983 |
| Administration services | 21,473 | - | 21,473 |
| Operation and maintenance of plant services | 91,123 | - | 91,123 |
| Transportation services | 33,953 | 507 | 34,460 |
| Non-instructional programs | 11,446 | - | 11,446 |
| Total expenditures | 241,641 | 420,762 | 662,403 |
| Excess (deficiency) of revenues over (under) expenditures | 89,365 | (21,934) | 67,431 |
| Fund balances beginning of year | 453,500 | 123,041 | 576,541 |
| Fund balances end of year | \$ 542,865 | 101,107 | 643,972 |

See accompanying independent auditor's report.

Schedule 3

Clarke Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2016

| Account | Balance Beginning of Year | Revenues | Expend- itures | Balance End of Year |
|-----------------------------|---------------------------------|----------|-------------------|---------------------------|
| Pop Athletics | \$ 98 | 1 | - | 99 |
| Athletics | 4,551 | 47,701 | 52,252 | - |
| Publications | 3,085 | 6,441 | 5,815 | 3,711 |
| High School Band | 8,198 | 27,878 | 26,976 | 9,100 |
| High School Co-curricular | 1,068 | 359 | 190 | 1,237 |
| High School Vocal Music | 8,737 | 5,302 | 8,137 | 5,902 |
| Cheerleaders | 807 | 4,473 | 4,406 | 874 |
| Speech/Debate | 1,055 | 9,114 | 8,450 | 1,719 |
| FFA | 3,500 | 29,352 | 30,669 | 2,183 |
| FCCLA | 3,595 | 4,442 | 6,375 | 1,662 |
| Cross Country | - | 1,851 | 1,576 | 275 |
| Golf | - | 2,818 | 1,580 | 1,238 |
| Tennis | - | 4,903 | 4,792 | 111 |
| Bowling | 1,022 | 1,810 | 2,177 | 655 |
| Boys Basketball | 6,421 | 6,776 | 6,372 | 6,825 |
| Football | 405 | 15,740 | 16,061 | 84 |
| Baseball | 3,676 | 14,334 | 13,386 | 4,624 |
| Boys Track | 7,205 | 5,816 | 6,298 | 6,723 |
| Wrestling | 298 | 5,816 | 6,114 | - |
| Girls Basketball | 5,232 | 12,314 | 10,923 | 6,623 |
| Volleyball | 1,352 | 6,971 | 5,435 | 2,888 |
| Softball | 7,341 | 19,890 | 27,135 | 96 |
| Girls Track | 5,635 | 7,403 | 6,544 | 6,494 |
| Camp - Boys Basketball | 273 | 1,437 | 940 | 770 |
| Camp - Football | 517 | 12,704 | 12,544 | 677 |
| Camp - Wrestling | 511 | 3 | 234 | 280 |
| Camp - Girls Basketball | 3,171 | 929 | 3,902 | 198 |
| Camp - Volleyball | 894 | 7 | 168 | 733 |
| Clinic - Softball | 3,752 | 16,482 | 20,234 | - |
| Book Club | 2,893 | 1,581 | 1,610 | 2,864 |
| Spanish Club | 1,685 | - | 1,685 | - |
| High School Student Council | 1,943 | 1,190 | 893 | 2,240 |
| Thespians | 3,262 | 5,036 | 5,903 | 2,395 |

Clarke Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2016

| Account | Balance Beginning of Year | Revenues | Expend- itures | Balance End of Year |
|--------------------------------|---------------------------------|----------|-------------------|---------------------------|
| Class of: | | | | |
| 2015 | 140 | 1 | 141 | - |
| 2016 | 692 | 134 | 465 | 361 |
| 2017 | 1,524 | 11,433 | 10,486 | 2,471 |
| 2018 | 361 | 3,346 | 2,781 | 926 |
| Art Club | 452 | 468 | 784 | 136 |
| Concessions | 6,884 | 52,213 | 51,979 | 7,118 |
| American Field Service | 2,885 | - | 2,885 | - |
| Media Club | 239 | - | 239 | - |
| Athletic Resale | (13,030) | 2,335 | - | (10,695) |
| Washington DC Trip Fund | - | 20,098 | 19,537 | 561 |
| Drill Team | 379 | 1,437 | 1,281 | 535 |
| Robotics | - | 401 | 198 | 203 |
| FBLA | 218 | - | 218 | - |
| Junior High Student Council | 4,363 | 9,498 | 10,632 | 3,229 |
| Middle School Pop Fund Balance | 1,391 | 5,946 | 5,765 | 1,572 |
| Middle School Cheerleaders | 166 | 1 | - | 167 |
| Elementary Student Council | 20,724 | 10,615 | 13,595 | 17,744 |
| After Prom | 3,471 | 28 | - | 3,499 |
| Total | \$ 123,041 | 398,828 | 420,762 | 101,107 |

See accompanying independent auditor's report

Schedule 4

Clarke Community School District

Combining Balance Sheet
Capital Projects Accounts

June 30, 2016

| | Capital Projects | | |
|-------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------|------------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 1,503,297 | 683,193 | 2,186,490 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 3,315 | 3,315 |
| Succeeding year | - | 268,000 | 268,000 |
| Due from other governments | 223,062 | 256,304 | 479,366 |
| Total assets | \$ 1,726,359 | 1,210,812 | 2,937,171 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 42,745 | - | 42,745 |
| Deferred inflows of resources: | | | - |
| Unavailable revenues: | | | |
| Succeeding year property tax | - | 268,000 | 268,000 |
| Other | - | 256,304 | 256,304 |
| Total deferred inflows of resources | - | 524,304 | 524,304 |
| Fund balances: | | | |
| Restricted for: | | | |
| School infrastructure | 1,683,614 | - | 1,683,614 |
| Property, plant and equipment | - | 686,508 | 686,508 |
| Total fund balances | 1,683,614 | 686,508 | 2,370,122 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 1,726,359 | \$ 1,210,812 | 2,937,171 |

See accompanying independent auditor's report.

Clarke Community School District
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Capital Projects Accounts

Year ended June 30, 2016

| | Capital Projects | | |
|--------------------------------------------------------------|---------------------------------------------|--------------------------------------------|-----------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ - | 543,261 | 543,261 |
| Other | 15,137 | 4,481 | 19,618 |
| State sources | 1,360,034 | 9,527 | 1,369,561 |
| Total revenues | 1,375,171 | 557,269 | 1,932,440 |
| Expenditures: | | | - |
| Instruction: | | | |
| Regular instruction | - | 9,224 | 9,224 |
| Support services: | | | |
| Instructional staff services | - | 195,585 | 195,585 |
| Administration services | 2,970 | 102,539 | 105,509 |
| Operation and maintenance of plant services | 577,522 | - | 577,522 |
| Transportation services | - | 161,994 | 161,994 |
| Other expenditures: | | | |
| Facilities acquisition | 1,078,691 | 44,230 | 1,122,921 |
| Total expenditures | 1,659,183 | 513,572 | 2,172,755 |
| Excess (deficiency) of revenues over (under) expenditures | (284,012) | 43,697 | (240,315) |
| Other financing sources (uses): | | | |
| Proceeds from lease purchase | - | 181,777 | 181,777 |
| Transfers out | - | (62,505) | (62,505) |
| Total other financing sources | - | 119,272 | 119,272 |
| Change in fund balances | (284,012) | 162,969 | (121,043) |
| Fund balances beginning of year | 1,967,626 | 523,539 | 2,491,165 |
| Fund balances end of year | \$ 1,683,614 | 686,508 | 2,370,122 |

See accompanying independent auditor's report.

Clarke Community School District

Clarke Community School District

Schedule of Changes in Fiduciary Assets and Liabilities –
Agency Fund

Year ended June 30, 2016

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|--------------------|---------------------------------|-----------|------------|---------------------------|
| Assets | | | | |
| Cash | \$ 133,085 | 85,212 | 81,560 | 136,737 |
| Liabilities | | | | |
| Accounts payable | \$ 133,085 | 85,212 | 81,560 | 136,737 |

See accompanying independent auditor's report.

Clarke Community School District

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

For the Last Ten Years

| | 2016 | 2015 | 2014 | 2013 |
|---------------------------------------------|----------------------|-------------------|-------------------|-------------------|
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 5,066,478 | 5,141,298 | 5,064,753 | 6,028,184 |
| Tuition | 252,433 | 190,085 | 209,509 | 211,384 |
| Other | 576,847 | 748,570 | 792,685 | 597,942 |
| Intermediate sources | - | - | - | - |
| State sources | 11,205,874 | 11,132,412 | 10,746,125 | 8,698,248 |
| Federal sources | 522,601 | 546,713 | 477,925 | 505,075 |
| Total | <u>\$ 17,624,233</u> | <u>17,759,078</u> | <u>17,290,997</u> | <u>16,040,833</u> |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 6,291,828 | 6,038,414 | 6,097,620 | 5,974,931 |
| Special instruction | 2,439,331 | 2,314,584 | 2,274,947 | 2,210,686 |
| Other instruction | 2,131,772 | 1,903,532 | 1,422,447 | 1,443,502 |
| Support services: | | | | |
| Student services | 364,999 | 354,351 | 610,956 | 561,178 |
| Instructional staff services | 584,669 | 331,479 | 420,875 | 1,068,195 |
| Administration services | 1,413,310 | 1,358,186 | 1,324,225 | 1,339,117 |
| Operation and maintenance of plant services | 1,645,852 | 1,326,744 | 1,227,058 | 1,125,004 |
| Transportation services | 751,247 | 855,366 | 1,007,304 | 717,046 |
| Non-instructional programs | 11,446 | 20,116 | 13,185 | 13,504 |
| Other expenditures: | | | | |
| Facilities acquisition | 1,122,921 | 594,497 | 420,292 | 993,986 |
| Long-term debt: | | | | |
| Principal | 492,505 | 613,788 | 594,017 | 588,680 |
| Interest and other charges | 48,055 | 67,207 | 84,735 | 88,528 |
| AEA flowthrough | 608,731 | 609,523 | 578,176 | 525,955 |
| Total | <u>\$ 17,906,666</u> | <u>16,387,787</u> | <u>16,075,837</u> | <u>16,650,312</u> |

Beginning in 2014, the Iowa Department of Education modified the coding of the statewide sales, services and use tax revenue from local tax to state sources.

See accompanying independent auditor's report.

| Modified Accrual Basis | | | | | |
|------------------------|------------|------------|------------|------------|------------|
| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| 5,706,601 | 5,120,483 | 4,831,186 | 4,667,723 | 4,643,460 | 4,646,077 |
| 223,452 | 287,350 | 391,436 | 353,389 | 332,365 | 374,400 |
| 540,783 | 445,579 | 539,478 | 426,305 | 548,713 | 720,867 |
| - | - | - | - | 5,523 | - |
| 8,353,902 | 7,930,971 | 6,722,487 | 7,784,734 | 7,264,290 | 6,760,768 |
| 621,060 | 741,710 | 1,424,319 | 589,407 | 539,307 | 555,494 |
| 15,445,798 | 14,526,093 | 13,908,906 | 13,821,558 | 13,333,658 | 13,057,606 |
| 5,473,903 | 5,074,795 | 5,132,580 | 5,071,939 | 5,040,800 | 4,778,673 |
| 1,921,485 | 1,899,278 | 1,967,321 | 1,957,714 | 1,945,636 | 1,813,039 |
| 1,509,369 | 1,678,329 | 1,766,142 | 1,782,475 | 1,313,063 | 1,158,946 |
| 254,546 | 275,295 | 335,259 | 319,803 | 338,214 | 300,624 |
| 533,499 | 325,142 | 457,446 | 326,686 | 314,187 | 350,389 |
| 1,262,238 | 1,226,303 | 1,175,033 | 1,161,780 | 1,261,484 | 1,285,995 |
| 1,852,130 | 1,010,013 | 1,003,916 | 1,086,043 | 1,219,815 | 1,076,053 |
| 602,750 | 510,397 | 647,474 | 533,736 | 540,318 | 606,882 |
| 11,369 | 9,535 | 1,399 | 1,048 | 8,158 | 3,213 |
| 55,610 | 397,821 | 189,274 | 639,674 | 1,110,495 | 167,641 |
| 375,000 | 360,000 | 498,039 | 466,384 | 447,936 | 420,293 |
| 101,465 | 113,885 | 135,458 | 165,902 | 212,491 | 232,271 |
| 505,350 | 556,547 | 543,479 | 489,537 | 455,495 | 446,669 |
| 14,458,714 | 13,437,340 | 13,852,820 | 14,002,721 | 14,208,092 | 12,640,688 |

Schedule 8

Clarke Community School District
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2016

| Grantor/Program | CFDA Number | Grant Number | Expendi- tures |
|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|-------------------|
| Indirect: | | | |
| U.S. Department of Agriculture: | | | |
| Iowa Department of Education: | | | |
| Child Nutrition Cluster Programs: | | | |
| School Breakfast Program | 10.553 | FY16 | 80,898 |
| National School Lunch Program | 10.555 | FY16 | 434,569 * |
| | | | 515,467 |
| U.S. Department of Education: | | | |
| Iowa Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | FY16 | 337,822 |
| Improving Teacher Quality State Grants | 84.367 | FY16 | 52,503 |
| Grants for State Assessments and Related Activities | 84.369 | FY16 | 5,320 |
| Green Hills Area Education Agency: | | | |
| Special Education_Grants to States | 84.027 | FY16 | 71,207 |
| Southwestern Community College: | | | |
| Career and Technical Education - Basic Grants to States | 84.048 | FY16 | 14,339 |
| U.S. Department of Health and Human Services: | | | |
| 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 | FY16 | 223 |
| Total | | | \$ 996,881 |

* Includes \$54,819 of non-cash awards.

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Clarke Community School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Clarke Community School District, it is not intended to and does not present the financial position, changes in financial position or cash flows of Clarke Community School District.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the accrual or modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Clarke Community School District has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

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

Clarke Community School District



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

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

To the Board of Education of Clarke Community School District:

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

Internal Control Over Financial Reporting

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

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

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 which were not identified. Given these limitations, during the audit we did not identify any deficiencies in internal control over financial reporting 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 items II-A-16 we consider to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


Clarke Community School District's Responses to the Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Clarke 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.


MARY MOSIMAN, CPA
Auditor of State

November 29, 2016

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

Clarke Community School District



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Mary Mosiman, CPA
Auditor of State

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Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Board of Education of Clarke Community School District:

Report on Compliance for Each Major Federal Program

We have audited Clarke Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on Clarke Community School District's major federal program for the year ended June 30, 2016. Clarke Community School District's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Clarke Community School District's major federal program 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 Title 2, U.S. Code of Federal Regulations, 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 non-compliance 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 Clarke Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, Clarke 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 its major federal program for the year ended June 30, 2016.


Report on Internal Control Over Compliance

The management of Clarke 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 Clarke Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Clarke 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 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. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.


MARY MOSIMAN, CPA
Auditor of State

November 29, 2016

Clarke Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with the Uniform Guidance, Section 200.515.
- (g) The major program was the Child Nutrition Cluster:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) Clarke Community School District did not qualify as a low-risk auditee.

Clarke Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

II-A-16 Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementations of the policies and procedures are an integral part of ensuring the reliability and accuracy of the District’s financial statements.

Condition – During the audit, we identified capital asset acquisition activity not properly recorded in the District’s financial system. The District included assets with acquisition costs under \$5,000 on the capital asset listing and did not include four assets with total acquisition costs of \$173,379. Additionally, the District did not include installation costs of \$5,150 to the value of an asset addition. Adjustments were subsequently made by the District to properly capitalize these items for the District’s Financial Statements.

Cause – There was a lack of communication between the Administration Office and personnel maintaining the capital asset listing. In addition, District procedures have not been established to ensure capital assets are properly reported and the capital asset listing is not reviewed by someone independent.

Effect – Lack of policies and procedures resulted in District employees not detecting the errors in the normal course of performing their assigned functions. As a result, adjustments to the District’s financial statements were necessary.

Recommendation – The District should implement procedures to ensure all capital asset additions are properly recorded in the District’s financial statements and the capital asset listing should be reviewed by someone independent.

Response – The District has a clearer interpretation of financial reporting criteria and will develop and implement procedures ensuring capital assets are recorded properly in District financial statements and reviewed.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Clarke Community School District
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2016

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

Part IV: Other Findings Related To Required Statutory Reporting:

IV-A-16 Certified Budget – Expenditures for the year ended June 30, 2016 did not exceed the amount budgeted in any program function.

IV-B-16 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

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

IV-D-16 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

| Name, Title, and Business Connection | Transaction Description | Amount |
|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------|----------|
| Dena White, Board Member, Spouse is Mike White | Elementary Repairs | \$ 5,728 |
| Regina Haltrom, Associate, T-Shirt Business | Elementary Council Supplies, T-Shirts | 4,471 |
| Lori Helgevold, Board Member, Spouse is a Booster Club Member | Concessions equipment and CCBC Supplies | 465 |
| Lori Helgevold, Board Member, Son was an umpire for base ball and softball | Baseball Offical Services, Umpire baseball and softball games for District | 280 |

In accordance with Chapters 279.7A and 301.28 of the Code of Iowa, the transactions with Mike White and Regina Haltrom appear to represent conflicts of interest since transactions with each individual were more than \$2,500 during the fiscal year and competitive bidding was not used.

The transactions with Lori Helgevold's husband and son do not appear to represent conflicts of interest since transactions with each individual were less than \$2,500 during the fiscal year.

Recommendation – The District should consult legal counsel to determine the disposition of these matters.

Clarke Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

Response – The District will be more aware of Iowa Code 279.7A and 301.28 while consulting with legal counsel for the mentioned transactions. Legal council will also be asked for an opinion on any similar transactions.

Conclusion – Response accepted.

- IV-E-16 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-16 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-15 Certified Enrollment – Variances in the basic enrollment data certified to the Iowa Department of Education were noted. The District counted one student who was expelled by the District before October 15, 2015.

Recommendation – The District should develop procedures to ensure accurate counts are taken throughout the year and accurate enrollment data is certified to the Iowa Department of Education.

Response – The District continued to serve this student with a Homebound Instructor and did not realize we were unable to count the student. We know the rule now and will avoid this from happening again.

Conclusion – Response accepted.

- IV-H-16 Supplementary Weighting – No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-16 Deposits and Investments – Except as noted below, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.

The Private Purpose Trust, Scholarship Fund has an investment in common stock which does not appear to be an investment permitted by Article VIII of the Constitution of the State of Iowa and Chapter 12B.10 of the Code of Iowa. Since the money was originally donated to fund a scholarship and the stock was purchased in the 1930s, the District, based on advice of its legal counsel, believes it is in the best interest of this fund to continue owning the stock.

- IV-J-16 Certified Annual Report – The District’s Certified Annual Report was filed with the Iowa Department of Education timely.
- IV-K-16 Categorical Funding – No instances of categorical funding being used to supplant rather than supplement other funds were noted.

Clarke Community School District
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2016

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

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. For the year ended June 30, 2015, the District’s financial activity and other required information for the statewide sales, services and use tax are as follows:

| | | |
|---------------------------------------|--------------|--------------|
| Beginning balance | | \$ 1,967,626 |
| Revenue: | | |
| Statewide sales, services and use tax | \$ 1,360,034 | |
| Interest on investments | 15,137 | 1,375,171 |
| Expenditures/transfers out: | | |
| School infrastructure construction | 1,078,691 | |
| Equipment | 580,492 | 1,659,183 |
| Ending balance | | \$ 1,683,614 |

The statewide sales, services and use tax revenue received during the year ended June 30, 2016 is equivalent to a reduction in the following levies:

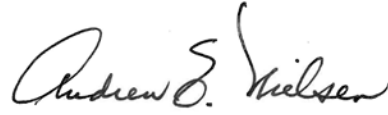
| | Rate of Levy Reduction Per \$1,000 of Taxable Valuation | Property Tax Dollars Reduced |
|-----------------------------------|---------------------------------------------------------------------|---------------------------------------|
| Physical plant and equipment levy | \$ 4.291 | \$ 1,360,034 |

Clarke Community School District

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Karen J. Kibbe, Senior Auditor II
David A. Cook, CPA, Staff Auditor
Carolina M. Aviles, Staff Auditor
Elizabeth P. Dawson, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State