

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2016

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-16
Basic Financial Statements:	<u>Exhibit</u>
<i>Government-wide Financial Statements:</i>	
Statement of Net Position	A 18
Statement of Activities	B 19
<i>Governmental Fund Financial Statements:</i>	
Balance Sheet	C 20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	D 21
Statement of Revenues, Expenditures and Changes in Fund Balances	E 22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 23
<i>Proprietary Fund Financial Statements:</i>	
Statement of Net Position	G 24
Statement of Revenues, Expenses and Changes in Fund Net Position	H 25
Statement of Cash Flows	I 26
<i>Fiduciary Fund Financial Statements:</i>	
Statement of Fiduciary Net Position	J 27
Statement of Changes in Fiduciary Net Position	K 28
Notes to Financial Statements	29-44
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	46
Notes to Required Supplementary Information - Budgetary Reporting	47
Schedule of the District's Proportionate Share of the Net Pension Liability	48
Schedule of District Contributions	49
Notes to Required Supplementary Information - Pension Liability	50
Schedule of Funding Progress for the Retiree Health Plan	51
Supplementary Information:	<u>Schedule</u>
<i>Nonmajor Governmental Funds:</i>	
Combining Balance Sheet	1 54
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 55
<i>Capital Projects Fund Accounts:</i>	
Combining Balance Sheet	3 56
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4 57
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5 58
Schedule of Changes in Private Purpose Trust Fund, Scholarship Accounts	6 59
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	7 60
Schedule of Expenditures of Federal Awards	8 61
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 <u>Government Auditing Standards</u>	63-64
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	65-66
Schedule of Findings and Questioned Costs	67-72

Marshalltown Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2015 Election)		
Kay Beach	President	2015
Anne Paullus	Vice President	2015
Sherman Welker	Board Member	2015
Jennifer Wilson	Board Member	2017
John Johnson	Board Member	2015
Bea Niblock	Board Member	2017
Kendall Derby	Board Member	2017
(After September 2015 Election)		
Bea Niblock	President	2017
Janelle Carter	Vice President	2019
Ross Harris	Board Member	2019
Sean K. Heitmann	Board Member	2019
Ben Stansberry	Board Member	2019
Jennifer Wilson	Board Member	2017
	(Resigned December 2015)	
Michael Miller	Board Member	2017
	(Appointed January 2016)	
Kendall Derby	Board Member	2017
School Officials		
Dr. Marvin L. Wade, Jr.	Superintendent	2016
Kevin Posekany	District Secretary/ Director of Business Operations (Resigned August 2015)	2016
Brian Bartz	District Secretary/ Director of Business Operations (Appointed August 2015)	2016
Rex J. Ryden, Cartwright, Druker, & Ryden	Attorney	2016
Ahlers & Cooney, P.C.	Attorney	2016



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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of Marshalltown 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 Marshalltown Community School District, Marshalltown, 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 Marshalltown Community School District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 46 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of 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 Marshalltown 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, including the Schedule of Expenditures of Federal Awards, 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, including the Schedule of Expenditures of Federal Awards, 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 January 19, 2017, on our consideration of Marshalltown 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 Marshalltown Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

January 19, 2017
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2016 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$60,148,845 in fiscal year 2015 to \$61,059,332 in fiscal year 2016, while General Fund expenditures increased from \$59,530,791 in fiscal year 2015 to \$60,212,742 in fiscal year 2016. The overall result was an increase in the District's General Fund balance from \$5,285,282 at June 30, 2015 to \$6,131,872 at June 30, 2016, a 16.02% increase from the prior year.
- The increase in General Fund revenues occurred due to increases in state and federal source revenue received as compared to the prior year. The increase in expenditures was due primarily to increased negotiated salaries and benefits.

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

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

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

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

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

Figure A-1
Marshalltown Community School District Annual Financial Report

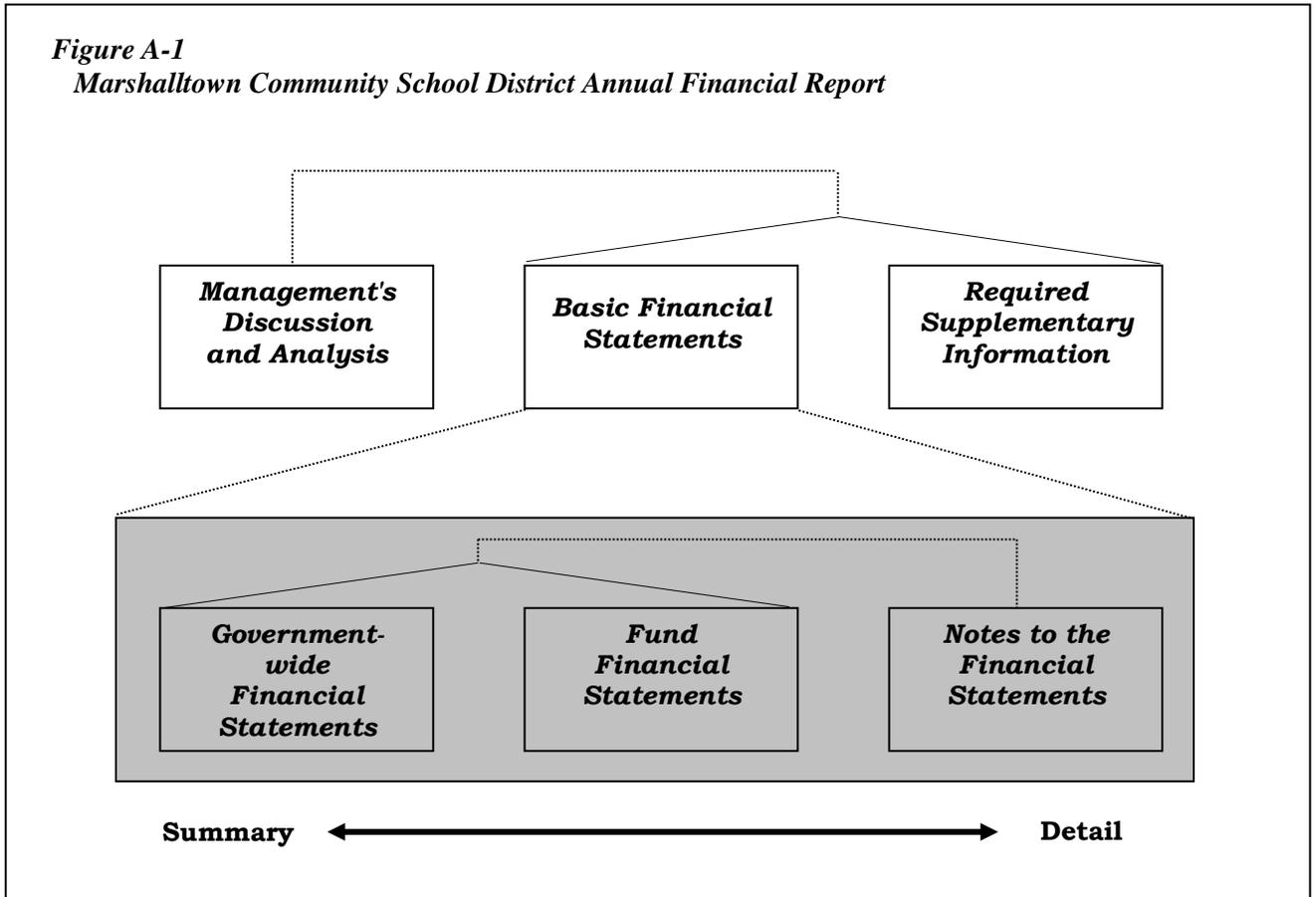


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, the Special Revenue Funds, the Capital Projects Fund and the Debt Service 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 Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District's Internal Service Fund (another type of Proprietary Fund) is the same as its governmental activities but provide more detail and additional information, such as cash flows.

The required financial statements for the 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. This fund is the Private Purpose Trust Fund.
 - Private Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2016 compared to June 30, 2015.

	Figure A-3							
	Condensed Statement of Net Position							
	Governmental		Business Type		Total		Total	
	Activities		Activities		District		Change	
June 30,		June 30,		June 30,		June 30,		
2016	2015	2016	2015	2016	2015	2015-16		
Current and other assets	\$ 41,334,425	41,032,652	846,325	446,560	42,180,750	41,479,212	1.69%	
Capital assets	67,176,494	65,420,140	307,083	360,003	67,483,577	65,780,143	2.59%	
Total assets	108,510,919	106,452,792	1,153,408	806,563	109,664,327	107,259,355	2.24%	
Deferred outflows of resources	4,923,210	4,163,380	145,757	133,851	5,068,967	4,297,231	17.96%	
Long-term liabilities	59,128,323	57,393,455	801,062	630,535	59,929,385	58,023,990	3.28%	
Other liabilities	9,391,054	8,365,390	71,034	27,395	9,462,088	8,392,785	12.74%	
Total liabilities	68,519,377	65,758,845	872,096	657,930	69,391,473	66,416,775	4.48%	
Deferred inflows of resources	20,190,913	25,391,496	83,964	263,607	20,274,877	25,655,103	-20.97%	
Net position:								
Net investment in capital assets	35,281,494	30,443,962	307,083	360,003	35,588,577	30,803,965	15.53%	
Restricted	6,578,894	6,549,634	-	-	6,578,894	6,549,634	0.45%	
Unrestricted	(17,136,549)	(17,527,765)	36,022	(341,126)	(17,100,527)	(17,868,891)	4.30%	
Total net position	\$ 24,723,839	19,465,831	343,105	18,877	25,066,944	19,484,708	28.65%	

The District's total net position increased by 28.65%, or \$5,582,236, from the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$29,260, or 0.45% from the prior year. The increase was primarily the result of the increase in amount restricted for categorical funding purposes as compared to the prior year.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$768,364, or 4.30%. This increase in unrestricted net position was primarily a result of the increase in fund balance of the General Fund.

The District's deficit unrestricted net position in the governmental activities is due to GASB Statement No. 68 pension and related deferred outflow and inflow reporting requirements.

Figure A-4 shows the changes in net position for the year ended June 30, 2016 compared to the year ended June 30, 2015.

	Figure A-4 Changes in Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2016	2015	2016	2015	2016	2015	2015-16
Revenues:							
Program revenues:							
Charges for service	\$ 1,502,900	1,637,835	552,507	651,696	2,055,407	2,289,531	-10.23%
Operating grants, contributions and restricted interest	7,279,030	6,840,618	2,858,274	2,600,932	10,137,304	9,441,550	7.37%
Capital grants, contributions and restricted interest	1,808	-	-	-	1,808	-	100.00%
General revenues:							
Property tax	17,134,843	16,940,548	-	-	17,134,843	16,940,548	1.15%
Statewide sales, services and use tax	5,141,172	6,585,912	-	-	5,141,172	6,585,912	-21.94%
Unrestricted state grants	38,101,227	37,526,225	-	-	38,101,227	37,526,225	1.53%
Unrestricted investment earnings	21,724	79,873	752	460	22,476	80,333	-72.02%
Other	171,873	187,847	751	-	172,624	187,847	-8.10%
Total revenues	<u>69,354,577</u>	<u>69,798,858</u>	<u>3,412,284</u>	<u>3,253,088</u>	<u>72,766,861</u>	<u>73,051,946</u>	<u>-0.39%</u>
Program expenses:							
Instruction	42,681,483	42,402,053	-	-	42,681,483	42,402,053	0.66%
Support services	16,676,674	16,775,132	-	-	16,676,674	16,775,132	-0.59%
Non-instructional programs	99,108	72,995	3,088,056	3,070,668	3,187,164	3,143,663	1.38%
Other expenses	4,639,304	4,731,541	-	-	4,639,304	4,731,541	-1.95%
Total expenses	<u>64,096,569</u>	<u>63,981,721</u>	<u>3,088,056</u>	<u>3,070,668</u>	<u>67,184,625</u>	<u>67,052,389</u>	<u>0.20%</u>
Excess of revenues over expenses	5,258,008	5,817,137	324,228	182,420	5,582,236	5,999,557	-6.96%
Transfers	-	43,119	-	(43,119)	-	-	0.00%
Change in net position	5,258,008	5,860,256	324,228	139,301	5,582,236	5,999,557	6.96%
Net position beginning of year	19,465,831	13,605,575	18,877	(120,424)	19,484,708	13,485,151	44.49%
Net position end of year	<u>\$ 24,723,839</u>	<u>19,465,831</u>	<u>343,105</u>	<u>18,877</u>	<u>25,066,944</u>	<u>19,484,708</u>	<u>28.65%</u>

In fiscal year 2016, property tax, statewide sales, services and use tax, and unrestricted state grants account for 87.06% of the revenue from governmental activities while charges for service and operating grants account for nearly all of the revenue from business type activities.

The District's total revenues were approximately \$72.77 million of which approximately \$69.36 million was for governmental activities and approximately \$3.41 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 0.39% decrease in revenues and a 0.20% increase in expenses. The decrease in revenue was primarily due to a decrease in statewide sales, services and use tax revenue received compared to the prior year. The increase in expenses is primarily due to an increase in instruction expenses incurred compared to the prior year.

Governmental Activities

Revenues for governmental activities were \$69,354,577 and expenses were \$64,096,569 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 those expenses for the year ended June 30, 2015.

	Total Cost of Services			Net Cost of Services		
	2016	2015	Change 2015-16	2015	2014	Change 2015-16
Instruction	\$ 42,681,483	42,402,053	0.66%	37,361,807	37,716,786	-0.94%
Support services	16,676,674	16,775,132	-0.59%	15,598,405	15,347,142	1.64%
Non-instructional programs	99,108	72,995	35.77%	99,108	72,995	35.77%
Other expenses	4,639,304	4,731,541	-1.95%	2,253,511	2,366,345	-4.77%
Totals	<u>\$ 64,096,569</u>	<u>63,981,721</u>	<u>0.18%</u>	<u>55,312,831</u>	<u>55,503,268</u>	<u>-0.34%</u>

For the year ended June 30, 2016:

- The cost financed by users of the District's programs was \$1,502,900.
- Federal and state governments along with contributions from local sources subsidized certain programs with grants and contributions totaling \$7,280,838.
- The net cost of governmental activities was financed with \$17,134,843 in property tax, \$5,141,172 in statewide sales, services and use tax, \$38,101,227 in unrestricted state grants, \$21,724 in interest income, and \$171,873 in other general revenues.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2016 were \$3,412,284, representing a 4.89% increase from the prior year, and expenses were \$3,088,056, representing a 0.57% increase from the prior year. The District's business type activities include the School Nutrition. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income and other general revenues.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Marshalltown 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 balance of \$12,333,626, compared to last year's ending combined fund balances of \$12,306,923. The primary reason for the increase in combined fund balances is due to the increase in ending fund balance of the General Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. The Fund balance of the General Fund increased from \$5,285,282 at June 30, 2015 to \$6,131,872 at June 30, 2016. Increases during the year in state and federal source revenues resulted in an increase in total revenues. The increase revenues was enough to offset the increase in expenditures resulting in an increase of the District's General Fund balance by 16.02%, or \$846,590.

- The Capital Projects Fund balance decreased from a balance of \$3,632,422 at June 30, 2015 to \$2,272,045 at June 30, 2016. The decrease was due in part to the District's continued capital outlay expenditures required for District construction commitments as well as a decrease in statewide sales, services and use tax revenue received as compared to the prior year.

Proprietary Fund Highlights

The net position of the Enterprise: School Nutrition Fund increased from a net position of \$18,877 at June 30, 2015 to a net position of \$343,105 at June 30, 2016, representing an increase of 1,717.58%. Total expenses for the year remained relatively unchanged while total revenues increased due to an increase in federal source revenues received as compared to the prior year. Total revenues outpaced total expenses resulting in an increase net position.

BUDGETARY HIGHLIGHTS

The District's revenues were \$84,420 more than budgeted revenues, a variance of 0.12%. The most significant variance resulted from the District receiving more in federal source revenues than originally anticipated.

Total expenditures were less than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures using realistic projections based from prior year expenditures with a buffer built as to not exceed the annual budget. 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had invested approximately \$67.48 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 2.59% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$1,910,181.

The original cost of the District's capital assets was \$95,720,918. Governmental activities accounted for \$94,705,385 of this total with the remainder of \$1,015,533 accounted for in the Enterprise, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$10,585,684 at June 30, 2016, compared to \$9,024,623 reported at June 30, 2015. This increase resulted from continued expenses incurred various construction projects during the year including the roundhouse, security entrance upgrades and equity projects.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2015-16
Land	\$ 859,396	859,396	-	-	859,396	859,396	0.00%
Construction in progress	10,585,684	9,024,623	-	-	10,585,684	9,024,623	17.30%
Buildings	53,668,128	53,558,326	-	-	53,668,128	53,558,326	0.21%
Land improvements	834,897	649,598	-	-	834,897	649,598	28.53%
Machinery and equipment	1,228,389	1,328,197	307,083	360,003	1,535,472	1,688,200	-9.05%
Total	\$ 67,176,494	65,420,140	307,083	360,003	67,483,577	65,780,143	2.59%

Long-Term Debt

At June 30, 2016, the District had \$59,929,385 in total long-term debt outstanding. This represents an increase of 3.28% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

- The District had total outstanding general obligation bonded indebtedness of \$14,900,000 at June 30, 2016, payable from the Debt Service Fund.
- The District had total outstanding revenue bonded indebtedness of \$16,995,000 at June 30, 2016, payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.
- The District also had total outstanding termination benefits payable of \$2,062,060 from the Management Levy Fund at June 30, 2016.
- The District had compensated absences payable of \$255,352 at June 30, 2016. \$252,615 of the total is payable from the General Fund and \$2,737 is payable from the Enterprise: School Nutrition Fund.
- The District had a total net pension liability of \$25,716,973 at June 30, 2016. The District's governmental activities accounted for \$24,918,648 of the total while the District's business type activities accounted for the remaining \$798,325.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2016	2015	2016	2015	2016	2015	2015-16
General obligation bonds	\$ 14,900,000	16,465,000	-	-	14,900,000	16,465,000	-9.51%
Revenue bonds	16,995,000	16,995,000	-	-	16,995,000	16,995,000	0.00%
Qualified zone academy bonds	-	1,700,000	-	-	-	1,700,000	-100.00%
Capital loan notes	-	100,000	-	-	-	100,000	-100.00%
Termination benefits	2,062,060	2,324,279	-	-	2,062,060	2,324,279	-11.28%
Compensated absences	252,615	210,252	2,737	3,531	255,352	213,783	19.44%
Net pension liability	24,918,648	19,598,924	798,325	627,004	25,716,973	20,225,928	27.15%
Total	\$ 59,128,323	57,393,455	801,062	630,535	59,929,385	58,023,990	3.28%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District is experiencing stable enrollment. The District expects enrollment to remain the same.
- The District has experienced moderate taxable valuation growth. This trend is expected to continue.
- Low supplemental state aid, also known as allowable growth, increases over the past several years has had a negative impact on the District's finances as increases in state aid have not kept up with the rising costs of District expenses.

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 Brian Bartz, District Board Secretary/Director of Business Operations, Marshalltown Community School District, 1002 S 3rd Avenue., Marshalltown, Iowa, 50158.

Basic Financial Statements

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

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 21,814,498	736,477	22,550,975
Receivables:			
Property tax:			
Delinquent	193,165	-	193,165
Succeeding year	17,529,223	-	17,529,223
Accounts	-	14,731	14,731
Internal balances	(7,132)	7,132	-
Due from other governments	1,631,156	49,621	1,680,777
Inventories	53,666	37,871	91,537
Net OPEB asset	119,849	493	120,342
Capital assets, net of accumulated depreciation	67,176,494	307,083	67,483,577
TOTAL ASSETS	108,510,919	1,153,408	109,664,327
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	4,923,210	145,757	5,068,967
LIABILITIES			
Accounts payable	1,561,976	7,101	1,569,077
Salaries and benefits payable	6,464,709	36,012	6,500,721
Accrued interest payable	321,295	-	321,295
Advances from grantors	83,938	-	83,938
Advances from students accounts	31,102	-	31,102
Unearned revenue	-	27,921	27,921
Incurred but not reported claims	928,034	-	928,034
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	1,740,000	-	1,740,000
Revenue bonds payable	1,540,000	-	1,540,000
Termination benefits payable	536,470	-	536,470
Compensated absences payable	252,615	2,737	255,352
Portion due after one year:			
General obligation bonds payable	13,160,000	-	13,160,000
Revenue bonds payable	15,455,000	-	15,455,000
Termination benefits payable	1,525,590	-	1,525,590
Net pension liability	24,918,648	798,325	25,716,973
TOTAL LIABILITIES	68,519,377	872,096	69,391,473
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	17,529,223	-	17,529,223
Pension related deferred inflows	2,661,690	83,964	2,745,654
TOTAL DEFERRED INFLOWS OF RESOURCES	20,190,913	83,964	20,274,877
NET POSITION			
Net Investment in capital assets	35,281,494	307,083	35,588,577
Restricted for:			
Categorical funding	2,548,489	-	2,548,489
Student activities	105,299	-	105,299
Public education and recreation	173,324	-	173,324
Debt service	2,479,737	-	2,479,737
School infrastructure	1,006,575	-	1,006,575
Physical plant and equipment	265,470	-	265,470
Unrestricted	(17,136,549)	36,022	(17,100,527)
TOTAL NET POSITION	\$ 24,723,839	343,105	25,066,944

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 25,558,616	430,065	342,854	-	(24,785,697)	-	(24,785,697)
Special	8,630,040	191,090	1,285,318	-	(7,153,632)	-	(7,153,632)
Other	8,492,827	746,908	2,323,441	-	(5,422,478)	-	(5,422,478)
	42,681,483	1,368,063	3,951,613	-	(37,361,807)	-	(37,361,807)
Support services:							
Student	2,304,726	-	341,248	-	(1,963,478)	-	(1,963,478)
Instructional staff	2,770,399	-	566,089	-	(2,204,310)	-	(2,204,310)
Administration	5,022,503	-	-	-	(5,022,503)	-	(5,022,503)
Operation and maintenance of plant	4,884,937	400	-	1,808	(4,882,729)	-	(4,882,729)
Transportation	1,694,109	134,437	34,287	-	(1,525,385)	-	(1,525,385)
	16,676,674	134,837	941,624	1,808	(15,598,405)	-	(15,598,405)
Non-instructional programs:							
Community service operations	99,108	-	-	-	(99,108)	-	(99,108)
Long-term debt interest	883,407	-	-	-	(883,407)	-	(883,407)
Other expenses:							
AEA flowthrough	2,385,793	-	2,385,793	-	-	-	-
Depreciation(unallocated)*	1,370,104	-	-	-	(1,370,104)	-	(1,370,104)
	3,755,897	-	2,385,793	-	(1,370,104)	-	(1,370,104)
Total governmental activities	64,096,569	1,502,900	7,279,030	1,808	(55,312,831)	-	(55,312,831)
Business type activities:							
Non-instructional programs:							
Food service operations	3,088,056	552,507	2,858,274	-	-	322,725	322,725
Total	\$ 67,184,625	2,055,407	10,137,304	1,808	(55,312,831)	322,725	(54,990,106)
General Revenues:							
Property tax levied for:							
General purposes	\$ 16,165,378	-	-	-	-	-	16,165,378
Capital outlay	969,465	-	-	-	-	-	969,465
Statewide sales, services and use tax	5,141,172	-	-	-	-	-	5,141,172
Unrestricted state grants	38,101,227	-	-	-	-	-	38,101,227
Unrestricted investment earnings	21,724	-	-	-	752	-	22,476
Other	171,873	-	-	-	751	-	172,624
Total general revenues	60,570,839	-	-	-	1,503	-	60,572,342
Change in net position	-	-	-	-	5,258,008	324,228	5,582,236
Net position beginning of year	-	-	-	-	19,465,831	18,877	19,484,708
Net position end of year	\$ 24,723,839	-	-	-	343,105	-	25,066,944

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor	Total
ASSETS				
Cash and pooled investments	\$ 13,037,425	1,547,344	3,965,879	18,550,648
Receivables:				
Property tax:				
Delinquent	167,396	10,813	14,956	193,165
Succeeding year	15,409,656	988,266	1,131,301	17,529,223
Due from other funds	25,000	-	-	25,000
Due from other governments	787,205	843,951	-	1,631,156
Inventories	53,666	-	-	53,666
TOTAL ASSETS	\$ 29,480,348	3,390,374	5,112,136	37,982,858
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 7,132	-	25,000	32,132
Accounts payable	1,351,939	130,063	26,126	1,508,128
Salaries and benefits payable	6,464,709	-	-	6,464,709
Advances from grantors	83,938	-	-	83,938
Advances from student accounts	31,102	-	-	31,102
Total liabilities	7,938,820	130,063	51,126	8,120,009
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	15,409,656	988,266	1,131,301	17,529,223
Fund balances:				
Nonspendable	53,666	-	-	53,666
Restricted for:				
Categorical funding	2,548,489	-	-	2,548,489
Management levy purposes	-	-	1,850,054	1,850,054
Student activities	-	-	105,299	105,299
Public education and recreation	-	-	173,324	173,324
Debt service	-	1,000,000	1,801,032	2,801,032
School infrastructure	-	1,006,575	-	1,006,575
Physical plant and equipment	-	265,470	-	265,470
Unassigned	3,529,717	-	-	3,529,717
Total fund balances	6,131,872	2,272,045	3,929,709	12,333,626
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 29,480,348	3,390,374	5,112,136	37,982,858

SEE NOTES TO FINANCIAL STATEMENTS .

MARSHALLTOWN 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 20)	\$	12,333,626
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		67,176,494
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		2,281,968
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(321,295)
Other postemployment benefits are not available to finance expenditures of the current fiscal period.		119,849
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	\$ 4,923,210	
Deferred inflows of resources	<u>(2,661,690)</u>	2,261,520
Long-term liabilities, including bonds payable, compensated absences payable, termination benefits payable and the net pension liability payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(59,128,323)</u>
Net position of governmental activities(page 18)	\$	<u><u>24,723,839</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 14,841,294	969,465	1,324,084	17,134,843
Tuition	469,851	-	-	469,851
Other	595,886	60,980	715,166	1,372,032
Intermediate sources	7,359	-	-	7,359
State sources	41,384,228	5,180,187	45,363	46,609,778
Federal sources	3,760,714	-	-	3,760,714
Total revenues	<u>61,059,332</u>	<u>6,210,632</u>	<u>2,084,613</u>	<u>69,354,577</u>
Expenditures:				
Current:				
Instruction:				
Regular	25,062,708	106,328	509,245	25,678,281
Special	8,785,695	-	-	8,785,695
Other	7,927,796	-	759,794	8,687,590
	<u>41,776,199</u>	<u>106,328</u>	<u>1,269,039</u>	<u>43,151,566</u>
Support services:				
Student	2,398,621	-	-	2,398,621
Instructional staff	2,722,615	42,238	-	2,764,853
Administration	4,697,963	2,000	368,792	5,068,755
Operation and maintenance of plant	4,758,198	7,385	152,664	4,918,247
Transportation	1,473,353	357,467	-	1,830,820
	<u>16,050,750</u>	<u>409,090</u>	<u>521,456</u>	<u>16,981,296</u>
Non-instructional programs:				
Community service operations	-	-	99,108	99,108
Capital outlay	-	2,708,636	4,200	2,712,836
Long-term debt:				
Principal	-	-	3,365,000	3,365,000
Interest and other fiscal charges	-	-	632,275	632,275
	<u>-</u>	<u>-</u>	<u>3,997,275</u>	<u>3,997,275</u>
Other expenditures:				
AEA flowthrough	2,385,793	-	-	2,385,793
Total expenditures	<u>60,212,742</u>	<u>3,224,054</u>	<u>5,891,078</u>	<u>69,327,874</u>
Excess(Deficiency)of revenues over(under)expenditures	846,590	2,986,578	(3,806,465)	26,703
Other financing sources(uses):				
Transfer in	-	-	4,346,955	4,346,955
Transfer out	-	(4,346,955)	-	(4,346,955)
Total other financing sources(uses)	<u>-</u>	<u>(4,346,955)</u>	<u>4,346,955</u>	<u>-</u>
Change in fund balances	846,590	(1,360,377)	540,490	26,703
Fund balances beginning of year	<u>5,285,282</u>	<u>3,632,422</u>	<u>3,389,219</u>	<u>12,306,923</u>
Fund balances end of year	<u>\$ 6,131,872</u>	<u>2,272,045</u>	<u>3,929,709</u>	<u>12,333,626</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Change in fund balances - total governmental funds(page 22) \$ 26,703

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

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

Capital outlay	\$ 3,611,574	
Depreciation expense	<u>(1,855,220)</u>	1,756,354

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (918,222)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities Statement of Net Position. 3,365,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (251,132)

The current year District IPERS contributions are reported as expenditures in the governmental funds but are reported as deferred outflows of resources in the Statement of Net Position. 3,115,674

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 fund, as follows:

Termination benefits	262,219	
Compensated absences	(42,363)	
Pension expense	(2,097,398)	
Other postemployment benefits	<u>41,173</u>	<u>(1,836,369)</u>

Changes in net position of governmental activities(page 19) \$ 5,258,008

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type	
	Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	Internal Service Fund
ASSETS		
Current assets:		
Cash and pooled investments	\$ 736,477	3,263,850
Accounts receivable	14,731	-
Due from other governments	49,621	-
Due from other funds	7,132	-
Inventories	37,871	-
Total current assets	<u>845,832</u>	<u>3,263,850</u>
Noncurrent assets:		
Net OPEB asset	493	-
Capital assets, net of accumulated depreciation	307,083	-
Total noncurrent assets	<u>307,576</u>	<u>-</u>
TOTAL ASSETS	<u>1,153,408</u>	<u>3,263,850</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	<u>145,757</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable	7,101	53,848
Salaries and benefits payable	36,012	-
Unearned revenues	27,921	-
Incurred but not reported claims	-	928,034
Total current liabilities	<u>71,034</u>	<u>981,882</u>
Noncurrent liabilities:		
Compensated absences	2,737	-
Net pension liability	798,325	-
Total noncurrent liabilities	<u>801,062</u>	<u>-</u>
TOTAL LIABILITIES	<u>872,096</u>	<u>981,882</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	<u>83,964</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	307,083	-
Unrestricted	36,022	2,281,968
TOTAL NET POSITION	<u>\$ 343,105</u>	<u>2,281,968</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type	
	Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	Internal Service Fund
Operating revenues:		
Local sources:		
Charges for service	\$ 552,507	-
Miscellaneous	751	6,506,936
Total operating revenues	<u>553,258</u>	<u>6,506,936</u>
Operating expenses:		
Support services:		
Administration:		
Benefits	-	7,430,995
Non-instructional programs:		
Food service operations:		
Salaries	1,013,184	-
Benefits	164,155	-
Services	9,516	-
Supplies	1,846,240	-
Depreciation	54,961	-
Total operating expenses	<u>3,088,056</u>	<u>7,430,995</u>
Operating loss	(2,534,798)	(924,059)
Non-operating revenues		
Interest income	752	5,837
State sources	30,430	-
Federal sources	2,827,844	-
Total non-operating revenues	<u>2,859,026</u>	<u>5,837</u>
Change in net position	324,228	(918,222)
Net position beginning of year	<u>18,877</u>	<u>3,200,190</u>
Net position end of year	<u>\$ 343,105</u>	<u>2,281,968</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 547,755	-
Cash received from miscellaneous	751	6,506,936
Cash payments to employees for services	(1,162,518)	-
Cash payments to suppliers for goods or services	(1,658,930)	(7,336,632)
Net cash used in operating activities	<u>(2,272,942)</u>	<u>(829,696)</u>
Cash flows from non-capital financing activities:		
Repayments to General Fund	(134,583)	-
State grants received	30,430	-
Federal grants received	2,622,145	-
Net cash provided by non-capital financing activities	<u>2,517,992</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	752	5,837
Cash flows from capital financing activities:		
Purchase of capital assets	(2,041)	-
Net increase(decrease) in cash and pooled investments	243,761	(823,859)
Cash and pooled investments beginning of year	492,716	4,087,709
Cash and pooled investments end of year	<u>\$ 736,477</u>	<u>3,263,850</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,534,798)	(924,059)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	201,376	-
Depreciation	54,961	-
Increase in inventories	(2,198)	-
Increase in accounts receivable	(14,731)	-
Increase(Decrease) in accounts payable	(2,352)	10,171
Increase in salaries and benefits payable	36,012	-
Decrease in other postemployment benefits	(169)	-
Decrease in compensated absences	(794)	-
Increase in incurred but not reported	-	84,192
Increase in net pension liability	171,321	-
Increase in deferred outflows of resources	(11,906)	-
Decrease in deferred inflows of resources	(179,643)	-
Increase in unearned revenue	9,979	-
Net cash used in operating activities	<u>\$ (2,272,942)</u>	<u>(829,696)</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2016, the District received \$201,376 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2016

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
Assets		
Cash and pooled investments	\$	93,090
Liabilities		-
Net Position		
Held in trust for scholarships	\$	93,090

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Interest income	\$ 211
Gifts and contributions	<u>3,560</u>
Total additions	<u>3,771</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>3,500</u>
Change in net position	271
Net position beginning of year	<u>92,819</u>
Net position end of year	<u>\$ 93,090</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

(1) **Summary of Significant Accounting Policies**

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

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the 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 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 on 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 that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other 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 District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental funds and shown combined in the Statement of Net Position and the Statement of Activities.

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.

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under 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 is both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

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

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

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

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

Advances from Student Accounts - Proceeds from student registration which have been received by the District but correspond to the succeeding fiscal year.

Unearned Revenue - Unearned revenues are monies collected for student fees and lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the balance sheet in the Enterprise, School Nutrition 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.

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. 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 primarily by the General Fund. The compensated absences liability attributable to the business type activities will be paid primarily by the School Nutrition Fund.

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

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources in the governmental fund financial statements represents 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 period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of property tax receivable not collected within sixty days after year end.

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

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

Nonspendable - Amounts that cannot be spent either because the underlying resources are not in spendable form or because they are legally or contractually required to be maintained intact and not expected to be converted to cash.

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

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

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

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

At June 30, 2016, the District had investments in the Iowa Schools Joint Investment Trust Direct (ISJIT) Government Obligations Portfolio which are valued at an amortized cost of \$141,112 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals the ISJIT investments. The investments in ISJIT were rated AAAM by Standard and Poor's Financial Services.

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

(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: Statewide Sales, Services and Use Tax	\$ 4,043,022
Debt Service	Capital Projects: Physical Plant and Equipment Levy	303,933
Total		<u>\$ 4,346,955</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for sinking requirements on the District's revenue bonded indebtedness along with \$1,982,780 in general obligation bond debt relief.

The transfer from the Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was for the final QZAB sinking payment and principal and interest on the District's capital loan note indebtedness.

(4) 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 \$2,385,793 for the year ended June 30, 2016 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(5) **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	\$ 859,396	-	-	859,396
Construction in progress	9,024,623	3,226,266	1,665,205	10,585,684
Total capital assets not being depreciated	9,884,019	3,226,266	1,665,205	11,445,080
Capital assets being depreciated:				
Buildings	72,908,649	1,423,455	-	74,332,104
Land improvements	1,025,707	241,750	-	1,267,457
Machinery and equipment	7,417,661	385,308	142,225	7,660,744
Total capital assets being depreciated	81,352,017	2,050,513	142,225	83,260,305
Less accumulated depreciation for:				
Buildings	19,350,323	1,313,653	-	20,663,976
Land improvements	376,109	56,451	-	432,560
Machinery and equipment	6,089,464	485,116	142,225	6,432,355
Total accumulated depreciation	25,815,896	1,855,220	142,225	27,528,891
Total capital assets being depreciated, net	55,536,121	195,293	-	55,731,414
Governmental activities capital assets, net	\$ 65,420,140	3,421,559	1,665,205	67,176,494
Business type activities:				
Machinery and equipment	\$ 1,013,492	2,041	-	1,015,533
Less accumulated depreciation	653,489	54,961	-	708,450
Business type activities capital assets, net	\$ 360,003	(52,920)	-	307,083

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 102,572
Support services:	
Operation and maintenance of plant	46,734
Transportation	335,810
	485,116
Unallocated depreciation	1,370,104
Total governmental activities depreciation expense	\$ 1,855,220
Business type activities:	
Food service operations	\$ 54,961

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 16,465,000	-	1,565,000	14,900,000	1,740,000
Revenue bonds	16,995,000	-	-	16,995,000	1,540,000
Qualified zone academy bonds	1,700,000	-	1,700,000	-	-
Capital loan notes	100,000	-	100,000	-	-
Termination benefits	2,324,279	441,880	704,099	2,062,060	536,470
Compensated absences	210,252	252,615	210,252	252,615	252,615
Net pension liability	19,598,924	5,319,724	-	24,918,648	-
Total	\$ 57,393,455	6,014,219	4,279,351	59,128,323	4,069,085
Business type activities:					
Compensated absences	\$ 3,534	2,737	3,534	2,737	2,737
Net pension liability	627,004	171,321	-	798,325	-
Total	\$ 630,538	174,058	3,534	801,062	2,737

General Obligation Bonds

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

Year Ending June 30,	Series A Bond Issue of June 20, 2012			Series B Bond Issue of June 20, 2012			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2017	2.00%	\$ 135,000	19,107	2.55%	\$ 1,605,000	357,765	\$ 1,740,000	376,872	2,116,872
2018	2.15	130,000	16,408	2.55	1,645,000	316,837	1,775,000	333,245	2,108,245
2019	2.25	125,000	13,612	2.55	1,680,000	274,890	1,805,000	288,502	2,093,502
2020	2.25	100,000	10,800	2.55	1,730,000	232,050	1,830,000	242,850	2,072,850
2021	2.25	100,000	8,550	2.55	1,770,000	187,935	1,870,000	196,485	2,066,485
2022-2024	2.25	280,000	12,488	2.55	5,600,000	288,150	5,880,000	300,638	6,180,638
Total		\$ 870,000	80,965		\$ 14,030,000	1,657,627	\$ 14,900,000	1,738,592	16,638,592

Revenue Bonds

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

Year Ending June 30,	Bond Issue of November 6, 2013			Bond Issue of April 1, 2011			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2017	2.92%	\$ 650,000	289,080	2.40%	\$ 890,000	217,205	\$ 1,540,000	506,285	2,046,285
2018	2.92	650,000	270,100	2.70	930,000	193,970	1,580,000	464,070	2,044,070
2019	2.92	675,000	251,120	3.00	970,000	166,865	1,645,000	417,985	2,062,985
2020	2.92	695,000	231,410	3.20	1,010,000	136,155	1,705,000	367,565	2,072,565
2021	2.92	715,000	211,116	3.40	1,055,000	102,060	1,770,000	313,176	2,083,176
2022-2026	2.92	3,895,000	730,292	3.50-4.00	2,240,000	87,863	6,135,000	818,155	6,953,155
2027-2028	2.92	2,620,000	154,468		-	-	2,620,000	154,468	2,774,468
Total		\$ 9,900,000	2,137,586		\$ 7,095,000	904,118	\$ 16,995,000	3,041,704	20,036,704

The District has pledged future statewide sales, services and use tax revenues to repay the \$10,000,000 of bonds issued in April 2011 and \$10,000,000 of bonds issued in November 2013. The bonds were issued for the purpose of financing a portion of various school infrastructure projects. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District in accordance with Chapter 423E of the Code of Iowa and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitations of the District. Annual principal and interest payments on the bonds are expected to require approximately 40 percent of the statewide sales, services, and use tax revenues. The total principal and interest paid remaining to be paid is \$20,036,704. For the current year principal of \$0 and interest of \$258,483 was paid on the bonds and total statewide sales, services and use tax revenues were \$5,141,172.

The District made an executive decision to no longer accrue the July 1 succeeding year principal and interest payments into the current fiscal year as was done in previous fiscal years, therefore, there were no principal payments being made during fiscal year 2016. The above bond table has been adjusted to reflect this change.

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

- a) \$1,000,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) The District will make monthly transfers from the Capital Projects: Statewide Sales, Services and Use Tax Fund to a revenue account held by the bonding agent.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Termination Benefits

The District has in place a voluntary retirement incentive plan, this plan provides that the District shall pay for the cost of the group health insurance coverage on behalf of the retiree, the same amount being paid by the District on behalf of the retiree for the retiree's last full month of insurance coverage in the fiscal year immediately preceding July 1st of the year of retirement. The District will assume up to a 5% increase per year in its contribution toward the cost of such coverage and this incentive will end after a period of 96 months or when the retiree reaches 65 years of age, whichever is earlier. The District will also continue to pay, on behalf of the retiree, the full premium for group term life insurance coverage in the same face amount as in effect for the retiree immediately prior to retirement. These payments will continue for a period of 96 months.

At June 30, 2016, the District had obligations to 70 retirees with a total liability of \$2,062,060. Actual early retirement expenditures for the year ended June 30, 2016, totaled \$704,099.

(7) Pension Plan

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

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following

brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, 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 that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

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

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

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

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% 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 were \$3,203,449.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the District reported a liability of \$25,716,973 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 0.520536%, which was an increase of 0.010540% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$2,164,945. 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	\$ 388,551	\$ -
Changes of assumptions	708,053	-
Net difference between projected and actual earnings on IPERS' investments	-	2,140,325
Changes in proportion and differences between District contributions and the District's proportionate share of contributions	768,914	605,329
District contributions subsequent to the measurement date	<u>3,203,449</u>	-
Total	<u>\$ 5,068,967</u>	<u>\$ 2,745,654</u>

\$3,203,449 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2017	\$ (718,836)
2018	(718,836)
2019	(718,836)
2020	1,216,369
2021	60,003
Total	<u>\$ (880,136)</u>

There were no non-employer contributing entities at IPERS.

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

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

The actuarial assumptions used in the June 30, 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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
District's proportionate share of the net pension liability	\$ 45,025,793	\$ 25,716,973	\$ 9,418,944

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 - At June 30, 2015, the District reported payables to the defined benefit pension plan of \$442,553 for legally required employer contributions and \$294,870 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical/prescription, dental, vision, and life benefits for employees, retirees and their spouses. There are 653 active and 83 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription and dental coverage is provided through a fully-insured plan with Wellmark. The vision coverage is provided through a fully-insured plan with Avisis. The life coverage is provided through a fully-insured plan with Madison National Life. Retirees under age 65 pay the same premium for the medical/prescription, dental, vision, and life benefits as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

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

Annual required contribution	\$	1,004,000
Interest on net OPEB obligation		(3,160)
Adjustment to annual required contribution		2,818
Annual OPEB cost		<u>1,003,658</u>
Contributions made		<u>(1,045,000)</u>
Decrease in net OPEB obligation		(41,342)
Net OPEB obligation beginning of year		<u>(79,000)</u>
Net OPEB obligation end of year	\$	<u><u>(120,342)</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

For the year ended June 30, 2016, the District contributed \$1,045,000 to the medical/prescription, dental, vision, and life plans. Plan members eligible for benefits contributed \$787,000 or 42.96% 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	\$ 573,315	172.85 %	\$ (76,685)
2015	1,003,685	100.23	(79,000)
2016	1,003,658	104.12	(120,342)

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was \$10,063,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$10,063,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$30,959,000 and the ratio of the UAAL to covered payroll was 32.50%. 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, 2014 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.00% discount rate based on the District's funding policy. The projected annual medical trend rate is 8.0%. The medical trend rate is reduced 0.5% each year until reaching the 4.5% ultimate trend rate.

Mortality rates are from the RP-2014, projected to 2030, Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2014, and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2014.

Projected claim costs of the medical plan are approximately \$447 per month for the Blue Advantage Plan and \$540 per month for the Alliance Select Plan for retirees less than age 65. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
General	Student Activity	\$ 25,000
School Nutrition	General	7,132
Total		\$ 32,132

The General Fund is repaying the School Nutrition Fund for expenses paid out of the incorrect fund during the year.

The Student Activity Fund is repaying the General Fund for equipment purchases made at year end due to cash flow needs, which have not yet been repaid at year end.

(10) Categorical Funding

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

<u>Program</u>	<u>Amount</u>
Weighted limited english proficient	\$ 131,670
Weighted at-risk programs	139,776
Gifted and talented programs	20,402
Returning dropouts and dropout prevention programs	456,835
Teacher leadership state aid	439,028
Four-year-old preschool state aid	438,486
Teacher salary supplement	59,355
Textbook aid for nonpublic students	3,430
Successful progression for early readers	164,644
Professional development for model core curriculum	546,711
Professional development	140,002
Governors advisory council STEM scale-up programs	8,150
Total	<u>\$ 2,548,489</u>

(11) Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position

Reconciliation of certain governmental fund Balance Sheet to the Statement of Net Position is as follows:

	<u>Net Investment In Capital Assets</u>	<u>Management Levy</u>	<u>Debt Service</u>	<u>Unassigned/ Unrestricted</u>
Fund balance (Exhibit C)	\$ -	1,850,054	2,801,032	3,529,717
Net investment in capital assets	67,176,494	-	-	-
General obligation bond capitalized indebtedness	(14,900,000)	-	-	-
Revenue bond capitalized indebtedness	(16,995,000)	-	-	-
Accrued interest payable	-	-	(321,295)	-
Termination benefits	-	(1,850,054)	-	(212,006)
Compensated absences	-	-	-	(252,615)
Net pension liability	-	-	-	(24,918,648)
Pension related deferred outflows	-	-	-	4,923,210
Pension related deferred inflows	-	-	-	(2,661,690)
Internal service fund	-	-	-	2,281,968
Net OPEB asset	-	-	-	119,849
Nonspendable fund balance	-	-	-	53,666
Net position (Exhibit A)	<u>\$ 35,281,494</u>	<u>-</u>	<u>2,479,737</u>	<u>(17,136,549)</u>

(12) Risk Management

The District has a self-funded health insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$50,000 in insured claims for any one covered individual. Settle claims have not exceeded the commercial coverage in any of the past three years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was \$2,281,968 at June 30, 2016. The incurred but not recorded and unpaid claims liability of \$928,034 reported in the plan at

June 30, 2016 based on the requirements of GASB Statement Number 10 is set up as a liability on the Statement of Net Position.

In addition, 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. The District assumes liability for any deductibles and claims in excess of coverage limits. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Construction Commitments

The District has entered into various contracts totaling \$11,067,883 for school infrastructure improvements at the Marshalltown Roundhouse, as well as security entrance upgrades and equity projects. As of June 30, 2016, costs of \$10,585,684 had been incurred against these contracts. The balance remaining on these projects will be paid as work on the projects progresses.

Required Supplementary Information

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2016

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 18,976,726	554,010	19,530,736	20,265,685	20,265,685	(734,949)
Intermediate sources	7,359	-	7,359	4,000	4,000	3,359
State sources	46,609,778	30,430	46,640,208	46,737,756	46,737,756	(97,548)
Federal sources	3,760,714	2,827,844	6,588,558	5,675,000	5,675,000	913,558
Total revenues	69,354,577	3,412,284	72,766,861	72,682,441	72,682,441	84,420
Expenditures/Expenses:						
Instruction	43,151,566	-	43,151,566	43,694,525	43,694,525	542,959
Support services	16,981,296	-	16,981,296	17,557,910	17,557,910	576,614
Non-instructional programs	99,108	3,088,056	3,187,164	3,666,752	3,666,752	479,588
Other expenditures	9,095,904	-	9,095,904	10,878,237	10,878,237	1,782,333
Total expenditures/expenses	69,327,874	3,088,056	72,415,930	75,797,424	75,797,424	3,381,494
Excess(Deficiency) of revenues over(under) expenditures/expenses	26,703	324,228	350,931	(3,114,983)	(3,114,983)	3,465,914
Other financing sources, net	-	-	-	10,000,000	10,000,000	(10,000,000)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	26,703	324,228	350,931	6,885,017	6,885,017	(6,534,086)
Balances beginning of year	12,306,923	18,877	12,325,800	10,305,581	10,305,581	2,020,219
Balances end of year	\$ 12,333,626	343,105	12,676,731	17,190,598	17,190,598	(4,513,867)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN 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 Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

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.

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

	2016	2015
District's proportion of the net pension liability	0.520536%	0.509995%
District's proportionate share of the net pension liability	\$ 25,716,793	20,225,928
District's covered-employee payroll	\$ 35,664,032	33,370,627
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.61%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

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

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 FOR THE LAST TEN YEARS
 REQUIRED SUPPLEMENTARY INFORMATION

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 3,203,449	3,184,798	2,979,997	2,898,690	2,612,959	2,182,769	2,030,362	1,884,835	1,647,289	1,443,852
Contributions in relation to the statutorily required contribution	<u>(3,203,449)</u>	<u>(3,184,798)</u>	<u>(2,979,997)</u>	<u>(2,898,690)</u>	<u>(2,612,959)</u>	<u>(2,182,769)</u>	<u>(2,030,362)</u>	<u>(1,884,835)</u>	<u>(1,647,289)</u>	<u>(1,443,852)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>								
District's covered-employee payroll	\$ 35,872,868	35,664,032	33,370,627	33,433,564	32,378,674	31,406,748	29,213,842	29,682,441	27,227,917	25,110,470
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Changes of benefit terms:

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

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

Changes of assumptions:

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

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

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

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

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

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	-	\$ 7,613,000	7,613,000	0.00%	\$ 26,552,674	28.67%
2010	July 1, 2008	-	7,613,000	7,613,000	0.00	24,526,604	31.04
2011	July 1, 2010	-	11,564,000	11,564,000	0.00	25,754,952	44.90
2012	July 1, 2010	-	11,564,000	11,564,000	0.00	25,333,628	45.65
2013	July 1, 2012	-	6,464,000	6,464,000	0.00	26,531,152	24.36
2014	July 1, 2012	-	6,464,000	6,464,000	0.00	28,868,452	22.39
2015	July 1, 2014	-	10,063,000	10,063,000	0.00	27,822,380	36.17
2016	July 1, 2014	-	10,063,000	10,063,000	0.00	30,959,000	32.50

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



Supplementary Information

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

	Special Revenue					
	Management Levy	Student Activity	Public Education and Recreation Levy	Total	Debt Service	Total
ASSETS						
Cash and pooled investments	\$ 1,836,513	136,114	192,220	2,164,847	1,801,032	3,965,879
Receivables:						
Property tax:						
Delinquent	13,541	-	1,415	14,956	-	14,956
Succeeding year	1,000,003	-	131,298	1,131,301	-	1,131,301
TOTAL ASSETS	\$ 2,850,057	136,114	324,933	3,311,104	1,801,032	5,112,136
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Due to other funds	\$ -	25,000	-	25,000	-	25,000
Accounts payable	-	5,815	20,311	26,126	-	26,126
Total liabilities	-	30,815	20,311	51,126	-	51,126
Deferred inflows of resources:						
Unavailable revenues:						
Succeeding year property tax	1,000,003	-	131,298	1,131,301	-	1,131,301
Fund balances:						
Restricted for:						
Management levy purposes	1,850,054	-	-	1,850,054	-	1,850,054
Student activities	-	105,299	-	105,299	-	105,299
Public education and recreation levy	-	-	173,324	173,324	-	173,324
Debt service	-	-	-	-	1,801,032	1,801,032
Total fund balances	1,850,054	105,299	173,324	2,128,677	1,801,032	3,929,709
TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,850,057	136,114	324,933	3,311,104	1,801,032	5,112,136

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue					
	Management Levy	Student Activity	Public Education and Recreation Levy	Total	Debt Service	Total
Revenues:						
Local sources:						
Local tax	\$ 1,198,812	-	125,272	1,324,084	-	1,324,084
Other	53,914	658,345	196	712,455	2,711	715,166
State sources	41,071	-	4,292	45,363	-	45,363
Total revenues	<u>1,293,797</u>	<u>658,345</u>	<u>129,760</u>	<u>2,081,902</u>	<u>2,711</u>	<u>2,084,613</u>
Expenditures:						
Current:						
Instruction:						
Regular	509,245	-	-	509,245	-	509,245
Other	-	759,794	-	759,794	-	759,794
Support services:						
Administration	368,792	-	-	368,792	-	368,792
Operation and maintenance of plant	152,664	-	-	152,664	-	152,664
Non-instructional programs:						
Community service operations	-	-	99,108	99,108	-	99,108
Capital outlay	-	-	4,200	4,200	-	4,200
Long-term debt:						
Principal	-	-	-	-	3,365,000	3,365,000
Interest and fiscal charges	-	-	-	-	632,275	632,275
Total expenditures	<u>1,030,701</u>	<u>759,794</u>	<u>103,308</u>	<u>1,893,803</u>	<u>3,997,275</u>	<u>5,891,078</u>
Excess(Deficiency) of revenues over(under) expenditures	263,096	(101,449)	26,452	188,099	(3,994,564)	(3,806,465)
Other financing sources:						
Transfer in	-	-	-	-	4,346,955	4,346,955
Change in fund balances	263,096	(101,449)	26,452	188,099	352,391	540,490
Fund balances beginning of year	<u>1,586,958</u>	<u>206,748</u>	<u>146,872</u>	<u>1,940,578</u>	<u>1,448,641</u>	<u>3,389,219</u>
Fund balances end of year	<u>\$ 1,850,054</u>	<u>105,299</u>	<u>173,324</u>	<u>2,128,677</u>	<u>1,801,032</u>	<u>3,929,709</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 1,291,993	255,351	1,547,344
Receivables:			
Property tax:			
Delinquent	-	10,813	10,813
Succeeding year	-	988,266	988,266
Due from other governments	843,951	-	843,951
TOTAL ASSETS	\$ 2,135,944	1,254,430	3,390,374
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 129,369	694	130,063
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	988,266	988,266
Fund balances:			
Restricted for:			
Debt service	1,000,000	-	1,000,000
School infrastructure	1,006,575	-	1,006,575
Physical plant and equipment	-	265,470	265,470
Total fund balances	2,006,575	265,470	2,272,045
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,135,944	1,254,430	3,390,374

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Construction	
Revenues:				
Local sources:				
Local tax	\$ -	969,465	-	969,465
Other	32,060	28,710	210	60,980
State sources	5,141,172	39,015	-	5,180,187
Total revenues	<u>5,173,232</u>	<u>1,037,190</u>	<u>210</u>	<u>6,210,632</u>
Expenditures:				
Current:				
Instruction:				
Regular	106,328	-	-	106,328
Support services:				
Instructional staff	-	42,238	-	42,238
Administration	2,000	-	-	2,000
Operation and maintenance of plant	3,768	3,617	-	7,385
Transportation	-	357,467	-	357,467
Capital outlay	1,302,434	1,122,170	284,032	2,708,636
Total expenditures	<u>1,414,530</u>	<u>1,525,492</u>	<u>284,032</u>	<u>3,224,054</u>
Excess(Deficiency) of revenues over(under) expenditures	3,758,702	(488,302)	(283,822)	2,986,578
Other financing uses:				
Transfer out	(4,043,022)	(303,933)	-	(4,346,955)
Change in fund balances	(284,320)	(792,235)	(283,822)	(1,360,377)
Fund balances beginning of year	<u>2,290,895</u>	<u>1,057,705</u>	<u>283,822</u>	<u>3,632,422</u>
Fund balances end of year	<u>\$ 2,006,575</u>	<u>265,470</u>	<u>-</u>	<u>2,272,045</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Senior High School	\$ 130,116	574,589	674,873	29,832
Miller Middle School	23,064	74,098	70,289	26,873
Anson Elementary School	917	2	-	919
Fisher Elementary School	8,178	12	999	7,191
Franklin Elementary School	1,561	651	1,041	1,171
Hoglan Elementary School	12,523	19	-	12,542
Rogers Elementary School	771	1	288	484
Woodbury Elementary School	27,830	39	2,109	25,760
Lenihan School	1,788	8,934	10,195	527
Total	\$ 206,748	658,345	759,794	105,299

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE PURPOSE TRUST FUND
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2016

Account	Beginning Net Position	Additions	Deductions	Ending Net Position
Fay Wallace Kiser Memorial	\$ 5,973	3	-	5,976
Josephine White Memorial	11,019	5	-	11,024
Andrea Supinger Memorial	34,706	198	500	34,404
Claude Wilkins Memorial	2,385	-	-	2,385
Warrington Memorial	1,291	-	-	1,291
Flora Davis Forman Scholarship	16,782	-	1,000	15,782
Mann Scholarship	8,075	1,695	1,000	8,770
Donna Hoop Scholarship	10,001	4	1,000	9,005
Beth Wilson Memorial	2,587	786	-	3,373
Harlietta Helland Scholarship	-	1,080	-	1,080
Total	<u>\$ 92,819</u>	<u>3,771</u>	<u>3,500</u>	<u>93,090</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

	Modified Accrual Basis									
	Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues:										
Local sources:										
Local tax	\$ 17,134,843	16,940,548	17,000,441	21,031,966	19,965,384	19,077,440	18,991,634	18,480,477	17,944,565	17,338,396
Tuition	469,851	581,413	541,623	511,382	520,212	615,127	620,278	884,833	690,049	786,543
Other	1,372,032	1,554,648	1,979,646	1,374,398	1,591,790	1,696,419	1,615,686	1,856,905	2,000,495	2,105,819
Intermediate sources	7,359	5,616	7,003	-	1,544	-	12,677	3,000	-	-
State sources	46,609,778	47,575,949	40,191,783	35,554,763	34,382,794	32,450,180	27,135,151	31,849,930	29,525,104	27,891,472
Federal sources	3,760,714	3,140,684	4,394,036	4,569,742	6,037,941	5,144,022	5,654,814	2,794,429	2,687,752	4,082,428
Total	\$ 69,354,577	69,798,858	64,114,532	63,042,251	62,499,665	58,983,188	54,030,240	55,869,574	52,847,965	52,204,658
Expenditures:										
Instruction:										
Regular	\$ 25,678,281	24,917,905	23,662,704	21,795,143	22,985,566	21,271,530	21,034,796	20,060,964	18,726,781	16,356,028
Special	8,785,695	8,961,367	8,233,983	8,126,989	7,799,537	7,793,197	7,391,297	7,044,662	7,236,665	5,579,883
Other	8,687,590	9,299,722	9,107,860	9,517,911	8,377,947	7,760,462	7,026,144	7,164,887	6,464,219	6,549,435
Support services:										
Student	2,398,621	2,535,340	2,865,287	3,149,677	3,234,778	2,805,043	2,103,723	1,908,107	1,991,004	1,846,262
Instructional staff	2,764,853	2,502,071	2,165,536	2,293,463	1,691,437	1,678,659	2,270,085	2,142,918	1,794,691	2,272,949
Administration	5,068,755	4,513,540	4,476,548	4,373,022	4,085,615	3,884,942	3,728,482	3,834,695	3,900,824	4,611,452
Operation and maintenance of plant	4,918,247	4,790,097	4,686,393	4,496,125	4,268,969	4,402,034	4,203,737	3,956,726	4,043,697	3,750,599
Transportation	1,830,820	1,814,067	1,725,003	1,798,759	1,676,681	1,659,213	1,683,260	1,484,621	1,521,172	1,346,938
Non-instructional programs:										
Community service operations	99,108	72,995	76,400	63,308	53,420	67,803	56,138	165,550	120,319	95,017
Capital outlay	2,712,836	8,417,292	9,880,744	4,546,813	7,019,895	2,499,292	530,603	2,789,759	3,368,510	7,386,945
Long Term Debt:										
Principal	3,365,000	2,530,000	18,510,000	2,025,000	2,570,000	1,165,000	1,115,000	1,075,000	940,000	900,000
Interest and other fiscal charges	632,275	1,004,875	1,803,746	1,625,764	1,416,160	1,109,755	1,163,755	1,204,542	1,215,005	1,246,434
Other expenditures:										
AEA flow-through	2,385,793	2,365,196	2,238,380	2,152,426	2,124,025	2,296,118	2,192,875	1,921,715	1,833,651	1,712,160
Total	\$ 69,327,874	73,724,467	89,432,584	65,964,400	67,304,030	58,393,048	54,499,895	54,754,146	53,156,538	53,654,102

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
HEALTHIER US SCHOOLS CHALLENGE: SMARTER LUNCHROOMS	10.543	FY 16	\$ 1,500
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 16	429,465
GAINING EARLY AWARENESS AND READINESS FOR UNDERGRADUATE PROGRAMS	84.334	FY 16	49,363
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES - PROJECTS OF REGIONAL AND NATIONAL SIGNIFICANCE	93.243	FY 16	23,089
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 16	745,588
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 16	1,897,013 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 16	82,697
			<u>2,725,298</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 16	101,046
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION:			
IOWA STATE UNIVERSITY:			
SCIENCE	43.001	FY 16	12,547
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 16	1,224,906
MIGRANT EDUCATION - STATE GRANT PROGRAM	84.011	FY 15	17,102
MIGRANT EDUCATION - STATE GRANT PROGRAM	84.011	FY 16	172,667
			<u>189,769</u>
ADVANCE PLACEMENT PROGRAM	84.330	FY 16	6,935
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 16	151,281
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 16	19,407
DEPARTMENT OF EDUCATION:			
AREA EDUCATION AGENCY 267:			
SPECIAL EDUCATION - GRANTS TO STATES	84.027	FY 16	285,008
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 16	16,939
ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 16	43,817
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
IOWA DEPARTMENT OF EDUCATION:			
COOPERATIVE AGREEMENTS TO SUPPORT COMPREHENSIVE SCHOOL HEALTH PROGRAMS AND TO PREVENT THE SPREAD OF HIV AND OTHER IMPORTANT HEALTH PROBLEMS	93.938	FY 16	447
ASSISTANCE PROGRAMS FOR CHRONIC DISEASE PREVENTION AND CONTROL	93.945	FY 16	3,329
IOWA DEPARTMENT OF PUBLIC HEALTH:			
AFFORDABLE CARE ACT(ACA) PERSONAL RESPONSIBILITY EDUCATION PROGRAM	93.235	FY 16	49,945
TOTAL			<u>\$ 5,334,091</u>

* - Includes \$201,376 of non-cash awards

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Marshalltown Community School District under programs of the federal government for the year ended June 30, 2016. The information on 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 selected portion of the operations of Marshalltown Community School District, it is not intended to and does not represent the financial position, changes in financial position or cash flows of Marshalltown 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 allowed or are limited as to reimbursement. Marshalltown Community School District did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



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

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

To the Board of Education of Marshalltown Community School District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental 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 Marshalltown 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 January 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Marshalltown 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 Marshalltown Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Marshalltown Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marshalltown Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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.

Marshalltown Community School District's Responses to Findings

Marshalltown Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Marshalltown 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 result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Marshalltown Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

January 19, 2017
Newton, Iowa

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

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

To the Board of Education of Marshalltown Community School District:

Report on Compliance for Each Major Federal Program

We have audited Marshalltown 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 each of its major federal programs for the year ended June 30, 2016. Marshalltown Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Marshalltown Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, 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 Marshalltown 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 each major federal program. However, our audit does not provide a legal determination of Marshalltown Community School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Marshalltown Community School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Marshalltown 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 Marshalltown Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Marshalltown 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.



NOLTE, CORNMAN & JOHNSON, P.C.

January 19, 2017
Newton, Iowa

MARSHALLTOWN 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) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.515
- (g) Major programs were as follows:
 - Child Nutrition Cluster
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) Marshalltown Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over financial reporting were noted.

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 programs were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-16 Certified Budget - District disbursements for the year ended June 30, 2016 did not exceed the certified budgeted amounts.

IV-B-16 Questionable Disbursements - Disbursements noted which may not meet public purpose as defined by Attorney General's opinion dated April 25, 1979 are noted as follows:

Gift Cards: Noted the District purchased gift cards to be given as prizes during the Bobcat Golf event. Giving gift certificates/cards does not allow the board to "audit and allow" final purchases in accordance with Iowa Code Section 279.29 and does not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - Gift cards and cash incentives are not an appropriate District purchase since Iowa Code Section 279.29 requires districts to "audit and allow" all bills. The gift cards and cash prizes do not provide the board with the ability to perform the required function of approval of the final purchase. The District should refrain from purchasing gift cards for any purpose to be in accordance with the Attorney General's opinion dated April 25, 1979.

Response - The District will continue to notify staff that it is not appropriate to purchase gift cards.

Conclusion - Response accepted.

Fundraiser Prizes: We noted during our audit a disbursement for fundraiser prizes to be given to top sellers purchased from Miller Magazines Sales account within the Student Activity Fund. Giving prizes to top sellers in a fundraiser, for attendance or good behavior does not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place and refrain from purchasing prizes to be given to students to be in compliance with Attorney General's opinion dated April 25, 1979.

Response - The District will continue to notify staff that it is not appropriate to give prizes are rewards.

Conclusion - Response accepted.

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 and employees were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dave Adland, Bus Driver Owner of Adland Engraving Co.	Engraving Services	\$14,315
Rachel Palmer, Payroll Specialist Owns Palmer Services	Repair Services	\$500
Don Krukow, Bus Driver Owns Don's Cleaning Service	Cleaning Services	\$1,600
Don Knock, Teacher Spouse owns Knock n Kneedles	Supplies	\$3,590
Mike Miller, Board Member President/CEO of RACOM	Services	\$20,635

In accordance with Iowa Attorney General's Opinion dated July 2, 1990 the above transactions with the bus drivers and payroll specialist do not appear to represent a conflict of interest.

In accordance with Iowa Attorney General's Opinion dated November 9, 1976, the above transactions with the spouse of a District employee do not appear to represent a conflict of interest.

In accordance with the Chapter 279.7A of the Code of Iowa, the above transaction with the board member may appear to represent a conflict of interest.

Recommendation - Chapter 279.7A of the Code of Iowa states that a board member cannot have a direct or indirect interest in the contract of goods of the school district where the board member would derive a benefit of over \$2,500.

In the future, the board of directors should require competitive bids from area businesses. The competitive bids should be presented and acted upon by the District's entire board of directors. Board members that have an affiliation with businesses should recuse himself/herself from voting on the approval of the bid. The approval of the bid with any recusals of board members should be noted in the district board minutes to avoid the appearance of a conflict of interest. We recommend the District contact its legal counsel regarding this issue.

Response - The District will seek competitive bids and have contacted our legal counsel.

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 insure that the coverage is adequate for current operations.

IV-F-16 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-16 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Iowa Department of Education. The number certified was overstated by 1.66 students for the fall 2014 and fall 2015 count dates.

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

Response - The District's auditors will contact the Iowa Department of Education and the Iowa Department of Management on behalf of the District to resolve the variance in certified enrollment.

Conclusion - Response accepted.

IV-H-16 Supplementary Weighting - We noted variances regarding the supplementary weighting certified to the Iowa Department of Education. The number certified to the Iowa Department of Education was overstated by 0.51 for the 2015-2016 count.

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

Response - The District's auditors will contact the Iowa Department of Education and the Iowa Department of Management on behalf of the District to resolve the variance in certified enrollment.

Conclusion - Response accepted.

IV-I-16 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-16 Certified Annual Report - The Certified Annual Report was certified timely to the Department of Education and we noted no deficiencies in amounts reported.

IV-K-16 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement funds.

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.3 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2016, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2016 audit:

Beginning balance		\$ 2,290,895
Revenues:		
Sales tax revenues	\$ 5,141,172	
Other local revenues	32,060	5,173,232
		<u>7,464,127</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 991,555	
Equipment	132,129	
Other	290,846	
Transfers to another fund:		
Debt service fund	4,043,022	5,457,552
		<u>5,457,552</u>
Ending balance		<u>\$ 2,006,575</u>

For the year ended June 30, 2016, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	<u>\$ 2.04329</u>	<u>\$ 1,982,780</u>

IV-M-16 IHSAA and IGHSAU District and Regional Event Hosting - The District received revenue for being the host site of district and regional sporting events for the IHSAA and the IGHSAU. However, we noted the District does not always receipt this revenue into the General Fund instead we noted instances where all or a portion of the revenue was receipted into the Student Activity Fund.

Recommendation - Chapter 297.9 of the Code of Iowa requires rent received to be receipted into the General Fund. A portion of the IHSAA and IGHSAU gate collected is returned to the District as reimbursement to cover maintenance and overhead costs, which are paid from the General Fund. Therefore, the District should receipt rent collected for facility usage from hosting district and regional sporting events into the General Fund to offset those costs.

Response - The District will deposit the checks into the correct fund.

Conclusion - Response accepted.

IV-N-16 Exclusive Vendor Contract - We noted the District has an exclusive vendor contract with Coca-Cola Bottling Company. However, we noted a payment made from the General Fund to the Student Activity Fund which appeared to included commission revenue received from Coca-Cola. According to guidance provided by the Iowa Department of Education, Auditor of State and the Iowa Attorney General's Opinion dated February 15, 2000, Districts must record the revenue from exclusive vendor contracts in the General Fund.

Recommendation - The District should receipt and retain all commission money received as a result of the exclusive vendor contract into the General Fund.

Response - The District will receipt and retain all commission money received in the general fund.

Conclusion - Response accepted.

IV-O-16 Student Activity Fund - During our audit concerns arose about the propriety of certain expenditures within the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity Fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more appropriately included in another fund. Moneys in this fund shall be used to support only the co-curricular program defined in department of education administrative rules (298A.9).

Scholarships: We noted scholarships awarded from the High School Student Senate account within the Student Activity Fund. Money in the Student Activity Fund is considered to be public funds and is inappropriate to be given to individuals.

Recommendation - The District should receipt any related scholarship revenues and corresponding expenses to the District's Private Purpose Trust Fund where scholarships can be appropriately paid. Additionally, if a student activity group wishes to offer a scholarship, they must fundraise specifically for that purpose and document as such. Any money raised by these fundraisers would be receipted into the Private Purpose Trust Fund and not the activity group's account.

Response - The District will review the propriety of the revenues and expenditures that are approved in the Activity Fund to make sure they are being deposited into and paid from the correct fund.

Conclusion - Response accepted.