

**FRANCIS HOWELL R-III SCHOOL DISTRICT**

**FINANCIAL STATEMENTS**

**June 30, 2017**

# FRANCIS HOWELL R-III SCHOOL DISTRICT

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## Independent Auditors' Report

Board of Education  
Francis Howell R-III School District

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Francis Howell R-III School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Francis Howell R-III School District as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Francis Howell R-III School District's basic financial statements. The supplementary information 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

## Other Reporting Required by Government Auditing Statements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of Francis Howell R-III School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Francis Howell R-III School District's internal control over financial reporting and compliance.

*Kenner, Eck & Braedel LLP*

St. Louis, Missouri  
December 8, 2017

# **FRANCIS HOWELL R-III SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017**

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The discussion and analysis of the Francis Howell R-III School District's (the District) financial performance provides a narrative overview of the District's financial activities for the fiscal year ended June 30, 2017. The management's discussion and analysis should not be taken as a replacement for the financial statements and supplementary information but should be read in conjunction with them to enhance understanding of the District's financial performance.

### **Guiding Financial Principles**

The Board of Education and Administration of the District are committed to proactive management of the financial resources entrusted to it by the Francis Howell community. This trust is strengthened by providing full disclosure to the Board and community regarding the District's financial condition. The Administration utilizes conservative fiscal management practices and a value-driven operating philosophy to maintain the District's financial position.

### **Using this Annual Report**

This annual report consists of four parts: (1) the management's discussion and analysis section; (2) the basic financial statements and notes to the financial statements; (3) required supplementary information; and (4) supplementary information.

The management's discussion and analysis section serves as an introduction to the District's basic financial statements. The basic financial statements include district-wide and fund financial statements, each of which presents the District's financial information from different perspectives.

The district-wide financial statements consist of the Statement of Net Position and the Statement of Activities, found on pages 23 and 24. These statements provide information about the activities of the Francis Howell R-III School District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 25. For governmental activities, the financial statements tell how these services were financed in the short term as well as what resources remain for future spending. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The District maintains its general ledger on the cash basis of accounting, meaning that revenues are recognized when the District receives the money and the expenses are recognized when checks are issued. To meet Governmental Accounting Standards Board (GASB) No. 34, the District's basic financial statements use both the modified accrual and full accrual methods of accounting. Because of this difference, expenditures reported in the budgetary comparison schedules will differ from the basic financial statements.

The District separates the food service, student activity and community service funds from the general fund as well as the capital projects and bond funds from the capital projects fund during the budget process. The Annual Secretary of the Board Report (ASBR) combines all of these funds together when reporting them to the Missouri Department of Elementary and Secondary Education.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

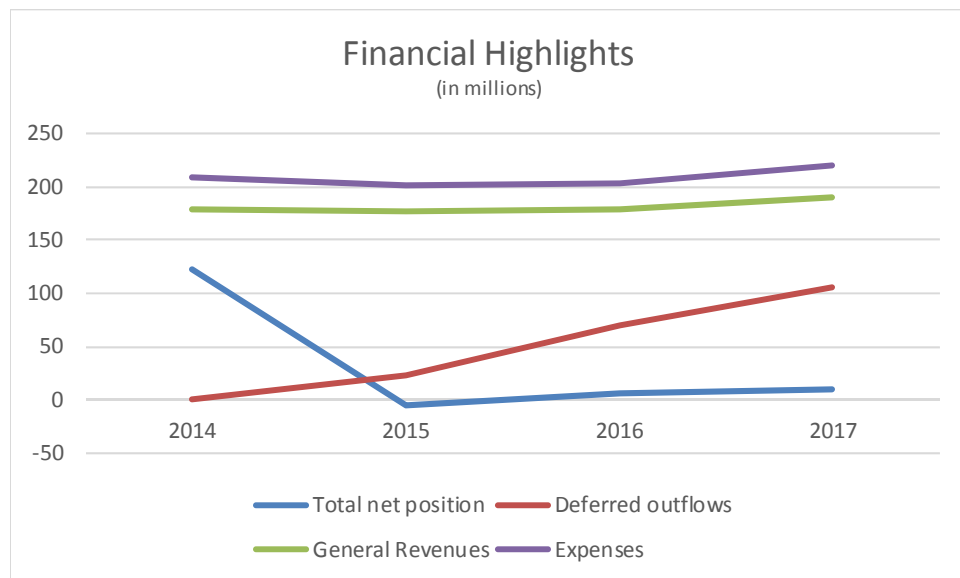
## MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

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### Financial Highlights

The key government-wide financial highlights for the year ended June 30, 2017 are as follows:

- At the government-wide level, the net position was \$10.4 million compared to \$5.5 million at the end of FY16, for an increase of \$4.9 million. \$81.7 million of the District’s net position (assets less liabilities) is restricted for capital asset investment net of related debt, \$14.5 million is restricted for debt service, capital projects and other purposes, and a negative \$85.8 million is unrestricted after reflecting the impact of reporting the District’s pension liability due to GASB No. 68 and GASB No. 71.
- Total assets and deferred outflows of resources increased by \$38.4 million in the current year primarily due to an increase in deferred pension contributions.
- General revenues accounted for \$189.3 million or 84.2% of the District’s \$224.9 million total revenue. Of this general revenue, \$138.9 million or 73.4% was from property and sales taxes. Program specific revenue in the form of charges for services, operating grants, contributions and capital grants accounted for approximately \$35.7 million or 15.8% of the total revenue.
- At the government-wide level, the District had \$220 million in expenses. Of these expenses approximately \$35.7 million were offset by program specific charges for services, grants or contributions. General revenues and fund balances were adequate to provide for the District’s programs in FY17.





# FRANCIS HOWELL R-III SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

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- Total liabilities and deferred inflows increased by \$33,505,359 due to the following items:

	Increase (Decrease)
Accounts payable, salaries and other payables	\$ 1,990,777
Claims payable	(193,544)
Net pension liability	41,814,419
Other postemployment obligation	1,566,400
Liabilities due within one year	2,549,219
Liabilities due in more than one year	(16,052,200)
Pension deferrals	<u>1,830,288</u>
Net increase	<u>\$ 33,505,359</u>

Accounts payable increased as a result of increased payables for roofing projects associated with a hail storm insurance claim.

The net pension liability increased due to the total pension liability increasing more than the plan's fiduciary net assets.

Pension deferrals increased \$1,830,288 primarily due to the net difference between projected and actual investment earnings on pension plan investments related to the District's share of the Missouri State Pension.

During FY17, the District implemented a Community Education Fund. This activity is reported within the General Fund.

### **Reporting the District as a Whole**

#### ***Statement of Net Position and the Statement of Activities***

The district-wide financial statements outline functions of the District that are principally supported by property taxes and various governmental activities. In the Statement of Net Position and the Statement of Activities, the District reports governmental activities including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The District does not have any business-type activities.

The district-wide financial statements look at all the financial transactions of the District and allow the reader to assess how well the District performed financially during fiscal year 2017. The Statement of Net Position and the Statement of Activities report all assets and liabilities using the accrual basis of accounting. This focus is similar to the accounting focus used by most private-sector companies. Statements prepared on the accrual basis take into account all of the current year revenues and expenses regardless of when cash is received or paid out.

# **FRANCIS HOWELL R-III SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017**

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The relationship between revenues and expenditures can be viewed as the District's operating results. It is important to note, however, that the District's goal is to educate its students, not to generate profits as commercial entities do. Other non-financial factors, such as the quality of the education services provided, must be considered when assessing the overall health of the District.

The Statement of Net Position presents the financial position of the District at the end of the fiscal year and reports the District's net position and changes in those assets and liabilities or claims against those assets. The difference between total assets and total liabilities – net position – is one indicator of whether the overall financial condition of the District has improved or deteriorated during the year.

The District's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

The District has complied with GASB issuance of Statement No. 68 regarding accounting for and financial reporting on pensions by state and local governments. This statement addresses pensions provided to employees through pension plans that are administered through trusts. District employees are provided with defined benefit pensions through cost-sharing multiple-employer pensions plans in which the pension obligations are pooled and plan assets can be used to pay the benefits of employees of any employer that provides pensions through the pension plan.

In accordance with GASB No. 68, the District's Statement of Net Position now reflects the funded status of its pension plan on a market value basis. Net Pension Liability (NPL) has been added to the District's Statement of Net Position. Pension expense is not an annual contribution or funding amount, but rather a change in the NPL recognized from one year to the next.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

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Table I provides a summary of the District's net position for 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Assets		
Current and other assets	\$ 83.880	\$ 75.536
Capital assets	<u>212.670</u>	<u>217.630</u>
Total assets	296.550	293.166
Deferred outflows of resources	105.387	70.378
Liabilities		
Noncurrent liabilities	337.993	308.115
Other liabilities	<u>14.893</u>	<u>13.096</u>
Total liabilities	352.886	321.211
Deferred inflows of resources	38.637	36.806
Net Position		
Net investment in capital assets	81.705	73.791
Restricted	14.548	15.424
Unrestricted	<u>(85.839)</u>	<u>(83.688)</u>
Total net position	<u>\$ 10.414</u>	<u>\$ 5.527</u>

# **FRANCIS HOWELL R-III SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017**

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A significant portion of the District's net position is invested in capital assets (e.g., land, buildings and improvements, vehicles, and furniture and equipment), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to its students. It is important to note that these assets are not available for future spending. Similarly, the funds to pay the debt related to the acquisition of these assets must be provided from other sources, since the assets themselves cannot be liquidated to satisfy these liabilities.

Total assets of the District's governmental activities amounted to \$296,550,579 with total deferred outflows of resources totaling \$105,386,632. Total liabilities of the District's governmental activities amounted to \$352,886,637 with deferred inflows of resources totaling \$38,636,515. Net position as of June 30, 2017 equaled \$10,414,059, an increase of \$4,887,424 over the 2016 balance of \$5,526,635.

The results of this year's operations for the District as a whole are reported in the Statement of Activities, found on page 24 of this report. The Statement of Activities explains the sources of resources (revenues, charges for services, grants and contributions) and the uses of resources (instructional and support services expenses) and shows how the District's net position changed during the most recent fiscal year.

All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

Table II shows the changes in net position for fiscal year 2017 and 2016.

Table II  
Changes in Net Position for District-Wide Activities  
(in millions)  
Year ended June 30,

	2017	2016
Program revenues		
Charges for services	\$ 16.061	\$ 15.468
Operating grants and contributions	19.598	19.410
General revenue		
Property taxes and other county taxes	123.256	120.045
Sales taxes	15.661	15.605
State aid	41.518	40.320
Investment earnings	0.685	0.537
Other	8.140	2.926
Total revenue	<u>224.919</u>	<u>214.311</u>
Program expenses		
Instruction	133.460	123.103
Pupil services	7.718	8.181
Improvement of instruction	4.349	4.021
Media services	2.114	1.928
Board of Education and executive administration services	6.161	5.397
Building level administration	10.220	9.379
Operation of plant	14.911	13.646
Pupil transportation	12.500	11.863
Food services	6.212	6.163
Business and central services	6.841	6.729
Community services	8.031	8.255
Facility acquisition and construction	1.691	2.178
Interest and other charges	5.824	2.844
Total expenses	<u>220.032</u>	<u>203.687</u>
Change in net position	<u>\$ 4.887</u>	<u>\$ 10.624</u>
Ending net position	<u>\$ 10.414</u>	<u>\$ 5.527</u>

The District's total accrual-based revenues for the fiscal year ended June 30, 2017 were \$224.9 million versus \$214.3 million at June 30, 2016. The \$10.6 million difference between fiscal years is primarily attributable to the increase in property taxes based on rising assessed values and new construction, an increase in State aid, as well as \$5.4 million in other revenues from insurance proceeds related to multiple roofing projects.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

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The total cost of all programs and services was \$220.0 million for the fiscal year ended June 30, 2017 versus \$203.7 million at June 30, 2016, or an increase of \$16.3 million. This increase is primarily attributable to an increase in the actuarially determined pension expense.

The District's dependence upon tax revenues is significant and community support for this revenue is extremely important since the community, as a whole, provides the primary support for Francis Howell R-III School District through local property taxes. General revenue sources, including local property taxes, funded 86% of the total cost of program services for fiscal year 2017.

**Governmental Activities** - Table III below shows the cost of each of the District's functions, as well as each function's net cost (i.e., the total cost of the program less revenue generated by program-related activities).

Table III  
Total and Net Costs of Governmental Activities  
(in millions)  
Year ended June 30,

	2017		2016	
	Total cost of services	Net cost of services	Total cost of services	Net cost of services
Instruction	\$ 133.460	\$ 114.315	\$ 123.103	\$ 104.836
Pupil services	7.718	7.718	8.181	8.181
Improvement of instruction	4.349	3.943	4.021	3.613
Media services	2.114	2.114	1.928	1.928
Board of Education and executive administration	6.161	6.161	5.397	5.398
Building level administration	10.220	10.220	9.379	9.379
Operation of plant	14.911	14.911	13.646	13.646
Pupil transportation	12.500	10.366	11.863	9.386
Food services	6.212	0.308	6.163	0.211
Business and central services	6.841	6.841	6.729	6.729
Community services	8.031	(0.040)	8.255	0.479
Facility acquisition and construction	1.691	1.691	2.178	2.178
Interest and other charges	5.824	5.825	2.844	2.844
Total	<u>\$ 220.032</u>	<u>\$ 184.373</u>	<u>\$ 203.687</u>	<u>\$ 168.808</u>

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

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Following are descriptions of the District's major functional expense categories.

Instruction includes activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupil Services includes attendance, guidance, health, psychological, speech, and audio assistance.

Improvement of Instruction includes the activities involved with assisting staff with the content and process of teaching to pupils.

Media Services includes the activities concerned with the use of all teaching and learning resources, including hardware and content materials.

Board of Education and Executive Administration includes the activities of the elected or appointed body as well as the overall general administration of the local education agency.

Building Level Administration includes expenditures related to the administration of the individual school buildings. These expenditures provide for the building instructional leadership from the school principals and assistant principals. In addition, this includes expenditures for site administrative support to run the day-to-day operations of each building.

Business and Central Services includes expenditures associated with administrative and financial supervision of the District. It also includes expenditures related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public. Finally, it includes the support for the Academic department and Human Resources department of the District.

Operation of Plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Food Services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Community Services includes expenditures related to student activities provided by the District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement. These services also include our early childhood childcare programs and elementary before and after school care programs.

Facility Acquisition and Construction includes any expenditures relating to the construction of, renovation of, or equipping of any District building.

Debt Administration involves the transactions associated with the payment of interest and other related charges to the debt of the District.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

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### Reporting the District's Most Significant Funds

#### *Fund Financial Statements*

The fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements. The fund financial statements are prepared on the modified accrual basis of accounting. This basis considers revenue earned if it is both measurable and available (within 60 days of the end of the fiscal year). Expenditures are recorded at the time the liability is incurred.

The analysis of the District's major funds begins on page 25. Fund financial reports provide detailed information about the District's major funds. A fund is a grouping of related accounts used to keep track of specific sources of funding and spending on particular programs. The District uses fund accounting to ensure compliance with reporting requirements of the Missouri Department of Elementary and Secondary Education. The District uses different funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General (Incidental) Fund, Special Revenue (Teachers') Fund, Debt Service Fund, and Capital Projects Fund.

**Governmental Funds** - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The narrower focus of the fund financial statements makes it useful to compare the information presented therein with that of governmental activities in the district-wide financial statements. This comparison provides readers with a better understanding of the long-term impact of the District's short-term financing decisions. Both the district-wide and fund financial statements include reconciliations to facilitate a comparison between the two statements. These reconciliations are found on pages 26 and 28 of this report, respectively.

**Proprietary Funds** – Proprietary funds use the same basis of accounting as business-type activities in that they attempt to recover costs through charges to the user. An example of a proprietary fund would be the Internal Service Fund (Self-Funded Health Insurance Plans).



# FRANCIS HOWELL R-III SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

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### Budgeting Highlights

The District's budget is prepared according to Missouri law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The District uses both site-based and zero-based budgeting systems which are designed to tightly control total site budgets but provide flexibility for site management. The District uses the cash basis of accounting for revenues and expenditures for budgeting as well as during the fiscal year. Revenues are recognized when funds are received. Expenses are recognized when payments are made.

The District amended its General and Special Revenue Fund budgets in November 2016, based on known changes in revenue and expenditures. When comparing the original budget to the final budget, expenditures increased by \$4,243,283 (2.15%). This increase was primarily due to increased budget in Operation and Plant for roofing projects associated with an increased claim. Revenues increased by \$1,321,163 (0.68%), primarily due to higher state revenue.

In comparing actual revenues to the ending budget amount in the General and Special Revenue Funds, the actual revenue was \$201,481,744. This was an increase of \$4,790,994 or 2.44% compared to the District's final budget amount. Actual expenditures in General and Special Revenue Funds were \$196,433,305, or \$5,572,544 under the final budget amount. The District finished the year with a surplus in its General and Special Revenue Funds of \$4,827,208 after transferring \$221,231 to the Capital Projects Fund.

Statements showing the original budget and the final budget amounts compared to the District's actual activity for the General Fund and the Special Revenue Fund are provided on pages 61 and 62 of this report.

The following are key financial highlights of the District on a budgetary (cash) basis of accounting for the fiscal year ended June 30, 2017.

- The General Fund had \$79,475,859 in revenues and \$74,428,392 in expenditures. The General Fund transferred \$221,231 to the Capital Projects Fund. The General Fund's balance increased \$4,826,236 from FY16 on a cash basis.
- The Special Revenue (Teachers') Fund had \$122,005,885 in revenues and \$122,004,913 in expenditures. The Special Revenue Fund's balance increased by \$972 from FY16 on a cash basis.
- All operating funds combined (General and Special Revenue Funds) had \$201,481,744 in revenues and \$196,433,305 in expenditures. The combined balances in these school purpose funds increased \$4,827,208 over FY16 on a cash basis.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

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- The Debt Service Fund had \$17,044,408 in revenues and \$17,797,072 in expenditures. The Debt Service Fund balance decreased \$752,664 over FY16 on a cash basis. The fund continues to have sufficient balances to meet all principal and interest payments, allowing the District to maintain its current debt service levy.
- The Capital Projects Fund had \$2,649,163 in revenues and \$3,040,395 in expenditures. The Capital Projects Fund balance decreased \$170,001 over FY16 on a cash basis. The fund continues to maintain a balance sufficient to meet urgent needs, should they arise.

### Revenue

- Total revenues for the District were \$221,175,315 for the 2016-2017 fiscal year versus \$214,564,851 for the prior fiscal year, or an increase of \$6,610,464 on a cash basis. Local revenues accounted for \$149,042,047, or 67.39% of all revenues and sources for the 2016-2017 fiscal year versus \$148,826,602 for the prior fiscal year (69.36%).

The \$6,610,464 increase in revenue is primarily attributable to the following items.

1. Local revenue increased due to an increased tax revenues and increased lunch prices in food service program.
2. An increase of \$1.8 million in State revenue primarily due to increased State Foundation Program Basic Formula and Gaming revenue and increases from the Early Childhood Special Education grant and the High Needs Fund.
3. Other revenues increased \$1.7 million due to the receipt of insurance proceeds for roofing projects.

### Expenditures

- The District had \$199,473,700 in expenditures for the 2016-2017 fiscal year versus \$203,464,871 for the prior fiscal year, or a decrease of \$3,991,171. These numbers do not include expenditures related to servicing debt.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

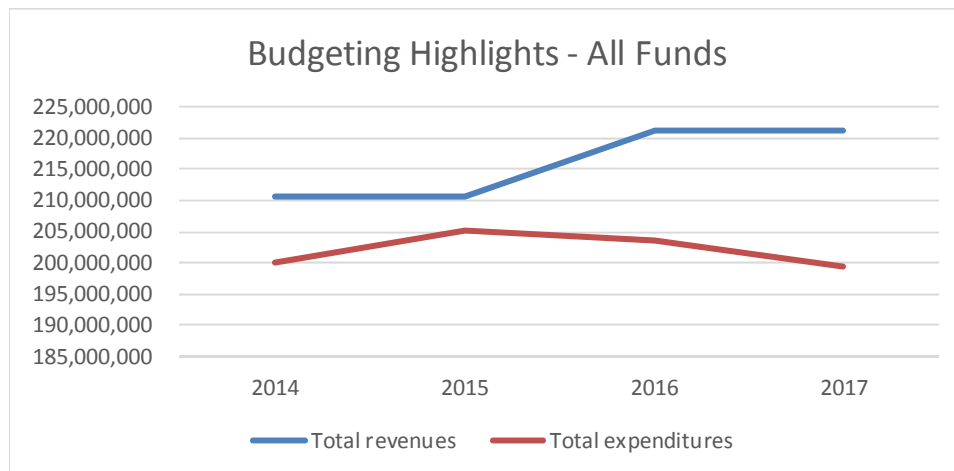
## MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

The \$4.0 million decrease in expenditures is primarily attributable to the following:

1. The District continued to make budget reductions for 2016-2017, totaling approximately \$4 million and targeting the following areas:

Learning for All	Struggling Learners	Advanced Learners
Teacher cuts – increased class sizes Reduce teachers	Reduce number of Elementary Interventionists	Cut Advanced Placement section
Library cuts (hours, para support and librarians) Reduce library supports	Reduce number of special education staff	Cut materials for instructional practice
Reduce literacy materials for elementary students	Eliminate tutoring at all buildings	Reduce the number of online courses
Eliminate end-of-course exams in non-required areas	Eliminate after school math program for middle school students	Reduce training for teachers of some Advanced Placement courses
Reduce online subscriptions, textbook and resource materials adoptions	Reduce expenditures for materials for instructional practice	Reduce expenditures for subscriptions and equipment for journalism program
Reduce follow-up training for elementary math teachers on new program	Reduce the number of literacy coaches	

2. Operation of Plant decreased due to a decrease in the number of capital projects being funded from bond proceeds. The District typically budgets about \$3 million for annual repair and maintenance of its facilities.



# FRANCIS HOWELL R-III SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

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### Capital Assets and Debt Administration

#### *Capital Assets*

At the end of fiscal year 2017, the District had \$212,670,391 invested in land, buildings, furniture, equipment, and vehicles (net of depreciation) versus \$217,629,952 at the end of 2016. The \$4,959,561 decrease is primarily attributable to depreciation expense.

Table IV shows fiscal year 2017 and 2016 Capital Asset balances.

Table IV  
Capital Assets (net of accumulated depreciation)  
June 30,

	<u>2017</u>	<u>2016</u>
Land	\$ 6,545,623	\$ 6,545,623
Construction in progress	38,600	81,926
Land improvements	7,490,379	7,964,722
Buildings	195,085,412	197,736,692
Vehicles and equipment	<u>3,510,377</u>	<u>5,300,989</u>
Totals	<u>\$ 212,670,391</u>	<u>\$ 217,629,952</u>

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017

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### *Debt Administration*

At June 30, 2017, the District had \$131,603,000 general obligation bonds outstanding. The general obligation bonds were used to construct, equip, and renovate buildings in the District. Additional information about the District's general obligations bonds is provided in Note 5.

Table V shows outstanding General Obligation Bonds at June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
General obligation bonds		
Series 2016	\$ 35,520,000	\$ 35,520,000
Series 2012B	4,765,000	4,765,000
Series 2012A	1,680,000	1,680,000
Series 2011	9,940,000	9,940,000
Series 2010B	29,315,000	29,315,000
Series 2010A	1,635,000	1,635,000
Series 2009A	9,185,000	9,185,000
Series 2009	9,990,000	9,990,000
Series 2008	5,715,000	10,900,000
Series 2005	16,490,000	16,970,000
Series 2004	6,570,000	12,570,000
Series 2001	<u>798,000</u>	<u>798,000</u>
Total	<u>\$ 131,603,000</u>	<u>\$ 143,268,000</u>

### **Current Financial Issues and Concerns**

After several years of deficit spending, the District ended FY17 with a balanced budget. Through budget reductions, the District closed the revenue-expenditure gap for FY17. The expenditure reductions made thus far were necessary in the short term but are not sustainable if the District is to remain one of the top performing school districts in the state.

District voters rejected proposals to increase the operating levy. The levy increases would have provided funds necessary to restore some, but not all, of the personnel and non-personnel expenditure reductions made over the past two years. The District is currently involved in a Strategic Planning process that will direct the instructional and financial path for the District until 2023, although this process will not be completed until February 2018.

# **FRANCIS HOWELL R-III SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED YEAR ENDED JUNE 30, 2017**

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The District will continue its concerted efforts to carefully manage the financial resources entrusted to us by the patrons of the District. The focus will remain on effectively aligning overall District objectives with our finite resources. This will increase our efficiency as an organization and enable us to devote greater time and attention to the most critical initiatives.

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about his report or need additional financial information, contact Kevin F. Supple, Chief Operating Officer, at the Francis Howell School District Administration Building, 4545 Central School Road, Saint Charles, Missouri 63304.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## STATEMENT OF NET POSITION

June 30, 2017

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 63,036,007
Property taxes receivable, net of allowance for uncollectibles of \$48,671	2,384,798
Other receivables	
Local	6,873,498
Federal	391,990
State	55,890
Prepaid items	1,588,577
Restricted cash and investments	9,549,428
Capital assets	
Land	6,545,623
Construction in progress	38,600
Other capital assets, net of accumulated depreciation	<u>206,086,168</u>
Total assets	296,550,579
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amounts on refunding	6,926,714
Deferred pension contributions	<u>98,459,918</u>
Total deferred outflows of resources	105,386,632
<b>LIABILITIES</b>	
Accounts payable	3,277,964
Salaries and benefits payable	5,765,307
Medical and dental benefits payable	3,070,911
Interest payable	2,779,098
Noncurrent liabilities	
Due within one year	15,458,947
Due in more than one year	
Net pension liability	182,819,392
Other postemployment benefit obligation	11,290,499
Other	<u>128,424,519</u>
Total liabilities	352,886,637
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension deferrals	<u>38,636,515</u>
<b>NET POSITION</b>	
Net investment in capital assets	81,704,996
Restricted for:	
Debt service	11,428,822
Capital projects	2,908,998
Professional development	210,404
Unrestricted	<u>(85,839,161)</u>
Total net position	<u>\$ 10,414,059</u>

See notes to financial statements.

**FRANCIS HOWELL R-III SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**Year ended June 30, 2017**

Function/Program	Expenses	Program revenues			Net (expense) revenue and change in net position
		Charges for services	Operating grants and contributions	Capital grants and contributions	Total governmental activities
<b>Governmental activities</b>					
Instruction	\$ 133,459,892	\$ 4,509,279	\$ 14,635,358	\$ -	\$ (114,315,255)
Attendance	924,389	-	-	-	(924,389)
Guidance	5,378,309	-	-	-	(5,378,309)
Health, psych, speech and audio	1,415,766	-	-	-	(1,415,766)
Improvement of instruction	4,011,010	-	-	-	(4,011,010)
Professional development	337,672	-	405,516	-	67,844
Media services (library)	2,114,154	-	-	-	(2,114,154)
Board of Education services	293,542	-	-	-	(293,542)
Executive administration	5,867,314	-	-	-	(5,867,314)
Building level administration	10,219,830	-	-	-	(10,219,830)
Business central services	1,848,970	-	-	-	(1,848,970)
Operation of plant	14,911,396	-	-	-	(14,911,396)
Security services	24,126	-	-	-	(24,126)
Pupil transportation	12,500,290	289,268	1,845,397	-	(10,365,625)
Food services	6,211,738	3,892,422	2,011,554	-	(307,762)
Central office support services	4,967,530	-	-	-	(4,967,530)
Community service	8,031,122	7,370,442	700,220	-	39,540
Facilities acquisition and construction	1,691,079	-	-	-	(1,691,079)
Interest and other charges	5,824,379	-	-	-	(5,824,379)
<b>Total governmental activities</b>	<b>\$ 220,032,508</b>	<b>\$ 16,061,411</b>	<b>\$ 19,598,045</b>	<b>\$ -</b>	<b>(184,373,052)</b>
<b>General revenues</b>					
Taxes					
					104,041,304
					16,062,051
					3,152,796
					15,660,620
					41,518,475
					685,486
					8,139,744
					<b>189,260,476</b>
					<b>CHANGE IN NET POSITION</b>
					<b>4,887,424</b>
					<b>Net position at July 1, 2016</b>
					<b>5,526,635</b>
					<b>Net position at June 30, 2017</b>
					<b>\$ 10,414,059</b>

See notes to financial statements.



**FRANCIS HOWELL R-III SCHOOL DISTRICT**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2017**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 49,743,345	\$ 972	\$ 6,043,229	\$ 3,124,703	\$ 58,912,249
Property taxes receivable - net of allowance for uncollectibles of \$48,671	1,043,258	994,026	319,002	28,512	2,384,798
Other receivables					
Local	5,358,771	1,478,650	26,449	9,628	6,873,498
Federal	16,280	211,131	164,579	-	391,990
State	-	55,890	-	-	55,890
Prepaid items	1,561,569	27,008	-	-	1,588,577
Restricted cash and investments	-	-	7,654,661	1,894,767	9,549,428
<b>Total assets</b>	<b>\$ 57,723,223</b>	<b>\$ 2,767,677</b>	<b>\$ 14,207,920</b>	<b>\$ 5,057,610</b>	<b>\$ 79,756,430</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 2,024,673	\$ 999,446	\$ -	\$ 253,845	\$ 3,277,964
Salaries and benefits payable	5,532,803	232,504	-	-	5,765,307
<b>Total liabilities</b>	<b>7,557,476</b>	<b>1,231,950</b>	<b>-</b>	<b>253,845</b>	<b>9,043,271</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred property taxes	564,260	537,632	172,536	15,421	1,289,849
Deferred grants	-	-	164,579	-	164,579
	564,260	537,632	337,115	15,421	1,454,428
<b>FUND BALANCES</b>					
Nonspendable					
Prepaid items	1,561,569	27,008	-	-	1,588,577
Restricted					
Debt service	-	-	13,870,805	-	13,870,805
Capital projects	-	-	-	4,788,344	4,788,344
Teachers' salaries and benefits	-	971,087	-	-	971,087
Professional development	210,404	-	-	-	210,404
Assigned for insurance claims	4,740,474	-	-	-	4,740,474
Unassigned	43,089,040	-	-	-	43,089,040
<b>Total fund balances</b>	<b>49,601,487</b>	<b>998,095</b>	<b>13,870,805</b>	<b>4,788,344</b>	<b>69,258,731</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 57,723,223</b>	<b>\$ 2,767,677</b>	<b>\$ 14,207,920</b>	<b>\$ 5,057,610</b>	<b>\$ 79,756,430</b>

See notes to financial statements.

**FRANCIS HOWELL R-III SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET WITH THE STATEMENT OF NET POSITION**

**June 30, 2017**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance - governmental funds	\$	69,258,731
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$289,456,467 and the accumulated depreciation is \$76,786,076.		212,670,391
Property tax receivable and federal receivable not available soon enough to pay for current period expenditures are deferred in the funds.		1,454,428
Interest accrued on bonds has not been reported in the governmental funds but is reported in the statement of net position. Accrued interest includes accreted interest on "capital appreciation" bonds totaling \$1,104,051.		(2,779,098)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statements of net position.		1,052,847
Deferred outflows of resources are not current financial resources and therefore are not reported in the funds:		
Deferred amounts on refunding	6,926,714	
Deferred pension contributions	98,459,918	
	<u>                    </u>	105,386,632
Certain liabilities and deferred inflows of resources are not due and not payable in the current period and therefore are not reported as liabilities in the funds:		
General obligation bonds	(131,603,000)	
Capital lease obligations	(1,727,567)	
Bond premium, net of accumulated amortization	(6,456,309)	
Pension deferrals	(38,636,515)	
Net pension liability	(182,819,392)	
Compensated absences	(4,096,590)	
Post employment benefits other than pensions	(11,290,499)	
	<u>                    </u>	(376,629,872)
Total net position - governmental activities	<u>\$</u>	<u>10,414,059</u>

See notes to financial statements.

**FRANCIS HOWELL R-III SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year ended June 30, 2017**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>					
Local	\$ 64,752,319	\$ 65,998,834	\$ 16,115,099	\$ 2,486,298	\$ 149,352,550
County	1,283,582	1,562,120	407,043	38,342	3,291,087
State	5,675,245	47,269,262	-	-	52,944,507
Federal	3,264,474	4,906,593	494,004	2,598	8,667,669
Interest	460,266	65,121	109,660	50,439	685,486
Student activities	2,325,121	-	-	82,570	2,407,691
Other	5,673,550	2,092,503	-	1,345	7,767,398
Total revenues	83,434,557	121,894,433	17,125,806	2,661,592	225,116,388
<b>Expenditures</b>					
<b>Current</b>					
Instruction	18,920,644	103,616,827	-	-	122,537,471
Attendance	902,284	-	-	-	902,284
Guidance	159,477	4,860,634	-	-	5,020,111
Health, psych, speech and audio	1,402,582	1,096	-	-	1,403,678
Improvement of instruction	1,279,612	2,572,924	-	-	3,852,536
Professional development	56,036	273,020	-	-	329,056
Media services (library)	351,821	1,656,017	-	-	2,007,838
Board of Education services	293,542	-	-	-	293,542
Executive administration	4,844,541	420,188	-	-	5,264,729
Building level administration	1,118,527	8,405,095	-	-	9,523,622
Business central service	1,814,042	3,095	-	-	1,817,137
Operation of plant	14,438,592	-	-	-	14,438,592
Security services	24,126	-	-	-	24,126
Pupil transportation	12,489,689	-	-	-	12,489,689
Food services	6,177,077	-	-	-	6,177,077
Central office support services	3,831,420	1,129,137	-	-	4,960,557
Community service	7,603,629	79,550	-	-	7,683,179
Capital outlay	-	-	-	3,304,243	3,304,243
<b>Debt service</b>					
Principal	-	-	11,665,000	-	11,665,000
Interest and other charges	-	-	6,132,072	53,071	6,185,143
Total expenditures	75,707,641	123,017,583	17,797,072	3,357,314	219,879,610
Revenues over (under) expenditures	7,726,916	(1,123,150)	(671,266)	(695,722)	5,236,778
<b>Other financing sources (uses)</b>					
Transfers in (out)	(221,231)	-	-	221,231	-
Proceeds from capital lease	-	-	-	249,580	249,580
Total other financing sources (uses)	(221,231)	-	-	470,811	249,580
NET CHANGE IN FUND BALANCE	7,505,685	(1,123,150)	(671,266)	(224,911)	5,486,358
Fund balances at July 1, 2016	42,095,802	2,121,245	14,542,071	5,013,255	63,772,373
Fund balances at June 30, 2017	\$ 49,601,487	\$ 998,095	\$ 13,870,805	\$ 4,788,344	\$ 69,258,731

See notes to financial statements.

**FRANCIS HOWELL R-III SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT  
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES  
Year ended June 30, 2017**

Total net change in fund balances - governmental funds	\$	5,486,358
<p>Capital outlay to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlay in the period.</p>		
Capital asset purchase	1,297,912	
Depreciation expense	<u>(6,331,615)</u>	(5,033,703)
<p>Because some property taxes and federal revenue will not be collected for several months after the District's fiscal year end, they are not considered as "available" revenues in the governmental funds, and are instead reported as deferred inflows of resources. They are, however, reported as revenues in the statement of activities.</p>		
		(196,457)
<p>The proceeds from the sale of equipment increase financial resources in the governmental funds, whereas in the statement of activities, the gain or loss on disposal of equipment is reported.</p>		
		74,142
<p>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.</p>		
Compensated absences	44,937	
Pension benefits	(8,040,131)	
Other post employment benefits	<u>(1,566,400)</u>	(9,561,594)
<p>The governmental funds report debt (e.g. bond) proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Also governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of debt and related items are as follows:</p>		
Proceeds from capital lease payable	(249,580)	
Repayment of bond principal	11,665,000	
Repayment of capital lease payable	1,252,403	
Amortization of bond premium	790,221	
Amortization of deferred amount on refunding	<u>(596,101)</u>	12,861,943
<p>The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.</p>		
		1,090,091
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of two factors. First, accrued interest on bonds decreased by \$221,585. Second, interest accreted on the District's "capital appreciation" bonds increased by \$54,941.</p>		
		<u>166,644</u>
Change in net position of governmental activities	<u>\$</u>	<u>4,887,424</u>

See notes to financial statements.

**FRANCIS HOWELL R-III SCHOOL DISTRICT**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

**June 30, 2017**

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	Governmental Activities - Internal Service Fund
<b>ASSETS</b>	
Cash	\$ 4,123,758
<b>LIABILITIES</b>	
Claims payable	<u>3,070,911</u>
<b>NET POSITION</b>	
Unrestricted	<u><u>\$ 1,052,847</u></u>

See notes to financial statements.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS Year ended June 30, 2017

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	Governmental Activities - Internal Service Fund
	<u>        </u>
Operating revenues	
Contributions by District, employees and retirees	\$ 19,033,074
Other income	<u>1,534,264</u>
Total operating revenues	20,567,338
Operating expenses	
Claims	19,063,583
Administration	93,503
Other	<u>338,780</u>
Total operating expenses	<u>19,495,866</u>
Operating income	1,071,472
Non-operating revenues	
Interest income	<u>18,619</u>
CHANGE IN NET POSITION	1,090,091
Net position at July 1, 2016	<u>(37,244)</u>
Net position at June 30, 2017	<u><u>\$ 1,052,847</u></u>

See notes to financial statements.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2017

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities	
Cash received from District, employees', and retirees' contributions	\$ 20,567,338
Cash payments to suppliers for claims	(19,257,127)
Cash payments for supplies and services	(432,283)
	<u>877,928</u>
Net cash provided by operating activities	877,928
Cash flows from investing activities	
Interest on investments	18,619
	<u>18,619</u>
NET INCREASE IN CASH	896,547
Cash at July 1, 2016	<u>3,227,211</u>
Cash at June 30, 2017	<u>\$ 4,123,758</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 1,071,472
Adjustments to reconcile operating income to net cash provided by operating activities	
Decrease in claims payable	(193,544)
	<u>(193,544)</u>
Net cash provided by operating activities	<u>\$ 877,928</u>

See notes to financial statements.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Francis Howell R-III School District (the District), established under the Statutes of the State of Missouri, is governed by an elected seven-member board as described in Chapter 162, Missouri Revised Statutes. The Board of Education is the basic level of government that has financial accountability and control over all activities related to public school education in the District.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the District are discussed below.

#### **Reporting Entity**

These financial statements present the District (the primary government) and its component unit, the Francis Howell R-III School District Educational Facilities Authority (the Authority). Generally accepted accounting principles require the financial reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on this criteria, the Authority is considered a component unit.

The Authority was incorporated under Missouri statutes as a not-for-profit organization whose purpose is for acquisition, construction, improvement, extension, repair, remodeling, renovation and financing for the District. Although legally separate, the Authority is blended as a governmental fund into the primary government. The Authority is currently inactive. Separate financial statements for the Authority are not issued.

#### **Basis of Presentation**

##### **District-Wide Financial Statements**

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all nonfiduciary funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The District has no business-type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function.



# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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The District does not allocate indirect costs. Program revenues include charges paid by the recipients of goods and services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

### **Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. The emphasis is placed on major funds. Each major fund is presented in a separate column while nonmajor funds, if applicable, are aggregated and presented in a single column.

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

### **Governmental Funds**

#### **General Fund**

The General Fund is the primary operating fund of the District and accounts for expenditures for noncertified employees, pupil transportation costs, operation of plant, fringe benefits, student body activities, community services, the food service program and any expenditures not required to be accounted for in another fund.

#### **Special Revenue Fund**

The Special Revenue Fund is used to account for specific revenue sources that are legally restricted for the payment of salaries and certain employee benefits for certified personnel performing in certificate-required positions.

#### **Debt Service Fund**

The Debt Service Fund is used to account for the accumulation of resources for the payment of principal, interest and fiscal charges on general long-term debt.

#### **Capital Projects Fund**

The Capital Projects Fund is used to account for resources to be used for the acquisition or construction of major capital assets.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### **Proprietary Fund**

#### **Internal Service Fund**

This fund accounts for the proceeds from contributions for the payment of claims and the liabilities associated with the District's self-insurance activities (primarily employee medical and dental benefits). Expenses include claims paid, direct insurance payments and administrative fees. A liability for estimated claims incurred but not reported is recorded in this fund.

### **Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

#### **Measurement Focus**

The district-wide financial statements are prepared using the economic resources measurement focus, as are the proprietary fund financial statements. The accounting objectives of this measurement focus are the determination of changes in net position, financial position, and cash flows. All assets and liabilities, whether current or noncurrent, are reported.

The governmental fund financial statements are prepared using the current financial resources measurement focus. Only current financial assets and liabilities are generally included in the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

#### **Basis of Accounting**

The district-wide financial statements are prepared using the accrual basis of accounting, as are the proprietary fund financial statements. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic assets used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The governmental fund financial statements are prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Property and sales taxes, interest and certain grants are susceptible to accrual.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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Miscellaneous revenue items, which are not susceptible to accrual, are recognized as revenues only as they are received in cash. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, compensated absences, and pension and other post employment benefits which are recognized as expenditures to the extent they are due and payable.

### **Cash and Investments**

Cash resources from all funds, except the Debt Service Fund, are combined to form a pool of cash and temporary investments. Interest income earned is allocated to the contributing funds based on each funds' proportionate share of funds invested on a monthly basis. Investments in repurchase agreements and external investment pools are carried at amortized cost, which approximates fair value.

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

### **Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

### **Receivables**

Major receivables for the governmental activities include property and sales taxes, and state and federal grants. Allowances for uncollectible property taxes are estimated to be two percent of delinquent taxes at year-end.

### **Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid expenses.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Capital Assets and Depreciation

In the district-wide financial statements, capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost if actual cost is unavailable. Contributed assets are reported at their fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred. Depreciation on assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	15	years
Buildings and improvements	15-60	years
Vehicles and equipment	5-20	years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

### Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use. The restricted assets consist primarily of funds escrowed under the Missouri School District Direct Deposit Program and unspent bond proceeds invested in the Missouri Securities Investment Program.

### Long-Term Liabilities

All long-term liabilities to be repaid from governmental activities are reported in the district-wide financial statements. Long-term liabilities consist of bonds and capital leases payable, and accrued compensated absences. Long-term liabilities are not due and are not payable in the current period and therefore are not reported as liabilities in the governmental fund financial statements.

### Compensated Absences

The District's policies regarding compensated absences permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded in the district-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability from expendable available financial resources.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### **Interfund Activity**

Interfund transfers are reported as other financing sources (uses) in governmental funds. Transfers in the amount of \$221,231 were made from the General Fund to the Capital Projects Fund to cover food service capital items and provide spending for the next fiscal year.

### **Net Position**

In the district-wide and proprietary fund financial statements, equity is classified as net position and displayed in three components. Net investment in capital assets consist of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are constraints imposed on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments. The remaining balance of net position that does not meet the definition of restricted or net investment in capital assets is reported as unrestricted. The District first utilizes restricted resources to finance qualifying activities.

### **Fund Balances – Governmental Funds**

In the governmental fund financial statements, equity is classified as fund balance. Governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources or by constitutional provision or enabling legislations.

Committed – includes amounts that can only be used for specific purposes determined by a resolution of the Board of Education. Commitments may be modified or rescinded only through resolutions approved by the Board.

Assigned – includes amounts that the District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the District's adopted policy, amounts may be assigned by the Chief Operating Officer.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes, a negative fund balance may be reported. District policy requires a minimum unassigned fund balance of 15% of total prior year General Fund and Special Revenue Fund expenditures in order to cover unexpected expenditures and revenue shortfalls.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions. The details of the fund balances are included in the Governmental Funds Balance Sheet.

### **Revenues**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied annually on November 1 and are due by December 31. The county collects the property tax and remits it to the District. In the district-wide financial statements, property tax revenues are recognized in the fiscal year levied. In the fund financial statements, property taxes are recognized in the fiscal year levied to the extent collected within 60 days of year-end. Revenues not collected within 60 days of year-end are reported as deferred inflows of resources.

Sales tax is collected by the State of Missouri and remitted to districts within the state based on a prior year weighted average daily attendance. The State receives the sales tax approximately one month after collection by vendors. Sales taxes collected by the State in June and July, which represent sales for May and June, and received by the District in July and August have been accrued and reported as other local receivables.

Entitlements and grants are recognized as revenue in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are reported as unearned revenue. In the fund financial statements, entitlement and grant revenues must be collected within 60 days of year-end before they can be recognized.

Operating revenues and expenses for proprietary funds are those that result from providing services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, and investing activities.

### **Use of Estimates**

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

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2 – CASH AND INVESTMENTS

The District maintains a cash and temporary cash investment pool that is available for use by all funds except the Debt Service Fund (State law requires that all deposits of the Debt Service Fund be kept separate and apart from all other funds of the District). Each fund's portion of this pool is displayed on the balance sheet as “cash and investments” under each fund’s caption.

#### **Deposits**

Missouri statutes require that all deposits with financial institutions be collateralized in an amount at least equal to uninsured deposits. At June 30, 2017, the District’s bank balance was fully secured by federal depository insurance or fully collateralized with securities held by the District’s safe keeping agent pledged in the name of the District.

#### **Investments**

The District may purchase any investments allowed by the State Treasurer. These include U.S. Treasury securities, U.S. agency securities, securities issued by the State of Missouri, repurchase agreements, certificates of deposit, bankers’ acceptances and commercial paper.

The District participates in the Missouri Direct Deposit Program which is a mechanism for public school bond repayments through the MOHEFA Bond Program. It authorizes the direct deposit of a portion of the District’s state aid payment by the State of Missouri to a trustee bank that accumulates these payments and then makes the principal and interest payments to the paying agent on the bonds. The direct deposits occur ten times per year and the balance is withdrawn every six months to pay the debt service requirement of the related bond issues. At June 30, 2017, the District had \$7,654,661 in this program, which has been classified as restricted investments.

The District also participates in the Missouri Securities Investment Program (MoSIP). All funds of MoSIP are invested in accordance with Section 165.051 of the Missouri Revised Statutes. Each school district owns a prorata share of each investment or deposit which is held in the name of the Fund. The District had \$1,895,293 invested through MoSIP at June 30, 2017.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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As of June 30, 2017, the District had the following investments and maturities:

Type	Fair value	Investment Maturities	
		0 to 1 year	1 to 3 years
Repurchase agreements	\$ 47,697,000	\$ 47,697,000	\$ -
External investment pools			
Missouri Securities Investment Program	1,895,293	1,895,293	-
Missouri Direct Deposit Program	7,654,661	7,654,661	-
	<u>\$ 57,246,954</u>	<u>\$ 57,246,954</u>	<u>\$ -</u>

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District minimizes interest rate risk by structuring its investment portfolio so that securities mature to meet anticipated cash flows for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds in primarily shorter-term securities. The District's investment policy also requires funds invested in bankers' acceptances and commercial paper mature not more than one hundred and eighty days from the dates of purchase and all other investments mature not more than two years from the dates of purchase. Additionally, the policy requires the District to adopt a weighted average maturity limitation that should not exceed one year.

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. To protect against credit risk, the District restricts investments to those with a rating of AAA by Standards and Poor's or A1+/P1 by Moody's. These ratings are the highest given by the agencies and indicate a low credit risk.



# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Concentration of Credit Risk

As a means of limiting its exposure to losses arising from concentration of investments, the District's investment policy mandates that the portfolio not have a concentration of assets in specific maturity, specific issuer or specific class of securities. At a minimum, diversification standards by security type and issuer are established as: (a) U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. Government, 95%; (b) collateralized time and demand deposits, 50%; (c) U.S. Government agencies, and government sponsored enterprises, no more than 70%; (d) collateralized repurchase agreements, 100%; (e) U.S. Government agency callable securities, no more than 15%; (f) commercial paper, no more than 40%; and (g) bankers' acceptances, no more than 40%. Investments in any one issuer representing 5% or more of total investments (excluding investments issued or explicitly guaranteed by the U.S. government and external investment pools) are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage</u>
UMB Bank	Repurchase agreement	83%

### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. To minimize custodial credit risk, it is the District's policy that all securities purchased be perfected in the name of or for the account of the District and be held by a third-party custodian as evidenced by appropriate safekeeping receipts.

### Summary

The cash deposits and investments are summarized and presented in the fund financial statements as follows as of June 30, 2017:

Carrying amount of deposits	\$ 15,338,481
Investments	<u>57,246,954</u>
	<u>\$ 72,585,435</u>
Cash and investments - governmental funds	\$ 58,912,249
Restricted cash and investments - governmental funds	9,549,428
Cash - proprietary funds	<u>4,123,758</u>
Total reporting entity	<u>\$ 72,585,435</u>

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 3 – TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on November 1 and payable by December 31. All unpaid taxes become delinquent January 1 of the following year. The county collects the property taxes and remits them to the District.

The District also receives sales tax collected by the state and remitted based on a prior year weighted average attendance. The District is required to reduce its property tax levy by one-half the amount of sales tax estimated to be received in the subsequent calendar year. On April 4, 1995, the patrons of the District voted to forego this reduction in property taxes, thus earmarking the entire amount for education. The assessed valuation of the tangible taxable property for the calendar year 2016 and for purposes of local taxation was \$2,371,839,820.

The tax levy per \$100 of the assessed valuation of tangible taxable property for the calendar year 2016 for purposes of local taxation was as follows:

General Fund	\$	2.1954
Special Revenue Fund		2.0918
Debt Service Fund		0.6713
Capital Projects Fund		<u>0.0600</u>
Total	\$	<u><u>5.0185</u></u>

The receipts of current and delinquent property taxes during the fiscal year ended June 30, 2017 aggregated approximately 101% of the 2016 assessment computed on the basis of the levy as shown above.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
Governmental activities				
Capital assets that are not depreciated				
Land	\$ 6,545,623	\$ -	\$ -	\$ 6,545,623
Construction in progress	81,926	38,600	(81,926)	38,600
Capital assets that are depreciated				
Land improvements	19,764,953	415,996	-	20,180,949
Buildings and improvements	240,100,468	723,132	(317,530)	240,506,070
Vehicles and equipment	25,215,764	202,110	(3,232,649)	22,185,225
Totals at estimated historical cost	291,708,734	1,379,838	(3,632,105)	289,456,467
Accumulated depreciation				
Land improvements	11,800,231	890,339	-	12,690,570
Buildings and improvements	42,363,776	3,480,255	(423,373)	45,420,658
Vehicles and equipment	19,914,775	1,961,021	(3,200,948)	18,674,848
Total accumulated depreciation	74,078,782	6,331,615	(3,624,321)	76,786,076
Governmental activities capital assets, net	<u>\$ 217,629,952</u>	<u>\$ (4,951,777)</u>	<u>\$ (7,784)</u>	<u>\$ 212,670,391</u>

Depreciation was charged to functions of the District as follows:

Instruction	\$ 4,504,879
Guidance	42,181
Improvement of instruction	6,726
Executive administration	533,178
Building level administration	18,363
Transportation	4,752
Operation of plant	141,897
Food service	24,813
Community services	43,901
Facility acquisition and construction	1,010,925
	<u>\$ 6,331,615</u>

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts due within one year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 143,268,000	\$ -	\$ (11,665,000)	\$ 131,603,000	\$ 14,380,000
Deferred amounts for issuance premium	7,246,530	-	(790,221)	6,456,309	-
Total bonds payable, net	150,514,530	-	(12,455,221)	138,059,309	14,380,000
Obligations under capital leases	2,730,390	249,580	(1,252,403)	1,727,567	1,078,947
Compensated absences	4,141,527	4,096,590	(4,141,527)	4,096,590	-
Total governmental activity long- term liabilities	<u>\$ 157,386,447</u>	<u>\$ 4,346,170</u>	<u>\$ (17,849,151)</u>	<u>\$ 143,883,466</u>	<u>\$ 15,458,947</u>

Principal and interest on general obligation bonds are liquidated through the Debt Service Fund. Capital leases are liquidated through the Capital Projects Fund. Compensated absences and early retirement benefits will be liquidated by the fund in which the employee's salary was charged.

#### Bonds Payable

Repayment of general obligation bond issues is made through the Missouri School District Direct Deposit Program which is a mechanism for public school bond repayments. It authorizes the direct deposit of a portion of the District's state aid payment by the State of Missouri to a trustee bank that accumulates these payments and then makes the principal and interest payments to the paying agent on the bonds.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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General obligation bonds outstanding at June 30, 2017 were as follows:

<u>Date Issued</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Balance</u>
3/1/2001	3/1/3021	4.15% - 5.17%	\$ 9,998,236	\$ 798,000
8/31/2004	3/1/2018	3.50% - 5.25%	28,870,000	6,570,000
4/7/2005	3/1/2021	3.50% - 5.25%	23,370,000	16,490,000
3/4/2008	3/1/2018	3.00% - 5.00%	26,955,000	5,715,000
3/17/2009	3/1/2029	3.625% - 5.00%	40,000,000	9,990,000
10/19/2009	3/1/2025	1.25%	9,185,000	9,185,000
12/7/2010	3/1/2020	3.15%	1,635,000	1,635,000
12/7/2010	3/1/2030	4.20% - 5.50%	29,315,000	29,315,000
5/26/2011	3/1/2022	3.00% - 5.50%	9,940,000	9,940,000
3/6/2012	3/1/2024	2.50%	1,680,000	1,680,000
3/6/2012	3/1/2024	4.00%	4,765,000	4,765,000
2/16/2016	3/1/2029	3.00% - 4.00%	35,520,000	35,520,000
				<u>\$ 131,603,000</u>

The District made the irrevocable election to have Section 54AA of the Code apply to the bonds issued on December 7, 2010 so they may be “build America bonds” as defined in Code Section 54AA(d). The District also made the irrevocable election to have Section 54AA(g) of the Code apply to the bonds issued on December 7, 2010 so that they may be “qualified bonds” under Code Section 54AA(g) in order to receive the U.S. Treasury Interest Subsidy payments. Under current law, the U.S. Treasury Interest Subsidy payments are to be paid by the United States directly to any issuer of bonds that qualify as “build America bonds” and as “qualified bonds” in an amount equal to 35% of the interest payable by the District on such bonds on each interest payment date, provided that certain requirements, as described in the Code and related Internal Revenue Service pronouncements, as to the uses and investment of the bond proceeds and other matters, are continuously satisfied by the District.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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The annual requirements to amortize the general obligation bonds as of June 30, 2017, including interest payments, are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Subsidy</u>	<u>Total</u>
2018	\$ 14,380,000	\$ 5,513,946	\$ (530,331)	\$ 19,363,615
2019	12,193,000	5,984,009	(530,331)	17,646,678
2020	13,130,000	4,232,828	(530,331)	16,832,497
2021	12,200,000	3,670,288	(499,975)	15,370,313
2022	11,705,000	3,160,238	(466,095)	14,399,143
2023-2027	48,390,000	9,855,438	(1,700,265)	56,545,173
2028-2030	19,605,000	1,704,000	(384,160)	20,924,840
	<u>\$ 131,603,000</u>	<u>\$ 34,120,747</u>	<u>\$ (4,641,488)</u>	<u>\$ 161,082,259</u>

Article VI, Section 26(c), Constitution of Missouri, limits the outstanding amount of authorized General Obligation Bonds of a district to 15% of the assessed valuation of a District. The legal debt margin of the District at June 30, 2017 was:

Constitutional debt limit	\$ 355,775,973
General obligation bonds payable	(131,603,000)
Amount available in Debt Service Fund	<u>13,870,805</u>
Legal debt margin	<u>\$ 238,043,778</u>

### Capital Lease Payable

The District leases certain equipment under agreements classified as capital leases. As of June 30, 2017, the cost for such equipment, which are included in vehicles and equipment, was \$5,104,542 and accumulated depreciation was \$3,949,625.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2017:

Year ending June 30,	
2018	\$ 1,107,934
2019	522,852
2020	102,215
2021	<u>34,811</u>
Total future minimum lease payments	1,767,812
Less amount representing interest	<u>(40,245)</u>
Present value of future minimum lease payments	<u><u>\$ 1,727,567</u></u>

### NOTE 6 – RETIREMENT PLAN

#### Public School and Education Employee Retirement Systems of Missouri

The District contributes to the Public School Retirement System of Missouri (PSRS), a cost-sharing multiple-employer defined benefit pension plan.

#### Plan Description

PSRS is a mandatory cost-sharing multiple employer retirement system for all full-time certificated employees and certain part-time certificated employees of all public school districts in Missouri (except the school districts of St. Louis and Kansas City) and all public community colleges. PSRS also includes certificated employees of PSRS, Missouri State Teachers' Association, Missouri State High School Activities Association, and certain employees of the state of Missouri who elected to remain covered by PSRS under legislation enacted in 1986, 1987 and 1989. The majority of PSRS members are exempt from Social Security contributions. In some instances, positions may be determined not to be exempt from Social Security contributions. Any PSRS member who is required to contribute to Social Security comes under the requirements of Section 169.070 (9) RSMo, known as the "2/3's statute." PSRS members required to contribute to Social Security are required to contribute two-thirds of the approved PSRS contribution rate and their employer is required to match the contribution. The members' benefits are further calculated at two-thirds the normal benefit amount.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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Public Education Employee Retirement System of Missouri (PEERS) is a mandatory cost-sharing multiple employer retirement system for all public school district employees (except the school districts of St. Louis and Kansas City), employees of the Missouri Association of School Administrators, and community college employees (except the Community College of St. Louis). Employees of covered districts who work 20 or more hours per week on a regular basis and who are not contributing members of the PSRS must contribute to PEERS. Employees of PSRS who do not hold Missouri educator certificates also contribute to PEERS. PEERS was established as a trust fund by an Act of the Missouri General Assembly effective October 13, 1965. Statutes governing the System are found in Sections 169.600 - 169.715 and Sections 169.560-169.595 RSMo. The statutes place responsibility for the operation of PEERS on the Board of Trustees of the Public School Retirement System of Missouri.

### Benefits Provided

PSRS is a defined benefit plan providing retirement, disability, and death/survivor benefits. Members are vested for service retirement benefits after accruing five years of service. Individuals who (a) are at least age 60 and have a minimum of 5 years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 2.5% benefit factor. Beginning July 1, 2001, and ending July 1, 2014, a 2.55% benefit factor is used to calculate benefits for members who have 31 or more years of services. Actuarially age-reduced benefits are available for members with five to 24.9 years of service at age 55. Members who are younger than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of service may retire with a lesser benefit factor. Members that are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount.

PEERS is a defined benefit plan providing service retirement and disability benefits to its members. Members are vested for service retirement benefits after accruing five years of service. Individuals who (a) are at least age 60 and have a minimum of five years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 1.61% benefit factor. Members qualifying for "Rule of 80" or "30-and-out" are entitled to an additional temporary .8% benefit multiplier until reaching minimum Social Security age (currently age 62). Actuarially age-reduced retirement benefits are available with five years of service at age 55. Members who are younger than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of service may retire with a lesser benefit factor. Members that are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount.

Summary Plan Descriptions detailing the provisions of the plans can be found on the Systems' website at [www.psr-peers.org](http://www.psr-peers.org).



# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Cost-of-Living Adjustments ("COLA")

The Board has established a policy of providing a 0.00% COLA for years in which the CPI increases between 0.00% and 2.00%, a 2.00% COLA for years in which the CPI increases between 2.00% and 5.00%, and a COLA of 5.00% if the CPI increase is greater than 5.00%. If the CPI decreases, no COLA is provided. For any PSRS member retiring on or after July 1, 2001, such adjustments commence on the second January after commencement of benefits and occur annually thereafter. For PEERS members, such adjustments commence on the fourth January after commencement of benefits and occur annually thereafter. The total of such increases may not exceed 80% of the original benefit for any member.

### Contributions

PSRS members were required to contribute 14.5% of their annual covered salary during fiscal years 2015, 2016 and 2017. Employers were required to match the contributions made by employees. The contribution rate is set each year by the PSRS Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contributions for employees of the State of Missouri were made by the state in accordance with the actuarially determined contribution rate needed to fund current costs and prior service costs of state employees as authorized in Section 104.342.8 RSMo.

PEERS members were required to contribute 6.86% of their annual covered salary during fiscal years 2015, 2016 and 2017. Employers were required to match the contributions made by employees. The contribution rate is set each year by the PSRS Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. The annual statutory increase in the total contribution rate may not exceed 0.5% of pay.

The District's contributions to PSRS and PEERS were \$14,873,749 and \$1,803,681, respectively, for the year ended June 30, 2017.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District recorded a liability of \$169,044,101 for its proportionate share of PSRS' net pension liability and \$13,775,291 for its proportionate share of PEERS' net pension liability. In total, the District recorded net pension liabilities of \$182,819,392. The net pension liability for the plans in total was measured as of June 30, 2016 and determined by an actuarial valuation as of that date. The District's proportionate share of the total net pension liability was based on the ratio of its actual contributions paid to PSRS and PEERS of \$15,218,211 and \$1,818,813, respectively, for the year ended June 30, 2016, relative to the actual contributions of \$669,858,142 for PSRS and \$105,934,385 for PEERS from all participating employers. At June 30, 2016, the District's proportionate share was 2.2719% for PSRS and 1.7169% for PEERS.

For the year ended June 30, 2017, the District recognized pension expense of \$22,183,839 for PSRS and \$2,557,149 for PEERS, its proportionate share of the total pension expense. The District also recognized expense of \$76,064 for contributions to PSRS related to employee reciprocity and other service transfers.

At June 30, 2017, the District reported deferred outflows of resources from the following sources related to PSRS and PEERS pension benefits:

	Deferred Outflows of Resources		
	PSRS	PEERS	District Total
Difference between expected and actual experience	\$ 12,162,648	\$ 398,739	\$ 12,561,387
Changes in assumptions	1,911,950	820,457	2,732,407
Net difference between projected and actual earnings on pension plan investments	57,442,655	5,007,320	62,449,975
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,890,649	148,070	4,038,719
Employer contributions subsequent to the measurement date	14,873,749	1,803,681	16,677,430
Total	<u>\$ 90,281,651</u>	<u>\$ 8,178,267</u>	<u>\$ 98,459,918</u>

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

At June 30, 2017, the District reported deferred inflows of resources from the following sources related to PSRS and PEERS pension benefits:

	Deferred Inflows of Resources		
	PSRS	PEERS	District Total
Difference between expected and actual experience	\$ 12,916,015	\$ 807,354	\$ 13,723,369
Net difference between projected and actual earnings on pension plan investments	22,412,824	1,867,174	24,279,998
Changes in proportion and differences between employer contributions and proportionate share of contributions	388,987	244,161	633,148
Total	<u>\$ 35,717,826</u>	<u>\$ 2,918,689</u>	<u>\$ 38,636,515</u>

Deferred outflows of resources to PSRS and PEERS pensions in the amount of \$14,897,156 and \$1,803,681, respectively, resulting from contributions subsequent to the measurement date of June 30, 2016, will be recognized as a reduction to the net pension liability in the year ended June 30, 2017.

Other amounts reported as collective deferred (inflows) / outflows of resources to be recognized annually in pension expense are as follows:

Year ending June 30,	PSRS	PEERS	District Total
2018	\$ 6,231,016	\$ 570,885	\$ 6,801,901
2019	6,231,015	637,873	6,868,888
2020	17,437,427	1,363,961	18,801,388
2021	11,011,536	883,178	11,894,714
2022	(719,885)	-	(719,885)
Thereafter	(501,033)	-	(501,033)
	<u>\$ 39,690,076</u>	<u>\$ 3,455,897</u>	<u>\$ 43,145,973</u>

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Actuarial Assumptions

Actuarial valuations of the Systems involve estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Board of Trustees adopts actuarial assumptions, each of which individually represents a reasonable long-term estimate of anticipated experience for the Systems, derived from experience studies conducted every fifth year. The most recent comprehensive experience studies were completed in June 2016. All economic and demographic assumptions were reviewed and updated, where appropriate, based on the results of the study and effective with the June 30, 2016 valuation. Significant actuarial assumption and method changes are detailed below. For additional information please refer to the Systems' CAFR. The next experience studies are scheduled for 2021.

Significant actuarial assumptions and other inputs used to measure the total pension liability:

Measurement Date – June 30, 2016

Valuation Date – June 30, 2016

Expected Return on Investments – 7.75% net of investment expenses and including 2.25% inflation.

Inflation – 2.25%

Total Payroll Growth PSRS – 2.75% per annum consisting of 2.25% inflation, 0.25% real wage growth due to the inclusion of active health care costs in pensionable earnings, and 0.25% of real wage growth due to productivity.

Total Payroll Growth PEERS – 3.25% per annum consisting of 2.25% inflation, 0.50% real wage growth due to the inclusion of active health care costs in pensionable earnings, and 0.50% of real wage growth due to productivity.

Future Salary Increases PSRS – 3.00% - 9.50%, depending on service and including 2.25% inflation, 0.25% real wage growth due to the inclusion of active health care costs in pensionable earnings, and 0.25% of real wage growth due to productivity.

Future Salary Increases PEERS – 4.00% - 11.00%, depending on service and including 2.25% inflation, 0.50% real wage growth due to the inclusion of active health care costs in pensionable earnings, and 0.50% of real wage growth due to productivity.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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Cost-of-Living Increases PSRS & PEERS – The long-term COLA assumed in the valuation is 1.50% per year, based on the current policy of the Board to grant a 0.00% COLA when annual inflation, as measured by the CPI-U index for a fiscal year, increases between 0.00% and 2.00% and to grant 2.00% when the increase is between 2.00% and 5.00%. The actuarial assumption increases from 1.00% to 1.50% over ten years (from fiscal year 2017 to fiscal year 2027). The COLA applies to service retirements and beneficiary annuities. The COLA does not apply to the benefits for in-service death payable to spouses (where the spouse is over age 60), and does not apply to the spouse with children pre-retirement death benefit, the dependent children pre-retirement death benefit, or the dependent parent death benefit. The total lifetime COLA cannot exceed 80% of the original benefit. PSRS member receive a COLA on the second January after retirement, while PEERS members receive a COLA on the fourth January after retirement.

### Mortality Assumption –

- Actives PSRS: RP 2006 White Collar Employee Mortality Table, multiplied by an adjustment factor of 0.75 at all ages for both males and females, with static projection using the 2014 SSA Improvement Scale to 2028.
- Actives PEERS: RP 2006 White Collar Employee Mortality Table, multiplied by an adjustment factor of 0.75 at all ages for both males and females, with static projection using the 2014 SSA Improvement Scale to 2028.
- Nondisabled Retirees, Beneficiaries and Survivors PSRS: RP 2006 White Collar Mortality Tables with plan-specific experience adjustments and static projection to 2028 using the 2014 SSA Improvement Scale.
- Nondisabled Retirees, Beneficiaries and Survivors PEERS: RP 2006 Total Dataset Mortality Tables with plan-specific experience adjustments and static projection to 2028 using the 2014 SSA Improvement Scale.
- Disabled retirees: RP 2006 Disabled Retiree Mortality Tables with static projection to 2028 using the 2014 SSA Improvement Scale.

Changes in Actuarial Assumptions and Methods: An experience study was completed in June 2016 resulting in an update to the following assumptions –

- PSRS & PEERS –
  - The inflation assumption decreased from 2.50% to 2.25% per year.
  - The Board adopted a new COLA policy during fiscal year 2016 resulting, in a decrease in the future COLA assumption from 2.00% per year to a variable, increasing assumption of 1.00% - 1.50% over ten years beginning January 1, 2018.
- PSRS –
  - The payroll growth assumption decreased from 3.50% to 2.75% per year.
  - The future salary increase assumption decreased from 4.00% - 10.00%, depending on service to 3.00% - 9.50%, depending on service.
  - The investment return assumption decreased from 8.00% to 7.75% per year.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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- The active mortality assumption changed from the RP 2000 Mortality Table set back one year for males and six years for females, then projected to 2016 using Scale AA to 75% of the RP-2006 White Collar Mortality Tables with static projection to 2028 using the 2014 SSA Improvement Scale.
- The non-disabled retiree mortality assumption changed from the RP 2000 Mortality Table set back one year for both males and females, then projected to 2016 using Scale AA to the RP-2006 White Collar Mortality Tables with plan-specific experience adjustments and static projection to 2028 using the 2014 SSA Improvement Scale.
- The disabled retiree mortality assumption changed from the RP 2000 Disabled Retiree Mortality Table to the RP-2006 Disabled Retiree Mortality Tables with static projection to 2028 using the 2014 SSA Improvement Scale.
- PEERS –
  - The payroll growth assumption decreased from 3.75% to 3.25% per year.
  - The future salary increase assumption decreased from 5.00%-12.00%, depending on service to 4.00%-11.00%, depending on service.
  - The investment return assumption decreased from 8.00% to 7.75% per year.
  - The active mortality assumption changed from the RP 2000 Mortality Table set back one year for males and six years for females, then projected to 2016 using Scale AA to 75% of the RP-2006 Total Dataset Mortality Tables with static projection to 2028 using the 2014 SSA Improvement Scale.
  - The non-disabled retiree mortality assumption changed from the RP 2000 Mortality Table set forward one year for males and no set back/forward for females, then projected to 2016 using Scale AA to the RP-2006 Total Dataset Mortality Tables with plan-specific experience adjustments and static projection to 2028 using the 2014 SSA Improvement Scale.
  - The disabled retiree mortality assumption changed from the RP 2000 Disabled Retiree Mortality Table to the RP-2006 Disabled Retiree Mortality Tables with static projection to 2028 using the 2014 SSA Improvement Scale.

Fiduciary Net Position: The Systems issue a publicly available financial report that can be obtained at [www.psr-peers.org](http://www.psr-peers.org).

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### Expected Rate of Return

The long-term expected rate of return on investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed rate of return. The long-term expected rate of return on the Systems' investments was determined using a building-block method in which best-estimate ranges of expected future real rates of returns (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. Best estimates of arithmetic real rates of return for each major asset class included in the Systems' target allocation as of June 30, 2016 are summarized below along with the long term geometric return. Geometric return (also referred to as the time weighted return) is considered standard practice within the investment management industry. Geometric returns represent the compounded rate of growth of a portfolio. The method eliminates the effects created by cashflows.

Asset Class	Target Asset Allocation	Long-term Expected Real Return Arithmetic Basis	Weighted Long-Term Expected Real Return Arithmetic Basis
U.S. public equity	27.00 %	5.16 %	1.39 %
Public credit	7.00	2.17	0.15
Hedged assets	6.00	4.42	0.27
Non-U.S. public equity	15.00	6.01	0.90
U.S. treasuries	16.00	0.96	0.15
U.S. TIPS	4.00	0.80	0.03
Private credit	4.00	5.60	0.22
Private equity	12.00	9.86	1.18
Private real estate	9.00	3.56	0.32
Total	100.00 %		4.61
		Inflation	2.25
		Long-term arithmetical nominal return	6.86
		Effect of covariance matrix	0.89
		Long-term expected geometric return	7.75 %

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Discount Rate

The discount rate used to measure the total pension liability was 7.75% as of June, 30, 2016, and is consistent with the long-term expected geometric return on the plan investments. The actuarial assumed rate of return was 8.0% from 1980 through fiscal year 2016. The Board of Trustees adopted a new actuarial assumed rate of return of 7.75% based on the actuarial experience studies and asset-liability study conducted during the current year. The projection of cash flows used to determine the discount rate assumed that employer contributions would be made at the actuarially calculated rate computed in accordance with assumptions and methods stated in the funding policy adopted by the Board of Trustees, which requires payment of the normal cost and amortization of the unfunded actuarially accrued liability in level percent of employee payroll installments over 30 years utilizing a closed period, layered approach. Based on this assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

### Discount Rate Sensitivity

The sensitivity of the District's net pension liabilities to changes in the discount rate is presented below. The District's net pension liabilities calculated using the discount rate of 7.75% is presented as well as the net pension liabilities using a discount rate that is 1.0% lower (6.75%) or 1.0% higher (8.75%) than the current rate.

	<u>1% Decrease</u> 6.75%	<u>Current Rate</u> 7.75%	<u>1% Increase</u> 8.75%
Proportionate share of the net position liability / (asset)			
PSRS	\$ 286,776,316	\$ 169,044,101	\$ 71,014,143
PEERS	\$ 23,955,719	\$ 13,775,291	\$ 5,231,413

## NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

### **Plan Description**

In addition to providing the pension benefits described in Note 6, the District provides continuation of medical, dental and vision insurance coverage, including prescription drugs to employees who are eligible for normal or early retirement under PSRS or PEERS. Retirees who elect to participate in the plan pay 100% of the blended premium rates effective for both active employees and retirees. The blended rates provide an implicit rate subsidy for retirees because, on an actuarial basis, the current and future claims are expected to result in higher cost to the plan on average than those of active employees. A stand-alone financial report is not available for the plan.



# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Funding Policy

The District is financing the postemployment health care benefits on a pay-as-you-go basis. During the current year, 729 retirees participated in the District's insurance plans. Retiree contributions totaled \$1,578,400 for the year ended June 30, 2017.

### Annual Other Postemployment Benefit Cost

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a closed period not to exceed thirty years.

The District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's OPEB obligation at June 30, 2017 were as follows:

Annual required contribution	\$ 3,163,000
Interest on net OPEB obligation	340,300
Adjustment to annual required contribution	<u>(358,500)</u>
Annual OPEB cost (expense)	3,144,800
Contributions made	<u>1,578,400</u>
Increase in net OPEB obligation	1,566,400
Net OPEB obligation, July 1, 2016	<u>9,724,099</u>
Net OPEB obligation, June 30, 2017	<u><u>\$ 11,290,499</u></u>

As of June 30, 2017, the annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation were as follows:

<u>Plan Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 3,151,000	\$ 1,813,700	57.56%	\$ 8,183,199
2016	3,119,500	1,578,600	50.60%	9,724,099
2016	3,144,800	1,578,400	50.19%	11,290,499

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### **Funded Status and Funding Progress**

As of July 1, 2015, the actuarial accrued liability for benefits was \$33,779,800, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$119,011,400, and the ratio of the unfunded actuarial liability to the covered payroll was 28 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and the plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. The initial unfunded actuarial accrued liability is being amortized over 30 years.

In the July 1, 2015 actuarial valuation, the liabilities were computed using the projected unit credit cost method. The actuarial assumptions included an annual healthcare cost trend rate of 6.1% initially, reduced by decrements to an ultimate rate of 4.2% after 60 years. The actuarial assumptions also included a 3.5% discount rate. Because the plan is unfunded, reference to general assets, which are short-term in nature, was considered in the selection of the 3.5% rate.

### **NOTE 8 – DEFERRED COMPENSATION PLAN**

Employees of the District may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code (IRC) Section 457. The deferred compensation plan is available to all employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. The deferred compensation plan is administered by an unrelated financial institution.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9 – SELF-INSURANCE PLAN

The District maintains a self-funded health insurance program and dental insurance program with claims processed by a third party administrator on behalf of the District. A separate Insurance Fund (an internal service fund) is used to account for and finance both insurance programs.

All funds of the District from which employee salaries are paid participate in the health and dental insurance programs and make payments to the Internal Service Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for incurred but not reported claims. Total contributions and transfers to the programs for the year ended June 30, 2017 were \$19,033,074. The claims liability of \$3,070,911 reported in the Internal Service Fund at June 30, 2017, is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the Internal Service Fund's claims liability amount were as follows for the year ended June 30,:

	<u>2017</u>	<u>2016</u>
Unpaid claims, beginning of year	\$ 3,264,455	\$ 3,775,593
Incurred claims (including IBNRs)	19,063,583	18,603,340
Claim payments	<u>(19,257,127)</u>	<u>(19,114,478)</u>
Unpaid claims, end of year	<u>\$ 3,070,911</u>	<u>\$ 3,264,455</u>

### NOTE 10 – COMMITMENTS AND CONTINGENCIES

#### **Litigation**

Various claims and lawsuits are pending against the District. In the opinion of District management, the potential loss on all claims and lawsuits will not be material to the District's financial statements taken as a whole.

#### **Grant Audits**

The District receives Federal grants and State funding for specific purposes that are subject to review and audit. These reviews and audits could lead to requests for reimbursement or to withholding of future funding for expenditures disallowed under or other noncompliance with the terms of the grants and funding. The District is not aware of any noncompliance with federal or state provisions that might require the District to provide reimbursement.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### **Protested Taxes**

Each year the County remits certain unresolved protested tax payments to the District. The County notifies the District when a taxpayer is successful in their protests, and the District refunds the tax payments to the County. Normal refunds of protested tax payments are not material in relation to the District's financial position and results of operations.

### **NOTE 11 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. To mitigate these risks, the District is a participant in the Missouri United School Insurance Council (MUSIC) which is a Protected Self-Insurance Program of Missouri Public School Districts with approximately 400 members. The District pays an assessment to MUSIC. Part of the assessment then goes to purchase excess insurance contracts for the group as a whole. Should the contributions received by MUSIC not be sufficient, special assessments can be made to the member districts.

### **NOTE 12 – TAX ABATEMENTS**

A tax abatement is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which the governments promise to forgo tax revenues to which they are otherwise entitled and 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.

Under Chapter 100 of Missouri's tax code, the Department of Economic Development can provide a state and local sales tax exemption on tangible personal property leased by a company from a city/county. The tax exemption extends to both state and local sales tax and local property tax.

The District does not negotiate tax abatements with entities; however, the District is impacted by tax abatements granted by other governmental jurisdictions within the District's boundaries. These include Chapter 100 tax abatements for The Fireman's Fund, CitiMortgage, and Centene Corporation. For the fiscal year ending June 30, 2017, these abatements total \$1,178,492.

The District is also subject to one Chapter 353 tax abatement; this is an incentive to help redevelop blighted areas by abating some or all of the property taxes for up to 25 years. This tax abatement is immaterial to the financial statements.

**FRANCIS HOWELL R-III SCHOOL DISTRICT**

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGETARY BASIS - BUDGET AND ACTUAL -  
GENERAL FUND - UNAUDITED  
Year ended June 30, 2017**

	Budgeted amounts		Actual	Variances - positive (negative)	
	Original	Final		Original to final	Final to actual
<b>Revenues</b>					
Local	\$ 71,864,226	\$ 71,937,747	\$ 64,624,877	\$ 73,521	\$ (7,312,870)
County	1,269,320	1,286,057	1,283,583	16,737	(2,474)
State	6,703,307	6,885,579	5,675,245	182,272	(1,210,334)
Federal	2,257,581	2,342,517	3,218,520	84,936	876,003
Interest	94,105	94,054	401,817	(51)	307,763
Other	2,168,153	2,168,153	1,949,264	-	(218,889)
Student activities	2,236,000	2,080,000	2,322,553	(156,000)	242,553
Total revenues	86,592,692	86,794,107	79,475,859	201,415	(7,318,248)
<b>Expenditures</b>					
Instruction	20,036,466	18,931,814	18,783,966	1,104,652	147,848
Attendance	1,164,395	888,244	906,874	276,151	(18,630)
Guidance	120,772	152,909	159,653	(32,137)	(6,744)
Health, psych speech and audio	1,466,972	1,430,774	1,399,269	36,198	31,505
Improvement of instruction	1,160,650	1,424,838	1,272,162	(264,188)	152,676
Professional development	78,530	83,292	64,110	(4,762)	19,182
Media services (library)	362,330	345,608	347,673	16,722	(2,065)
Board of Education services	313,450	313,450	293,042	-	20,408
Executive administration	4,004,462	4,747,269	4,873,423	(742,807)	(126,154)
Building level administration	899,353	1,103,970	1,120,188	(204,617)	(16,218)
Business central service	1,537,744	1,853,826	1,779,975	(316,082)	73,851
Operation of plant	13,071,376	16,610,393	13,648,064	(3,539,017)	2,962,329
Security services	30,000	30,000	24,126	-	5,874
Pupil transportation	11,923,205	12,039,002	12,273,765	(115,797)	(234,763)
Food services	5,668,480	6,286,280	6,004,173	(617,800)	282,107
Central office support services	5,213,565	5,278,134	3,882,572	(64,569)	1,395,562
Community service	8,161,762	8,138,091	7,595,357	23,671	542,734
Total expenditures	75,213,512	79,657,894	74,428,392	(4,444,382)	5,229,502
Revenues over (under) expenditures	11,379,180	7,136,213	5,047,467	(4,242,967)	(2,088,746)
<b>Other financing uses</b>					
Transfers out	(14,272,159)	(12,951,312)	(221,231)	1,320,847	12,730,081
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (2,892,979)</u>	<u>\$ (5,815,099)</u>	4,826,236	<u>\$ (2,922,120)</u>	<u>\$ 10,641,335</u>
Fund balance at July 1, 2016			39,985,906		
Fund balance at June 30, 2017			<u>\$ 44,812,142</u>		

See notes to required supplementary information.

**FRANCIS HOWELL R-III SCHOOL DISTRICT**

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGETARY BASIS - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUND - UNAUDITED  
Year ended June 30, 2017**

	Budgeted amounts		Actual	Variances - positive (negative)	
	Original	Final		Original to final	Final to actual
<b>Revenues</b>					
Local	\$56,958,043	\$56,944,374	\$65,879,284	\$ (13,669)	\$ 8,934,910
County	1,558,266	1,558,772	1,562,120	506	3,348
State	43,700,122	45,145,639	47,272,252	1,445,517	2,126,613
Federal	6,150,886	5,838,242	5,173,532	(312,644)	(664,710)
Interest	89,578	89,616	65,119	38	(24,497)
Other	320,000	320,000	2,053,578	-	1,733,578
Total revenues	108,776,895	109,896,643	122,005,885	1,119,748	12,109,242
<b>Expenditures</b>					
Instruction	101,195,066	101,054,720	102,627,250	140,346	(1,572,530)
Guidance	4,828,029	4,829,531	4,860,633	(1,502)	(31,102)
Health, psych speech and audio	384,411	975,789	-	(591,378)	975,789
Improvement of instruction	3,072,387	2,693,576	2,553,413	378,811	140,163
Professional development	357,902	347,404	270,516	10,498	76,888
Media services (library)	1,630,391	1,628,517	1,656,016	1,874	(27,499)
Executive administration	359,038	358,594	420,189	444	(61,595)
Building level administration	8,395,063	8,062,837	8,405,091	332,226	(342,254)
Business central service	2,500	2,500	3,118	-	(618)
Central office support services	2,175,471	2,320,448	1,129,137	(144,977)	1,191,311
Community service	148,796	74,039	79,550	74,757	(5,511)
Total expenditures	122,549,054	122,347,955	122,004,913	201,099	343,042
Revenues over (under) expenditures	(13,772,159)	(12,451,312)	972	1,320,847	12,452,284
<b>Other financing sources</b>					
Transfers in	13,772,159	12,451,312	-	(1,320,847)	(12,451,312)
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	972	<u>\$ -</u>	<u>\$ 972</u>
Fund balance at July 1, 2016			-		
Fund balance at June 30, 2017			<u>\$ 972</u>		

See notes to required supplementary information.

# **FRANCIS HOWELL R-III SCHOOL DISTRICT**

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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### **NOTE 1 – BUDGETS AND BUDGETARY INFORMATION**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- In accordance with Chapter 67, RSMo, the District adopts a budget for each fund.
- Prior to July, the Superintendent, who serves as the budget officer, submits to the Board of Education a proposed budget for the fiscal year beginning on the following July 1. The proposed budget includes estimated revenues and proposed expenditures for all District funds. Budgeted expenditures cannot exceed beginning available monies plus estimated revenues for the year.
- A public hearing is conducted to obtain taxpayer comments. Prior to its approval by the Board of Education, the budget document is available for public inspection.
- Prior to July 1, the budget is legally enacted by a vote of the Board of Education.
- Subsequent to its formal approval of the budget, the Board of Education has the authority to make necessary adjustments to the budget by formal vote of the Board. Adjustments made during the year are reflected in the budget information included in the financial statements.

### **NOTE 2 – ADJUSTMENTS TO CONVERT BUDGETARY BASIS TO MODIFIED ACCRUAL BASIS**

The District creates its budget using the cash basis of accounting. The cash basis is used because it enables the District to better budget revenue and expenditures as the resources are expended or received. As noted in the Summary of Significant Accounting Policies, the District used the modified accrual basis to report fund financial statements.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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The following is a summary of the differences between the cash basis ending fund balances and the modified accrual basis ending fund balances:

	General fund	Special revenue fund
	<u>                    </u>	<u>                    </u>
Cash basis fund balance June 30, 2017	\$ 44,812,142	\$ 972
Add receivables	6,418,309	2,739,697
Add prepaid expenses	1,561,569	27,008
Less accounts payable	(2,626,273)	(1,231,950)
Less unearned revenue and deferred inflows	<u>(564,260)</u>	<u>(537,632)</u>
Modified accrual basis fund balance June 30, 2017	<u>\$ 49,601,487</u>	<u>\$ 998,095</u>



# FRANCIS HOWELL R-III SCHOOL DISTRICT

## NET PENSION LIABILITY – UNAUDITED

Year ended June 30, 2017

### Schedule of Proportionate Share of the Net Pension Liability and Related Ratios - PSRS

Year Ended*	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Actual Covered Member Payroll	Net Pension Liability as a Percentage of Covered Payroll	Fiduciary Net Position as a Percentage of Total Pension Liability
6/30/2015	2.2109%	\$90,703,839	\$99,200,076	91.4%	89.3%
6/30/2016	2.2802%	131,632,756	104,318,130	126.2%	85.8%
6/30/2017	2.2719%	169,044,101	106,065,873	159.4%	82.2%

### Schedule of Proportionate Share of the Net Pension Liability and Related Ratios - PEERS

Year Ended*	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Actual Covered Member Payroll	Net Pension Liability as a Percentage of Covered Payroll	Fiduciary Net Position as a Percentage of Total Pension Liability
6/30/2015	1.7233%	\$6,292,905	\$25,129,653	25.0%	91.3%
6/30/2016	1.7720%	9,372,217	26,571,281	35.3%	88.3%
6/30/2017	1.7169%	13,775,294	26,513,306	52.0%	83.3%

### Schedule of Employer Contributions - PSRS

Year Ended	Contractually Required Contribution	Actual Employer Contributions	Contribution Excess/ (Deficiency)	Actual Covered Member Payroll	Contributions as a Percentage of Covered Payroll
6/30/2014	\$ 13,693,593	\$ 13,693,593	\$ -	\$ 95,269,253	14.37%
6/30/2015	14,237,244	14,237,244	-	99,200,076	14.35%
6/30/2016	14,971,166	14,971,166	-	104,318,130	14.35%
6/30/2017	15,218,211	15,218,211	-	106,065,873	14.35%

### Schedule of Employer Contributions - PEERS

Year Ended	Contractually Required Contribution	Actual Employer Contributions	Contribution Excess/ (Deficiency)	Actual Covered Member Payroll	Contributions as a Percentage of Covered Payroll
6/30/2014	\$ 1,673,142	\$ 1,673,142	\$ -	\$ 24,391,725	6.86%
6/30/2015	1,723,895	1,723,895	-	25,129,653	6.86%
6/30/2016	1,822,790	1,822,790	-	26,571,281	6.86%
6/30/2017	1,818,813	1,818,813	-	26,513,306	6.86%

Note: These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

\*The data provided is based as of the measurement date of PSRS' and PEERS' net pension liability, which is as of the beginning of the District's fiscal year.

# FRANCIS HOWELL R-III SCHOOL DISTRICT

## OTHER POSTEMPLOYMENT BENEFIT OBLIGATION - UNAUDITED

Year ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	-	\$ 30,109,100	\$ 30,109,100	0%	\$ 110,071,600	27%
July 1, 2013	-	33,262,300	33,262,300	0%	111,900,100	30%
July 1, 2015	-	33,779,800	33,779,800	0%	119,011,400	28%

**FRANCIS HOWELL R-III SCHOOL DISTRICT**

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGETARY BASIS - BUDGET AND ACTUAL -  
DEBT SERVICE FUND**

**Year ended June 30, 2017**

	Budgeted amounts		Actual	Variances - positive (negative)	
	Original	Final		Original to final	Final to actual
Revenues					
Local	\$ 15,837,967	\$ 15,816,617	\$ 16,056,799	\$ (21,350)	\$ 240,182
County	387,756	387,919	407,043	163	19,124
Federal	530,331	530,331	494,003	-	(36,328)
Interest	28,747	28,759	86,563	12	57,804
Total revenues	16,784,801	16,763,626	17,044,408	(21,175)	280,782
Expenditures					
Debt service					
Principal	11,665,000	11,665,000	11,665,000	-	-
Interest and other charges	6,148,553	6,148,553	6,132,072	-	16,481
Total expenditures	17,813,553	17,813,553	17,797,072	-	16,481
NET CHANGE IN FUND BALANCES	<u>\$ (1,028,752)</u>	<u>\$ (1,049,927)</u>	(752,664)	<u>\$ (21,175)</u>	<u>\$ 297,263</u>
Fund balance at July 1, 2016			14,450,554		
Fund balance at June 30, 2017			<u>\$ 13,697,890</u>		
Reconciliation of budgetary basis (cash basis) of accounting to modified accrual basis of accounting					
Cash basis fund balance June 30, 2017			\$ 13,697,890		
Add receivables			510,030		
Less unearned revenue and deferred inflows			<u>(337,115)</u>		
Modified accrual fund balance June 30, 2017			<u>\$ 13,870,805</u>		

**FRANCIS HOWELL R-III SCHOOL DISTRICT**

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGETARY BASIS - BUDGET AND ACTUAL -  
CAPITAL PROJECTS FUND  
Year ended June 30, 2017**

	Budgeted amounts		Actual	Variances - positive (negative)	
	Original	Final		Original to final	Final to actual
	Revenues				
Local	\$ 2,415,579	\$ 2,413,671	\$ 2,481,087	\$ (1,908)	\$ 67,416
County	34,657	34,672	38,342	15	3,670
State	200,000	200,000	-	-	(200,000)
Federal	-	-	2,598	-	2,598
Interest	5,069	5,070	43,221	1	38,151
Other	-	-	1,345	-	1,345
Student activities	-	-	82,570	-	82,570
Total revenues	<u>2,655,305</u>	<u>2,653,413</u>	<u>2,649,163</u>	<u>(1,892)</u>	<u>(4,250)</u>
Expenditures					
Capital outlay	<u>5,437,094</u>	<u>5,865,458</u>	<u>3,040,395</u>	<u>(428,364)</u>	<u>2,825,063</u>
Revenues under expenditures	(2,781,789)	(3,212,045)	(391,232)	(430,256)	2,820,813
Other financing sources					
Transfers in	<u>500,000</u>	<u>500,000</u>	<u>221,231</u>	<u>-</u>	<u>(278,769)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (2,281,789)</u>	<u>\$ (2,712,045)</u>	<u>(170,001)</u>	<u>\$ (430,256)</u>	<u>\$ 2,542,044</u>
Fund balance at July 1, 2016			<u>5,189,471</u>		
Fund balance at June 30, 2017			<u>\$ 5,019,470</u>		
Reconciliation of budgetary basis (cash basis) of accounting to modified accrual basis of accounting					
Cash basis fund balance June 30, 2016			\$ 5,019,470		
Add receivables			38,140		
Less accounts payable			(253,845)		
Less unearned revenue and deferred inflows			<u>(15,421)</u>		
Modified accrual fund balance June 30, 2016			<u>\$ 4,788,344</u>		