

BAXTER COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2018

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Baxter Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2017 election)**

Jon Northrup	President	2017
Deborah Meyer	Board Member	2019
Colette Kunkel	Board Member	2019
Cory Robinson	Board Member	2017
Kimberly Tichy	Board Member	2019

(After September 2017 election)

Jon Northrup	President	2021
Deborah Meyer	Board Member	2019
Colette Kunkel	Board Member	2019
Cory Robinson	Board Member	2021
Kimberly Tichy	Board Member	2019

School Officials

Todd Martin	Superintendent	2018
Julie McWhirter	District Secretary/Treasurer and Business Manager	2018
Ahlers & Cooney, P.C.	Attorney	2018

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of Baxter 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 Baxter Community School District, Baxter, Iowa, as of and for the year ended June 30, 2018, 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 Baxter Community School District as of June 30, 2018, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 12 to the financial statements, Baxter Community School District adopted new accounting guidance related to Governmental Accounting Standard Board (GASB) Statement No. 75,

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management’s Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District’s Proportionate Share of the Net Pension Liability, the Schedule of District Contributions, the Schedule of Changes in the District’s Total OPEB Liability, Related Ratios and Notes on pages 7 through 15 and 42 through 47 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 Baxter 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, 2017 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2019 on our consideration of Baxter Community School District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Baxter Community School District’s internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2019
Newton, Iowa



MANAGEMENT'S DISCUSSION AND ANALYSIS

Baxter 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, 2018. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- The District implemented Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, during fiscal year 2018. The beginning net position for governmental activities and business type activities were restated by \$13,047 and \$1,445, respectively, to retroactively report the decrease in the OPEB liability as of July 1, 2017. OPEB expense for fiscal year 2017 and deferred outflows of resources at June 30, 2017 were not restated because the information needed to restate those amounts was not available.
- General Fund revenues increased from \$4,355,146 in fiscal year 2017 to \$4,527,974 in fiscal year 2018, while General Fund expenditures increased from \$4,294,290 in fiscal year 2017 to \$4,491,547 in fiscal year 2018. Revenues outpaced expenditures resulting in an increase in the District's General Fund balance from \$1,179,899 at June 30, 2017 to \$1,216,326 at June 30, 2018.
- The increase in General Fund revenues was mainly attributable to an increase in local tax revenue. The increase in expenditures was due primarily to an increase in instruction expenditures compared to fiscal year 2017.
- The District's total net position increased from \$5,369,232 restated at July 1, 2017 to \$5,501,957 at June 30, 2018. Total revenues increased from \$5,722,948 in fiscal year 2017 to \$6,015,732 in fiscal year 2018, a 5.12% increase, while total expenses increased from \$5,361,579 in fiscal year 2017 to \$5,883,007 in fiscal year 2018, a 9.73% increase compared to the prior year.

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, the District's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Changes in the District's Total OPEB Liability, Related Ratios and Notes.

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

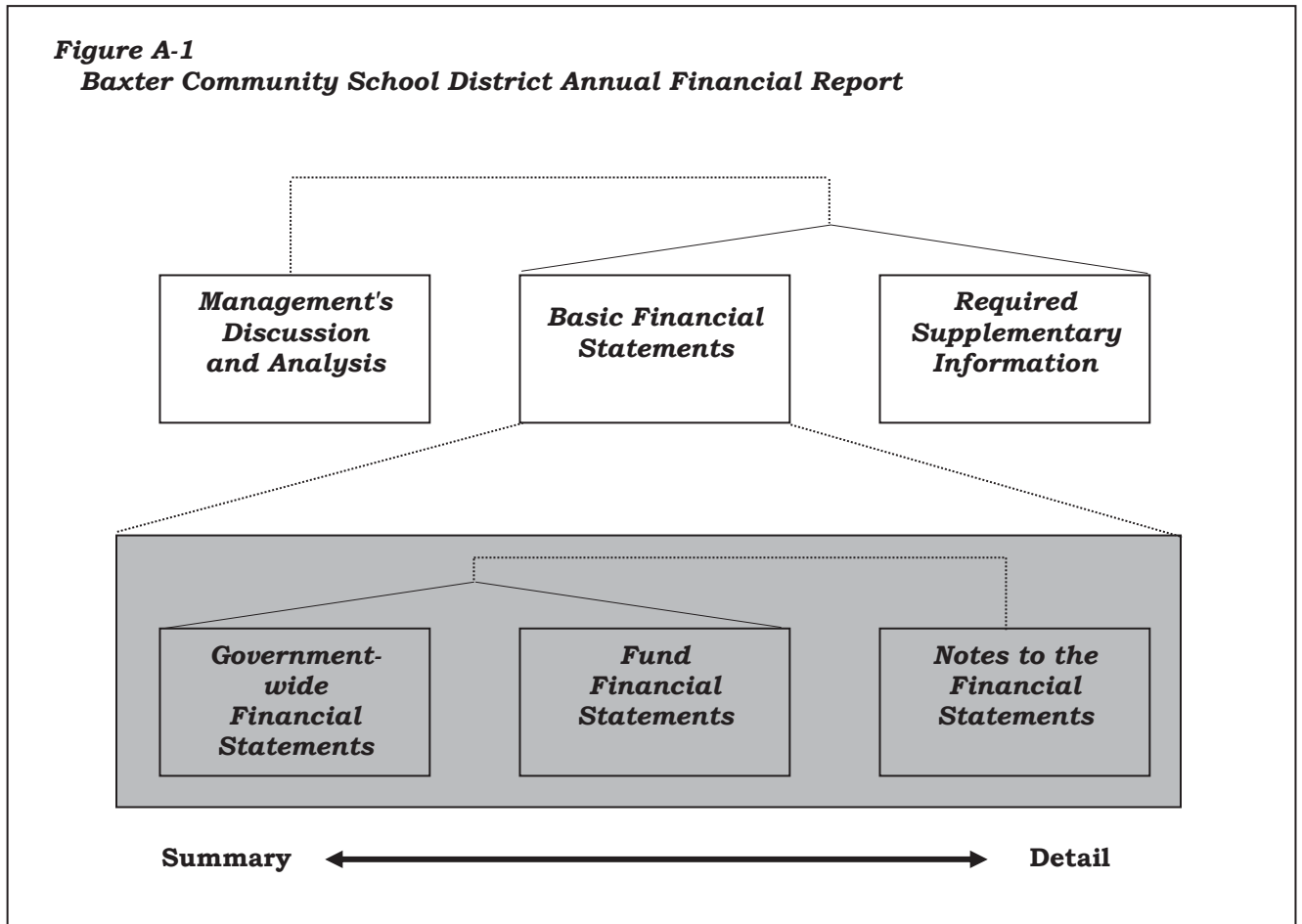


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-Wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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
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
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
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
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
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

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 two kinds of funds:

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

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

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

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities, but provides more detail and additional information, such as cash flows. The District's Enterprise Fund is the School Nutrition Fund.

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

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, 2018 compared to June 30, 2017.

Figure A-3 Condensed Statement of Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2017		2017		2017		2017-18
	2018	(Not Restated)	2018	(Not Restated)	2018	(Not Restated)	
Current and other assets	\$ 4,745,713	\$ 4,630,659	43,656	50,213	4,789,369	4,680,872	2.32%
Capital assets	5,499,513	5,535,524	3,824	8,086	5,503,337	5,543,610	-0.73%
Total assets	10,245,226	10,166,183	47,480	58,299	10,292,706	10,224,482	0.67%
Deferred outflows of resources	913,339	724,676	23,773	18,129	937,112	742,805	26.16%
Long-term liabilities	3,440,481	3,428,903	68,703	65,809	3,509,184	3,494,712	0.41%
Other liabilities	430,716	451,310	14,386	15,327	445,102	466,637	-4.61%
Total liabilities	3,871,197	3,880,213	83,089	81,136	3,954,286	3,961,349	-0.18%
Deferred inflows of resources	1,771,869	1,650,448	1,706	750	1,773,575	1,651,198	7.41%
Net position:							
Net investment in capital assets	4,894,513	4,670,524	3,824	8,086	4,898,337	4,678,610	4.70%
Restricted	1,389,494	1,400,887	-	-	1,389,494	1,400,887	-0.81%
Unrestricted	(768,508)	(711,213)	(17,366)	(13,544)	(785,874)	(724,757)	-8.43%
Total net position	\$ 5,515,499	\$ 5,360,198	(13,542)	(5,458)	5,501,957	5,354,740	2.75%

Prior to restatement, the District's total net position increased 2.75%, or \$147,217 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 sources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased \$11,393, or 0.81%, from the prior year. The decrease in restricted net position was due in part to a decrease in the amount restricted for physical plant and equipment 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 - decreased \$61,117, or 8.43%. This decrease in unrestricted net position was primarily a result of an increase in the OPEB liability compared to the prior year.

Figure A-4 shows the changes in net position for the year ended June 30, 2018 compared to the year ended June 30, 2017.

Figure A-4 Changes in Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2017		2017		2017		2017-18
	2018	(Not Restated)	2018	(Not Restated)	2018	(Not Restated)	
Revenues:							
Program revenues:							
Charges for service	\$ 1,225,191	941,068	116,848	123,908	1,342,039	1,064,976	26.02%
Operating grants, contributions and restricted interest	379,466	353,827	71,618	82,385	451,084	436,212	3.41%
General revenues:							
Property tax	1,620,981	1,543,534	-	-	1,620,981	1,543,534	5.02%
Income surtax	163,098	176,499	-	-	163,098	176,499	-7.59%
Statewide sales, services, and use tax	306,541	331,017	-	-	306,541	331,017	-7.39%
Unrestricted state grants	2,028,953	2,099,983	-	-	2,028,953	2,099,983	-3.38%
Unrestricted investment earnings	13,084	8,046	-	-	13,084	8,046	62.61%
Other	86,279	57,572	3,673	5,109	89,952	62,681	43.51%
Total revenues	5,823,593	5,511,546	192,139	211,402	6,015,732	5,722,948	5.12%
Program expenses:							
Instruction	3,488,884	3,038,584	-	-	3,488,884	3,038,584	14.82%
Support services	1,846,326	1,753,934	3,314	2,527	1,849,640	1,756,461	5.30%
Non-instructional programs	-	-	198,354	205,530	198,354	205,530	-3.49%
Other expenditures	346,129	361,004	-	-	346,129	361,004	-4.12%
Total expenses	5,681,339	5,153,522	201,668	208,057	5,883,007	5,361,579	9.73%
Excess (deficiency) of revenues over (under) expenses	142,254	358,024	(9,529)	3,345	132,725	361,369	-63.27%
Transfers	-	(1,649)	-	1,649	-	-	0.00%
Change in net position	142,254	356,375	(9,529)	4,994	132,725	361,369	-63.27%
Net position beginning of year, as restated	5,373,245	5,003,823	(4,013)	(10,452)	5,369,232	4,993,371	7.53%
Net position end of year	<u>\$ 5,515,499</u>	<u>5,360,198</u>	<u>(13,542)</u>	<u>(5,458)</u>	<u>5,501,957</u>	<u>5,354,740</u>	<u>2.75%</u>

In fiscal year 2018, local tax, statewide sales, services and use tax and unrestricted state grants accounted for 70.74% of governmental activities revenues while charges for service and operating grants, contributions and restricted interest accounted for 98.09% of the revenue from business type activities.

The District's total revenues were approximately \$6.01 million, of which approximately \$5.82 million was for governmental activities and approximately \$0.19 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.12% increase in revenues and a 9.73% increase in expenses. The increase in revenues is primarily due to an increase in charges for services revenue received and the increase in expenses is due to an increase in instruction expenses incurred compared to the prior year.

Governmental Activities

Revenues for governmental activities were \$5,823,593 and expenses were \$5,681,339 for the year ended June 30, 2018.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, and other expenses, for the year ended June 30, 2018 compared to those expenses for the year ended June 30, 2017.

	Total Cost of Services			Net Cost of Services		
	2018	2017 (Not Restated)	Change 2017-18	2018	2017 (Not Restated)	Change 2017-18
Instruction	\$ 3,488,884	3,038,584	14.82%	2,030,100	1,914,147	6.06%
Support services	1,846,326	1,753,934	5.27%	1,844,213	1,725,929	6.85%
Other expenses	346,129	361,004	-4.12%	202,369	218,551	-7.40%
Totals	<u>\$ 5,681,339</u>	<u>5,153,522</u>	<u>10.24%</u>	<u>4,076,682</u>	<u>3,858,627</u>	<u>5.65%</u>

For the year ended June 30, 2018:

- The cost financed by users of the District's programs was \$1,225,191.
- Federal and state governments along with contributions from local sources subsidized certain programs with grants and contributions totaling \$379,466.
- The net cost of governmental activities was financed with \$1,620,981 in property tax, \$163,098 in income surtax, \$306,541 in statewide sales, services and use tax, \$2,028,953 in unrestricted state grants, \$13,084 in interest income and \$86,279 in other general revenues.

Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2018 were \$192,139 and expenses were \$201,668. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and other general revenues.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,453,600, above last year's ending fund balances of \$2,398,100. The primary reason for the increase in combined fund balances is the improvement that occurred in the Management Levy Fund and General Fund balances during the year.

Governmental Fund Highlights

- The improvement in the General Fund balance from \$1,179,899 at June 30, 2017 to \$1,216,326 at June 30, 2018 is the product of many factors. The increase in revenues, led by an increase in local tax revenues, outpaced the increase in expenditures, which occurred primarily in the instruction functional area, resulting in an increase of \$36,427, or 3.09% in the General Fund balance.
- The Capital Projects Fund balance decreased from \$979,957 at June 30, 2017 to \$930,156 at June 30, 2018. During fiscal year 2018, the Capital Projects: Statewide Sales, Services and Use Tax Fund balance increased \$94,097 and the Capital Projects: Physical Plant and Equipment Levy Fund balance decreased \$143,898.

- The District's Debt Service Fund balance increased from \$24,165 at June 30, 2017 to \$29,934 at June 30, 2018. The increase in fund balance is primarily due to interest income earned during the year.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from deficit \$4,013, restated at July 1, 2017 to deficit \$13,542 at June 30, 2018, representing a decrease of 237.45%. The decrease in net position is due primarily to a decrease in federal sources received compared to the prior year.

BUDGETARY HIGHLIGHTS

The District's total revenues were \$281,995 more than budgeted revenues, a variance of 4.92%. The most significant variance resulted from the District receiving more from local sources than originally anticipated.

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

In spite of the District's budgeting practice, expenditures in the other expenditures functional area exceeded amounts budgeted for fiscal year 2018.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had invested \$5,503,337, 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 decrease of 0.73% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$221,265.

The original cost of the District's capital assets was \$9,179,108. Governmental funds accounted for \$9,112,399 with the remaining \$66,709 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings, net of accumulated depreciation, totaled \$5,014,665 at June 30, 2018, compared to \$5,164,581 at June 30, 2017. The decrease resulted from annual depreciation expense applied during the year.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2018	2017	2018	2017	2018	2017	2017-18
Land	\$ 105,602	105,602	-	-	105,602	105,602	0.00%
Buildings	5,014,665	5,164,581	-	-	5,014,665	5,164,581	-2.90%
Land improvements	54,275	61,212	-	-	54,275	61,212	-11.33%
Machinery and equipment	324,971	204,129	3,824	8,086	328,795	212,215	54.93%
Total	\$ 5,499,513	5,535,524	3,824	8,086	5,503,337	5,543,610	-0.73%

Long-Term Debt

At June 30, 2018, the District had \$605,000 of outstanding general obligation bonds. This represents a decrease of 30.06% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.

	Figure A-7		
	Outstanding Long-Term Obligations		
	Total	Total	Total
	District	Change	Change
	June 30,	June 30,	June 30,
	2018	2017	2017-18
General obligation bonds	\$ 605,000	865,000	-30.06%

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:

- Low allowable growth over several years is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.

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 Julie McWhirter, District Secretary/Treasurer and Business Manager, Baxter Community School District, 202 East State Street, Baxter, Iowa, 50028.



BASIC FINANCIAL STATEMENTS

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 2,708,756	40,602	2,749,358
Receivables:			
Property tax:			
Delinquent	3,540	-	3,540
Succeeding year	1,697,062	-	1,697,062
Income surtax	163,755	-	163,755
Due from other governments	166,089	-	166,089
Inventories	-	3,054	3,054
Unamortized net bond premiums/discounts	6,511	-	6,511
Capital assets not being depreciated:			
Land	105,602	-	105,602
Capital assets, net of accumulated depreciation:			
Buildings, land improvements and machinery and equipment	5,393,911	3,824	5,397,735
Total assets	10,245,226	47,480	10,292,706
Deferred Outflows of Resources			
Pension related deferred outflows	778,721	18,354	797,075
OPEB related deferred outflows	134,618	5,419	140,037
Total deferred outflows of resources	913,339	23,773	937,112
Liabilities			
Accounts payable	18,208	-	18,208
Salaries and benefits payable	406,577	10,775	417,352
Accrued interest payable	5,931	-	5,931
Unearned revenue	-	3,611	3,611
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	150,000	-	150,000
Portion due after one year:			
General obligation bonds	455,000	-	455,000
Net pension liability	2,604,543	59,406	2,663,949
Total OPEB liability	230,938	9,297	240,235
Total liabilities	3,871,197	83,089	3,954,286
Deferred Inflows of Resources			
Unavailable property tax revenue	1,697,062	-	1,697,062
Pension related deferred inflows	74,807	1,706	76,513
Total deferred inflows of resources	1,771,869	1,706	1,773,575
Net Position			
Net investment in capital assets	4,894,513	3,824	4,898,337
Restricted for:			
Categorical funding	158,151	-	158,151
Debt service	24,003	-	24,003
Management levy purposes	176,202	-	176,202
Student activities	71,306	-	71,306
Support trust purposes	29,676	-	29,676
School infrastructure	828,226	-	828,226
Physical plant and equipment	101,930	-	101,930
Unrestricted	(768,508)	(17,366)	(785,874)
Total net position	\$ 5,515,499	(13,542)	5,501,957

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 2,109,654	730,527	68,195	(1,310,932)	-	(1,310,932)
Special	418,945	126,332	43,445	(249,168)	-	(249,168)
Other	960,285	368,332	121,953	(470,000)	-	(470,000)
	<u>3,488,884</u>	<u>1,225,191</u>	<u>233,593</u>	<u>(2,030,100)</u>	<u>-</u>	<u>(2,030,100)</u>
Support services:						
Student	115,490	-	-	(115,490)	-	(115,490)
Instructional staff	145,762	-	-	(145,762)	-	(145,762)
Administration	706,909	-	-	(706,909)	-	(706,909)
Operation and maintenance of plant	637,780	-	-	(637,780)	-	(637,780)
Transportation	240,385	-	2,113	(238,272)	-	(238,272)
	<u>1,846,326</u>	<u>-</u>	<u>2,113</u>	<u>(1,844,213)</u>	<u>-</u>	<u>(1,844,213)</u>
Long-term debt interest	45,516	-	-	(45,516)	-	(45,516)
Other expenditures:						
AEA flowthrough	143,760	-	143,760	-	-	-
Depreciation(unallocated)*	156,853	-	-	(156,853)	-	(156,853)
	<u>300,613</u>	<u>-</u>	<u>143,760</u>	<u>(156,853)</u>	<u>-</u>	<u>(156,853)</u>
Total governmental activities	<u>5,681,339</u>	<u>1,225,191</u>	<u>379,466</u>	<u>(4,076,682)</u>	<u>-</u>	<u>(4,076,682)</u>
Business type activities:						
Support services:						
Instructional staff	3,314	-	-	-	(3,314)	(3,314)
Non-instructional programs:						
Food service operations	198,354	116,848	71,618	-	(9,888)	(9,888)
Total business type activities	<u>201,668</u>	<u>116,848</u>	<u>71,618</u>	<u>-</u>	<u>(13,202)</u>	<u>(13,202)</u>
Total	<u>\$ 5,883,007</u>	<u>1,342,039</u>	<u>451,084</u>	<u>(4,076,682)</u>	<u>(13,202)</u>	<u>(4,089,884)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,259,523	-	1,259,523
Debt service				302,921	-	302,921
Capital outlay				58,537	-	58,537
Income surtax				163,098	-	163,098
Statewide sales, services and use tax				306,541	-	306,541
Unrestricted state grants				2,028,953	-	2,028,953
Unrestricted investment earnings				13,084	-	13,084
Other				86,279	3,673	89,952
Total general revenues				<u>4,218,936</u>	<u>3,673</u>	<u>4,222,609</u>
Changes in net position				142,254	(9,529)	132,725
Net position beginning of year, as restated				<u>5,373,245</u>	<u>(4,013)</u>	<u>5,369,232</u>
Net position end of year				<u>\$ 5,515,499</u>	<u>(13,542)</u>	<u>5,501,957</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Capital Projects	Debt Service	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 1,498,668	904,083	29,254	276,751	2,708,756
Receivables:					
Property tax:					
Delinquent	2,296	131	680	433	3,540
Succeeding year	1,053,798	62,969	360,295	220,000	1,697,062
Income surtax	127,365	36,390	-	-	163,755
Due from other governments	135,147	30,942	-	-	166,089
Total assets	\$ 2,817,274	1,034,515	390,229	497,184	4,739,202
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable	\$ 13,208	5,000	-	-	18,208
Salaries and benefits payable	406,577	-	-	-	406,577
Total liabilities	419,785	5,000	-	-	424,785
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	1,053,798	62,969	360,295	220,000	1,697,062
Income surtax	127,365	36,390	-	-	163,755
Total deferred inflows of resources	1,181,163	99,359	360,295	220,000	1,860,817
Fund balances:					
Restricted for:					
Categorical funding	158,151	-	-	-	158,151
Debt service	-	-	29,934	-	29,934
Management levy purposes	-	-	-	176,202	176,202
Student activities	-	-	-	71,306	71,306
Support trust purposes	-	-	-	29,676	29,676
School infrastructure	-	828,226	-	-	828,226
Physical plant and equipment	-	101,930	-	-	101,930
Unassigned	1,058,175	-	-	-	1,058,175
Total fund balances	1,216,326	930,156	29,934	277,184	2,453,600
Total liabilities, deferred inflows of resources and fund balances	\$ 2,817,274	1,034,515	390,229	497,184	4,739,202

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2018

Total fund balances of governmental funds(page 20)		\$ 2,453,600
<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.		5,499,513
Accounts receivable income surtax is not yet available to finance expenditures of the current year and, therefore, is recognized as a deferred inflow of resources in the governmental funds.		163,755
Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the government funds.		(5,931)
Unamortized net bond premiums, discounts and issuance costs are not financial resources and, therefore, are not reported as assets in the governmental funds.		6,511
Pension and OPEB related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	\$ 913,339	
Deferred inflows of resources	<u>(74,807)</u>	838,532
Long-term liabilities, including bonds payable, total OPEB liability and net pension liability, are not due and payable in the current year and, therefore, are not reported in the governmental funds.		<u>(3,440,481)</u>
Net position of governmental activities(page 18)		<u><u>\$ 5,515,499</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General	Capital Projects	Debt Service	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 1,181,379	93,352	302,921	200,010	1,777,662
Tuition	835,657	-	-	-	835,657
Other	110,746	-	4,163	374,238	489,147
State sources	2,263,297	311,847	1,585	1,086	2,577,815
Federal sources	136,895	-	-	-	136,895
Total revenues	<u>4,527,974</u>	<u>405,199</u>	<u>308,669</u>	<u>575,334</u>	<u>5,817,176</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,957,410	-	-	35,084	1,992,494
Special	391,412	-	-	-	391,412
Other	564,511	-	-	351,237	915,748
	<u>2,913,333</u>	<u>-</u>	<u>-</u>	<u>386,321</u>	<u>3,299,654</u>
Support services:					
Student	98,904	-	-	-	98,904
Instructional staff	117,987	4,397	-	-	122,384
Administration	659,698	2,883	-	649	663,230
Operation and maintenance of plant	403,589	99,334	-	110,312	613,235
Transportation	154,276	180,992	-	14,947	350,215
	<u>1,434,454</u>	<u>287,606</u>	<u>-</u>	<u>125,908</u>	<u>1,847,968</u>
Capital outlay	-	167,394	-	-	167,394
Long-term debt:					
Principal	-	-	260,000	-	260,000
Interest and fiscal charges	-	-	42,900	-	42,900
	<u>-</u>	<u>-</u>	<u>302,900</u>	<u>-</u>	<u>302,900</u>
Other expenditures:					
AEA flowthrough	143,760	-	-	-	143,760
Total expenditures	<u>4,491,547</u>	<u>455,000</u>	<u>302,900</u>	<u>512,229</u>	<u>5,761,676</u>
Change in fund balances	36,427	(49,801)	5,769	63,105	55,500
Fund balances beginning of year	1,179,899	979,957	24,165	214,079	2,398,100
Fund balances end of year	<u>\$ 1,216,326</u>	<u>930,156</u>	<u>29,934</u>	<u>277,184</u>	<u>2,453,600</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER 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, 2018

Change in fund balances - total governmental funds(page 22) \$ 55,500

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

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

Capital outlay	\$ 180,992	
Depreciation expense	<u>(217,003)</u>	(36,011)

Income surtax receivable is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds. 6,417

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 260,000

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 governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,136

Bond premiums, discounts and issuance costs are reported in governmental funds when incurred, however, those amounts are allocated over the life of the bonds in the Statement of Activities. (3,752)

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. 269,243

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

Pension expense	(372,634)	
Total OPEB liability and related expenses	<u>(37,645)</u>	<u>(410,279)</u>

Change in net position of governmental activities(page 19) \$ 142,254

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018

	Enterprise: School Nutrition
Assets	
Current assets:	
Cash and pooled investments	\$ 40,602
Inventories	3,054
Total current assets	43,656
Noncurrent assets:	
Capital assets, net of accumulated depreciation	3,824
Total assets	47,480
Deferred Outflows of Resources	
Pension related deferred outflows	18,354
OPEB related deferred outflows	5,419
Total deferred outflows of resources	23,773
Liabilities	
Current liabilities:	
Salaries and benefits payable	10,775
Unearned revenue	3,611
Total current liabilities	14,386
Noncurrent liabilities:	
Net pension liability	59,406
Total OPEB liability	9,297
Total noncurrent liabilities	68,703
Total liabilities	83,089
Deferred Inflows of Resources	
Pension related deferred inflows	1,706
Net Position	
Net investment in capital assets	3,824
Unrestricted	(17,366)
Total net position	\$ (13,542)

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2018

	Enterprise: School Nutrition
Operating revenues:	
Local sources:	
Charges for service	\$ 116,848
Miscellaneous	3,673
Total operating revenues	120,521
Operating expenses:	
Support services:	
Instructional staff	
Other	3,314
	3,314
Non-instructional programs:	
Food service operations:	
Salaries	65,502
Benefits	27,714
Supplies	100,876
Depreciation	4,262
	198,354
Total operating expenses	201,668
Operating loss	(81,147)
Non-operating revenues:	
State sources	1,516
Federal sources	70,102
Total non-operating revenues	71,618
Change in net position	(9,529)
Net position beginning of year, as restated	(4,013)
Net position end of year	\$ (13,542)

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2018

	Enterprise: School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 116,668
Cash received from miscellaneous	3,673
Cash payments to employees for services	(94,326)
Cash payments to suppliers for goods or services	(90,310)
Net cash used in operating activities	(64,295)
Cash flows from non-capital financing activities:	
State grants received	1,516
Federal grants received	55,357
Net cash provided by non-capital financing activities	56,873
Net decrease in cash and pooled investments	(7,422)
Cash and pooled investments beginning of year	48,024
Cash and pooled investments end of year	\$ 40,602
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (81,147)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,745
Depreciation	4,262
Increase in inventories	(865)
Decrease in salaries and benefits payable	(761)
Decrease in unearned revenue	(180)
Increase in other postemployment benefits	6,935
Decrease in OPEB liability	(2,596)
Increase in deferred outflows of resources	(5,644)
Increase in deferred inflows of resources	956
Net cash used in operating activities	\$ (64,295)

Non-cash investing, capital and other related financing activities:

During the year ended June 30, 2018, the District received \$14,745 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(1) Summary of Significant Accounting Policies

Baxter 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 career and technical and recreational courses. The geographic area served includes the City of Baxter, Iowa, and the predominate agricultural territory in Jasper and Marshall Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Baxter 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 Baxter 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 do 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 Jasper and Marshall County Assessors' Conference Boards.

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 often has constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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 and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. Combining schedules are also included for the Capital Projects Fund accounts.

The District reports the following major governmental funds:

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

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

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

The District reports the following nonmajor proprietary fund:

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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 terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for 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/Net Position

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 amortized cost.

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date 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 reported as a deferred inflow of resources in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2016 assessed property valuations; is for the tax accrual period July 1, 2017 through June 30, 2018 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2017.

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.

Unamortized Net Bond Premiums/Discounts - Net premiums, discounts and issuance costs associated with outstanding bond issues which are amortized using the straight-line method over the life of the bonds.

Capital Assets - Capital assets, which include property, machinery, equipment, and intangibles acquired after July 1, 1980 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 if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable 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	\$ -
Buildings	5,000
Land improvements	5,000
Intangibles	50,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more years
Machinery and equipment	5-12 years

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension and OPEB expense, the unamortized portion of the net difference between projected and actual earnings on pension plan investments and contributions from the District after the measurement date but before the end of the District's reporting period.

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

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

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Position for the Proprietary, 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.

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

payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid primarily by the General Fund.

Total OPEB Liability - For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and OPEB expense, information has been determined based on the District's actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The total OPEB liability attributable to the governmental activities will be paid primarily by the General Fund while the portion attributable to the business type activities will be paid primarily by the Enterprise, School Nutrition Fund.

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

Deferred inflows of resources on the Statement of Net Position consist of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unrecognized items not yet charged to pension expense.

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

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

Unassigned - All amounts not included in the preceding classification.

E. Budget and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2018, expenditures exceeded the amounts budgeted in the other expenditures function.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2018 were entirely covered by federal depository insurance or by the State Sinking Funds in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

At June 30, 2018, the District had investments in the Iowa Schools Joint Investment Trust (ISJIT) Direct Government Obligations Portfolio which are valued at an amortized cost of \$62 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals of the ISJIT investments. The investments in ISJIT were rated AAAM by Standard's and Poor's Financial Services.

(3) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 105,602	-	-	105,602
Total capital assets not being depreciated	<u>105,602</u>	<u>-</u>	<u>-</u>	<u>105,602</u>
Capital assets being depreciated:				
Buildings	7,806,234	-	-	7,806,234
Land improvements	401,179	-	-	401,179
Machinery and equipment	790,372	180,992	171,980	799,384
Total capital assets being depreciated	<u>8,997,785</u>	<u>180,992</u>	<u>171,980</u>	<u>9,006,797</u>
Less accumulated depreciation for:				
Buildings	2,641,653	149,916	-	2,791,569
Land improvements	339,967	6,937	-	346,904
Machinery and equipment	586,243	60,150	171,980	474,413
Total accumulated depreciation	<u>3,567,863</u>	<u>217,003</u>	<u>171,980</u>	<u>3,612,886</u>
Total capital assets being depreciated, net	<u>5,429,922</u>	<u>(36,011)</u>	<u>-</u>	<u>5,393,911</u>
Governmental activities capital assets, net	<u>\$ 5,535,524</u>	<u>(36,011)</u>	<u>-</u>	<u>5,499,513</u>
Business type activities:				
Machinery and equipment	\$ 66,709	-	-	66,709
Less accumulated depreciation	58,623	4,262	-	62,885
Business type activities capital assets, net	<u>\$ 8,086</u>	<u>(4,262)</u>	<u>-</u>	<u>3,824</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction:	
Other	\$ 2,642
Support services:	
Operation and maintenance of plant	1,172
Transportation	56,336
	<u>60,150</u>
Unallocated depreciation	<u>156,853</u>
Total governmental activities depreciation expense	<u>\$ 217,003</u>
Business type activities:	
Food service operations	<u>\$ 4,262</u>

(4) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2018 are summarized as follows:

	Balance Beginning of Year, as restated	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 865,000	-	260,000	605,000	150,000
Net pension liability	2,492,181	112,362	-	2,604,543	-
Total OPEB liability	58,675	172,263	-	230,938	-
	<u>\$ 3,415,856</u>	<u>284,625</u>	<u>260,000</u>	<u>3,440,481</u>	<u>150,000</u>
Business type activities:					
Net pension liability	\$ 62,002	-	2,596	59,406	-
Total OPEB liability	2,362	6,935	-	9,297	-
	<u>\$ 64,364</u>	<u>6,935</u>	<u>2,596</u>	<u>68,703</u>	<u>-</u>

General Obligation Bonds Payable

Details of the District's June 30, 2018 general obligation indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			
	Interest Rates	Principal	Interest	Total
2019	4.80%	\$ 150,000	29,795	179,795
2020	4.90	155,000	22,595	177,595
2021	5.00	165,000	15,000	180,000
2022	5.00	135,000	6,750	141,750
Total		<u>\$ 605,000</u>	<u>74,140</u>	<u>679,140</u>

(5) 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 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 on or after 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 2018, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the District contributed 8.93% of covered payroll, for a total rate of 14.88%.

The District's contributions to IPERS for the year ended June 30, 2018 were \$275,977.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2018, the District reported a liability of \$2,663,949 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2017, the District's proportion was 0.039992%, which was a decrease of 0.000594% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$377,503. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,458	23,081
Changes of assumptions	462,872	-
Net difference between projected and actual earnings on IPERS' investments	-	27,824
Changes in proportion and differences between District contributions and the District's proportionate share of contributions	33,768	25,608
District contributions subsequent to the measurement date	275,977	-
Total	<u>\$ 797,075</u>	<u>76,513</u>

\$275,977 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ 75,639
2020	208,256
2021	121,221
2022	9,749
2023	29,720
Total	<u>\$ 444,585</u>

There were no non-employer contributing entities at IPERS.

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

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

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

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

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed 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 to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
District's proportionate share of the net pension liability	\$ 4,389,120	2,663,949	1,214,475

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, 2018, the District reported payables to IPERS of \$29,277 for legally required District contributions and \$19,507 for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

(6) Other Postemployment Benefits (OPEB)

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

OPEB Benefits - Individuals who are employed by the District and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical and prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

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

Inactive employees or beneficiaries currently receiving benefit payments	0
Active employees	<u>53</u>
Total	<u><u>53</u></u>

Total OPEB Liability - The District's total OPEB liability of \$240,235 was measured as of June 30, 2018 and was determined by an actuarial valuation dated July 1, 2017.

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

Rate of inflation (effective June 30, 2018)	3.00% per annum.
Rates of salary increase (effective June 30, 2018)	3.25% per annum, including inflation.
Discount rate (effective July 1, 2017)	3.58% compounded annually, including inflation.
Healthcare cost trend rate (effective June 30, 2018)	8.0% initial rate decreasing by 0.25% annually to an ultimate rate of 5.0%

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

Mortality rates are from the RP 2014 Annuitant distinct mortality table adjusted to 2006 with MP-2017 generational projection of future mortality improvement. Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used by IPERS.

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

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Total OPEB liability beginning of year, as restated	\$ 61,037
Changes for the year:	
Service cost	21,555
Interest	8,324
Differences between expected and actual experiences	86,530
Changes in assumptions	63,957
Benefit payments	<u>(1,168)</u>
Net changes	<u>179,198</u>
Total OPEB liability end of year	<u>\$ 240,235</u>

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

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

	<u>1% Decrease (2.58%)</u>	<u>Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
Total OPEB liability	\$ 264,180	240,235	218,363

Sensitivity of the District's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the total OPEB liability of the District as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (7.00%) or 1% higher (9.00%) than the current healthcare cost trend rates.

	1% Decrease (7.00%)	Healthcare Cost Trend Rate (8.00%)	1% Increase (9.00%)
Total OPEB liability	\$ 210,392	240,235	275,769

OPEB Expense and Deferred Outflows of Resources Related to OPEB - For the year ended June 30, 2018, the District recognized OPEB expense of \$40,329. At June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following resources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 80,521
Changes in assumptions	59,516
Total	<u>\$ 140,037</u>

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

Year Ended June 30,	Amount
2019	\$ 10,450
2020	10,450
2021	10,450
2022	10,450
2023	10,450
Thereafter	87,787
Total	<u>\$ 140,037</u>

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, life, accidental death and dismemberment and long-term disability.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2018 were \$316,914.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior notice may withdraw.

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

(8) Categorical Funding

In accordance with Iowa Administrative Code Section 98.1, categorical funding is financial support from the state and federal governments targeted for particular categories of students, special programs, or special

purposes. This support is in addition to school district or area education agency general purpose revenue, for purposes beyond the basic educational program and most often has restrictions on its use. Any portion of categorical funding provided by the state that is not expended by the end of the fiscal year must be carried forward as a restricted fund balance.

The District's restricted fund balance for categorical funding at June 30, 2018 is comprised of the following programs:

Program	Amount
Gifted and Talented Programs	\$ 29,980
Teacher Leadership State Aid	42,448
Four-year-old Preschool State Aid	23,424
Successful Progression for Early Readers	41,796
Professional Development	20,503
Total	<u>\$ 158,151</u>

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$143,760 for the year ended June 30, 2018 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Reconciliation of Governmental Fund Balances to Net Position

Reconciliation of certain governmental fund balances to net position is as follows:

	Net Investment in Capital Assets	Debt Service	Unassigned/ Unrestricted
Fund balance (Exhibit C)	\$ -	29,934	1,058,175
Capital assets, net of accumulated depreciation	5,499,513	-	-
General obligation bond capitalized indebtedness	(605,000)	-	-
Accrued interest payable	-	(5,931)	-
Income surtax receivable	-	-	163,755
Amortized bond discounts/issuance costs	-	-	6,511
Pension related deferred outflows	-	-	778,721
Net pension liability	-	-	(2,604,543)
Total OPEB liability	-	-	(230,938)
OPEB related deferred outflows	-	-	134,618
Pension related deferred inflows	-	-	(74,807)
Net position (Exhibit A)	<u>\$ 4,894,513</u>	<u>24,003</u>	<u>(768,508)</u>

(11) Tax Abatements

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

Tax Abatements of Other Entities

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

Entity	Tax Abatement Program	Amount of Tax Abated
City of Baxter	Urban renewal	\$1,960
Marshall County	Urban renewal	\$6,593

The State of Iowa reimburses the District an amount equivalent to the increment of valuation on which property tax is divided times \$5.40 per \$1,000 of taxable valuation. For the year ended June 30, 2018, this reimbursement amounted to \$3,448.

(12) Accounting Change/Restatement

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

	Governmental Activities	Business Type Activities
Net position June 30, 2017, as previously reported	\$ 5,360,198	(5,458)
OPEB obligation measured under previous standards	71,722	3,807
Total OPEB liability at June 30, 2017	<u>(58,675)</u>	<u>(2,362)</u>
Net position July 1, 2017, as restated	<u>\$ 5,373,245</u>	<u>(4,013)</u>

(13) Budget Overexpenditure

Per the Code of Iowa, expenditures may not exceed budgeted appropriations at the function level. During the year ended June 30, 2018, expenditures in the other expenditures function exceed the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

BAXTER 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, 2018

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 3,102,466	120,521	3,222,987	2,774,736	2,774,736	448,251
State sources	2,577,815	1,516	2,579,331	2,731,584	2,731,584	(152,253)
Federal sources	136,895	70,102	206,997	221,000	221,000	(14,003)
Total revenues	5,817,176	192,139	6,009,315	5,727,320	5,727,320	281,995
Expenditures/Expenses:						
Instruction	3,299,654	-	3,299,654	3,850,000	3,850,000	550,346
Support services	1,847,968	3,314	1,851,282	2,055,000	2,055,000	203,718
Non-instructional programs	-	198,354	198,354	235,000	235,000	36,646
Other expenditures	614,054	-	614,054	556,533	556,533	(57,521)
Total expenditures/expenses	5,761,676	201,668	5,963,344	6,696,533	6,696,533	733,189
Excess(Deficiency) of revenues over(under) expenditures/expenses	55,500	(9,529)	45,971	(969,213)	(969,213)	1,015,184
Balances beginning of year, as restated	2,398,100	(4,013)	2,394,087	2,054,599	2,054,599	339,488
Balances end of year	\$ 2,453,600	(13,542)	2,440,058	1,085,386	1,085,386	1,354,672

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2018

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison 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 a GAAP basis.

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

During the year ended June 30, 2018, expenditures in the other expenditures function exceeded the amounts budgeted.

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

	2018	2017	2016	2015
District's proportion of the net pension liability	0.039992%	0.040586%	0.040567%	0.041137%
District's proportionate share of the net pension liability	\$ 2,663,949	2,554,183	2,004,225	1,631,452
District's covered payroll	\$ 2,985,182	2,912,576	2,779,234	2,691,825
District's proportionate share of the net pension liability as a percentage of its covered payroll	89.24%	87.69%	72.11%	60.61%
IPERS' net position as a percentage of the total pension liability	82.21%	81.82%	85.19%	87.61%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily required contribution	\$ 275,977	266,577	260,093	248,186	240,380	218,542	207,330	173,508	159,847	150,382
Contributions in relation to the statutorily required contribution	\$ (275,977)	(266,577)	(260,093)	(248,186)	(240,380)	(218,542)	(207,330)	(173,508)	(159,847)	(150,382)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
District's covered payroll	\$ 3,090,444	2,985,182	2,912,576	2,779,234	2,691,825	2,520,669	2,569,145	2,496,518	2,403,714	2,368,220
Contributions as a percentage of covered payroll	8.93%	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2018

Changes of benefit terms:

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

Changes of assumptions:

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

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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

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

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

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

BAXTER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN THE DISTRICT'S
 TOTAL OPEB LIABILITY, RELATED RATIOS AND NOTES
 FOR THE CURRENT YEAR
 REQUIRED SUPPLEMENTARY INFORMATION

	2018
Service cost	\$ 21,555
Interest cost	8,324
Differences between expected and actual experiences	86,530
Changes in assumptions	63,957
Benefit payments	(1,168)
Net change in total OPEB liability	179,198
Total OPEB liability beginning of year, as restated	61,037
Total OPEB liability end of year	\$ 240,235
Covered-employee payroll	\$ 2,249,051
Total OPEB liability as a percentage of covered-employee payroll	10.68%

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

Changes in benefit terms:

There were no significant changes in benefit terms.

Changes in assumptions:

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

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



SUPPLEMENTARY INFORMATION

BAXTER COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue			Total
	Student Activity	Management Levy	Support Trust	
Assets				
Cash and pooled investments	\$ 71,306	175,769	29,676	276,751
Receivables:				
Property tax:				
Delinquent	-	433	-	433
Succeeding year	-	220,000	-	220,000
Total assets	\$ 71,306	396,202	29,676	497,184
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities	\$ -	-	-	-
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	-	220,000	-	220,000
Fund balances:				
Restricted for:				
Management levy purposes	-	176,202	-	176,202
Student activities	71,306	-	-	71,306
Support trust purposes	-	-	29,676	29,676
Total fund balances	71,306	176,202	29,676	277,184
Total liabilities, deferred inflows of resources and fund balances	\$ 71,306	396,202	29,676	497,184

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2018

	Special Revenue			Total
	Student Activity	Management Levy	Support Trust	
Revenues:				
Local sources:				
Local tax	\$ -	200,010	-	200,010
Other	366,210	8,028	-	374,238
State sources	-	1,086	-	1,086
Total revenues	<u>366,210</u>	<u>209,124</u>	<u>-</u>	<u>575,334</u>
Expenditures:				
Current:				
Instruction:				
Regular	-	35,084	-	35,084
Other	351,237	-	-	351,237
Support services:				
Administration	649	-	-	649
Operation and maintenance of plant	-	110,312	-	110,312
Transportation	-	14,947	-	14,947
Total expenditures	<u>351,886</u>	<u>160,343</u>	<u>-</u>	<u>512,229</u>
Change in fund balances	14,324	48,781	-	63,105
Fund balances beginning of year	<u>56,982</u>	<u>127,421</u>	<u>29,676</u>	<u>214,079</u>
Fund balances end of year	<u>\$ 71,306</u>	<u>176,202</u>	<u>29,676</u>	<u>277,184</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUND ACCOUNTS
 JUNE 30, 2018

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 802,284	101,799	904,083
Receivables:			
Property tax:			
Delinquent	-	131	131
Succeeding year	-	62,969	62,969
Income surtax	-	36,390	36,390
Due from other governments	30,942	-	30,942
Total assets	\$ 833,226	201,289	1,034,515
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ 5,000	-	5,000
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	62,969	62,969
Income surtax	-	36,390	36,390
Total deferred inflows of resources	-	99,359	99,359
Fund balances:			
Restricted for:			
School infrastructure	828,226	-	828,226
Physical plant and equipment	-	101,930	101,930
Total fund balances	828,226	101,930	930,156
Total liabilities, deferred inflows of resources and fund balances	\$ 833,226	201,289	1,034,515

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUND ACCOUNTS
 YEAR ENDED JUNE 30, 2018

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	93,352	93,352
State sources	311,541	306	311,847
Total revenues	<u>311,541</u>	<u>93,658</u>	<u>405,199</u>
Expenditures:			
Current:			
Support services:			
Instructional staff	4,397	-	4,397
Administration	-	2,883	2,883
Operation and maintenance of plant	99,334	-	99,334
Transportation	-	180,992	180,992
Capital outlay	113,713	53,681	167,394
Total expenditures	<u>217,444</u>	<u>237,556</u>	<u>455,000</u>
Change in fund balances	94,097	(143,898)	(49,801)
Fund balances beginning of year	<u>734,129</u>	<u>245,828</u>	<u>979,957</u>
Fund balances end of year	<u>\$ 828,226</u>	<u>101,930</u>	<u>930,156</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2018

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 4,870	2,172	1,523	5,519
FCCLA	1,184	165	-	1,349
Sinfully delicious	165	-	165	-
Stat tech team	-	340	67	273
Vocal music	-	432	12	420
Instrumental music	-	1,844	1,498	346
Baxter athletics	663	124,236	91,202	33,697
Athletics	22,434	20,947	43,381	-
Hall of fame	-	863	863	-
Boys basketball	-	11,503	11,503	-
Hasselbrink golf	-	647	632	15
Padget basketball	643	5,569	4,413	1,799
Ranck volleyball	146	7,281	6,668	759
Football	-	27,486	27,486	-
Luther football	4,915	17,661	21,963	613
Baseball	-	7,397	7,397	-
Berry softball	115	158	183	90
Bucklin baseball	200	200	400	-
Boys track	1,042	14,179	15,221	-
Russel track	-	5,366	4,452	914
Boys golf	-	1,076	1,076	-
Wrestling	-	6,372	6,372	-
Girls basketball	-	11,104	11,104	-
Volleyball	-	6,979	6,979	-
Softball	-	14,074	11,343	2,731
Girls track	1,528	15,700	17,188	40
Cross country	-	4,978	4,509	469
Hasselbrink soccer	273	136	409	-
Swalwell athletic donation	1,290	355	-	1,645
Drill team	1,479	5,865	7,336	8
Student council	5,569	7,275	6,665	6,179
Honor society	-	142	142	-
Art club	873	1,351	1,305	919
Hasselbrink basketball	716	5,197	5,055	858
Daye baseball	6	1,743	1,370	379
Class of 2018	529	4,072	4,601	-
Class of 2019	2,275	455	2,226	504
Class of 2021	-	40	-	40
Interest	-	193	193	-
Trivia Fund	-	692	528	164
History Club	-	735	91	644
Serv Learn Vet Appreciation Group	-	280	86	194
Serv Learn Environ Group	-	150	-	150
Serv Learn Child Dev Group	-	489	-	489
Bolts Book Cllub	-	705	441	264
Yearbook	6,067	15,405	15,247	6,225
Cheerleading	-	12,201	8,591	3,610
Total	<u>\$ 56,982</u>	<u>366,210</u>	<u>351,886</u>	<u>71,306</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues:										
Local sources:										
Local tax	\$ 1,777,662	1,707,113	1,661,957	1,597,265	1,838,331	2,053,584	1,869,511	1,906,598	1,736,270	1,675,453
Tuition	835,657	725,634	616,333	589,795	550,061	446,777	449,299	447,630	393,026	433,004
Other	489,147	281,407	222,168	279,371	249,874	272,899	357,049	334,597	258,832	271,924
State sources	2,577,815	2,658,896	2,604,110	2,575,984	2,509,233	2,332,328	2,445,064	1,958,552	1,775,379	2,092,757
Federal sources	136,895	125,576	129,099	114,488	115,038	134,611	153,541	306,966	322,827	163,183
Total	\$ 5,817,176	5,498,626	5,233,667	5,156,903	5,262,537	5,240,199	5,274,464	4,954,343	4,486,334	4,636,321
Expenditures:										
Current:										
Instruction:										
Regular	\$ 1,992,494	1,834,853	1,829,602	1,738,732	1,742,403	1,734,857	1,819,644	1,748,316	1,485,428	1,546,516
Special	391,412	377,028	369,651	348,498	363,623	419,456	442,950	351,381	343,217	323,256
Other	915,748	769,994	744,315	774,638	729,703	625,915	670,589	481,706	493,505	447,058
Support services:										
Student	98,904	120,415	105,411	98,531	99,556	133,325	118,322	153,220	159,454	100,320
Instructional staff	122,384	138,129	143,323	123,682	114,243	136,153	120,383	147,906	136,881	106,009
Administration	663,230	657,046	654,903	639,524	596,857	703,539	649,141	601,104	604,441	584,217
Operation and maintenance of plant	613,235	663,866	449,461	585,813	448,244	451,130	384,412	446,470	402,519	427,196
Transportation	350,215	235,404	125,698	151,674	199,764	165,099	258,483	157,478	193,501	177,720
Non-instructional programs	-	-	4,962	-	-	-	-	-	-	-
Capital outlay	167,394	57,759	47,342	160,924	238,775	108,296	100,442	85,676	100,847	110,715
Long-term debt:										
Principal	260,000	310,000	205,000	275,000	360,000	345,000	300,000	285,000	321,500	293,986
Interest and fiscal charges	42,900	58,087	67,313	80,102	96,343	109,565	120,685	132,986	142,134	152,073
Other expenditures:										
AEA flow-through	143,760	142,453	143,799	144,960	142,777	142,157	143,190	142,721	142,330	134,025
Total	\$ 5,761,676	5,365,034	4,890,780	5,122,078	5,132,288	5,074,492	5,128,241	4,733,964	4,525,757	4,403,091

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

To the Board of Education of Baxter Community School District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Baxter Community School District as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Baxter 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 Baxter Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Baxter 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 have not been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-18 to be a material weakness.

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. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-18 to be a significant deficiency.

Compliance and Other Matters

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

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

Baxter Community School District's Responses to Findings

Baxter Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Baxter 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 Baxter 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.

February 25, 2019
Newton, Iowa

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2018

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-18 Segregation of Duties

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

Condition - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over one or more of the following areas for the District:

- 1) Cash - handling and recording cash, posting and reconciling.
- 2) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 3) Disbursements - purchase order processing, check preparation, mailing and recording.
- 4) Wire transfers - processing and approving.
- 5) Computer systems - performing all general accounting functions and controlling all data input and output.
- 6) Journal entries - writing, approving, and posting.
- 7) School lunch program - journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

Cause - The District has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect - Inadequate segregation of duties could adversely affect the District's ability to prevent or detect and correct misstatements, errors, or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

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

Response - The District will continue to review the control procedures to obtain maximum segregation of duties whenever feasible.

Conclusion - Response accepted.

I-B-18 Supporting Documentation for Credit Card Purchases

Criteria - An effective internal control system provides for internal controls related to credit card purchases to ensure each purchase is properly and adequately supported and reviewed.

Condition - We noted multiple purchases made with a District credit card which did not have a detailed or itemized receipt. District Board policy #803.9 requires a detailed receipt be remitted for use as supporting documentation for all purchases made with District credit cards.

Cause - The District appears to have policies and procedures to ensure all credit card purchases are properly supported, however these policies do not always appear to be followed or enforced.

Effect - Without enforcement of District policies and procedures, purchases could be made, which lack documentation to support the public purpose served. These purchases could then be presented to the board for approval even though they are in conflict with District policy.

Recommendation - The District should review its credit card policy with all District employees to ensure credit card procedures are being properly followed. The District should also take time to review credit card procedures in place to ensure all bills are supported, approved, and paid from an appropriate receipt or invoice. Additionally, the District should adopt processes and procedures for the use of a District credit card when an invoice may not be available, such as requiring additional approval or supporting documentation other than the invoice. This additional approval should be noted in written form as part of the supporting documentation for the purchase made.

Response - The District will review the credit card policy with all district employees, specifically, the requirement for detailed receipts.

Conclusion - Response accepted.

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2018

Part II: Other Findings Related to Required Statutory Reporting:

II-A-18 Certified Budget - Expenditures for the year ended June 30, 2018 exceeded the amounts budgeted in the other expenditure function.

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

Response - The District will ensure an amendment to the budget is done accordingly.

Conclusion - Response accepted.

II-B-18 Questionable Disbursements - During our audit we noted expenditures we believe may not meet public purpose as defined in the Attorney General's opinion dated April 25, 1979, as follows:

Late Fee/ Interest Charges - We noted instances of the District being subjected to late fees and interest charges on the District's credit cards. Late fees and interest charges associated with late payments do not appear to meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review its procedures in place and make any necessary adjustments to ensure District credit card bills are paid in a timely manner to avoid late fees and interest to comply with the Attorney General's opinion dated April 25, 1979.

Response - The district will ensure credit card bills are paid in a timely manner and avoid paying sales tax.

Conclusion – Response accepted.

Gift Cards - We noted during our audit that the District purchased gift cards from the Student Council account within the Student Activity Fund. Purchasing gift cards does not enable the Board to audit and allow the final purchases as required by Chapter 279.29 of the Code of Iowa and does not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should refrain from purchasing gift cards as they do not provide the board its ability to "audit and allow" final purchases in accordance with Chapter 279.29 of the Code of Iowa. The District should review its purchasing procedures in place and make necessary adjustments to ensure all purchases meet public purposes as defined in the Attorney General's opinion dated April 25, 1979.

Response - The District will ensure that no gift cards are purchased with public funds.

Conclusion – Response accepted.

II-C-18 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.

- II-D-18 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-18 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- II-F-18 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-18 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- II-H-18 Supplementary Weighting - We noted the supplementary weighting data certified to the Iowa department of Education was overstated by 0.178.
- 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 to resolve this matter.
- Conclusion - Response accepted.
- II-I-18 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- II-J-18 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-K-18 Categorical Funding - No instances of categorical funding being used to supplant rather than supplement other funds were noted.
- II-L-18 Statewide Sales, Services and Use Tax - No instances of non-compliance with the allowable uses of the statewide sales, services and use tax revenue provided in Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2018, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$ 734,129	
Revenues:			
Sales tax revenues	\$ 306,541		
Other state revenues	5,000	311,541	
		<u>1,045,670</u>	
Expenditures:			
Equipment	156,599		
Other	60,845	217,444	
		<u>217,444</u>	
Ending Balance			<u>\$ 828,226</u>

For the year ended June 30, 2018, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.