

EARLHAM COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

## Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14-15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	21
Statement of Cash Flows	I	22
Notes to Financial Statements		23-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		34-35
Budget to GAAP Reconciliation		36
Notes to Required Supplementary Information - Budgetary Reporting		37
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	39
Schedule of Changes in Student Activity Accounts	3	40
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	41
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		42-43
Schedule of Findings		44-46

Earlham Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2003 Election)</b>		
Carma Herring	President	2004
Murray Ramsey	Vice-President	2004
Ernie Barnes	Board Member	2005
Lynn Boyle	Board Member	2003
Mike Madren	Board Member	2005

<b>Board of Education (After September 2003 Election)</b>		
Mike Madren	President	2005
Ernie Barnes	Vice President	2005
Carma Herring	Board Member	2004
Murray Ramsey	Board Member	2004
Lynn Boyle	Board Member	2006

**School Officials**

Doug Latham	Superintendent	2004
Jodi Stroud	District Secretary and Business Manager	2004
Ahlers & Cooney, P.C.	Attorney	2004

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Earlham Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Earlham Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Earlham Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

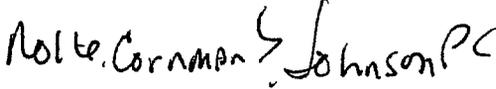
As described in Note 9 to the financial statements, during the year ended June 30, 2004, Earlham Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 3, 2004, on our consideration of the Earlham Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Earlham Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 3, 2004

---

---

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

---

Earlham Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

### **2004 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$3,748,781 in fiscal 2003 to \$3,716,342 in fiscal 2004, while General Fund expenditures increased from \$3,905,220 in fiscal 2003 to \$3,943,592 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$1,399,102 in fiscal 2003 to a balance of \$1,171,852 in fiscal 2004, a 16% decrease from the prior year. This is in line with the school boards position to gradually lower the unspent balance and move our solvency ratio to a lower, more acceptable level.

### **USING THIS ANNUAL REPORT**

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Earlham Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Earlham Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

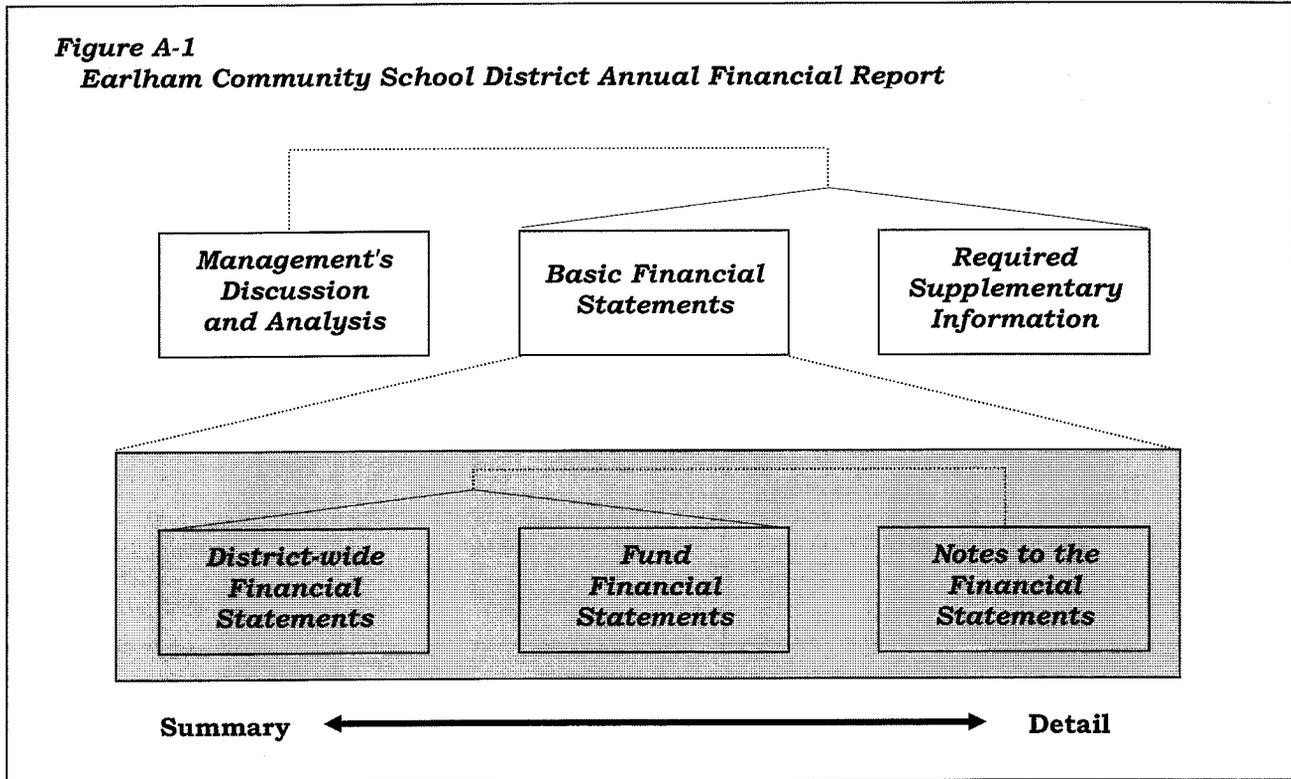


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

---

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

### Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 3,363,707	12,378	3,376,085
Capital Assets	6,632,799	6,686	6,639,485
Total assets	<u>9,996,506</u>	<u>19,064</u>	<u>10,015,570</u>
Long-term obligations	3,805,000	0	3,805,000
Other liabilities	2,206,396	2,844	2,209,240
Total liabilities	<u>6,011,396</u>	<u>2,844</u>	<u>6,014,240</u>
Net assets:			
Invested in capital assets, net of related debt	2,513,913	6,686	2,520,599
Restricted	322,279	0	322,279
Unrestricted	1,148,918	9,534	1,158,452
Total net assets	<u>\$ 3,985,110</u>	<u>16,220</u>	<u>4,001,330</u>

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4  
Changes of Net Assets

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Revenues:			
Program revenues:			
Charges for services	\$ 624,507	188,893	813,400
Operating grants and contributions and restricted interest	433,777	59,694	493,471
General revenues:			
Property tax	1,597,203	0	1,597,203
Local option sales and service tax	23,903	0	23,903
Unrestricted state grants	1,816,688	0	1,816,688
Unrestricted investment earnings	43,015	64	43,079
Total revenues	<u>4,539,093</u>	<u>248,651</u>	<u>4,787,744</u>
Program expenses:			
Governmental activities:			
Instructional	2,630,692	0	2,630,692
Support services	1,312,203	0	1,312,203
Non-instructional programs	0	244,501	244,501
Other expenses	529,761	0	529,761
Total expenses	<u>4,472,656</u>	<u>244,501</u>	<u>4,717,157</u>
Change in net assets	<u>\$ 66,437</u>	<u>4,150</u>	<u>70,587</u>

Property tax and unrestricted state grants account for approximately 71% of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 84% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$4,539,093 and expenses were \$4,472,656.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,630,692	1,719,885
Support services	1,312,203	1,311,102
Other expenses	529,761	383,385
Totals	<u>\$ 4,472,656</u>	<u>3,414,372</u>

- The cost financed by users of the District's programs was \$624,507.

- 
- Federal and state governments subsidized certain programs with grants and contributions totaling \$433,777.
  - The net cost of governmental activities was financed with \$1,597,203 in property and other taxes and \$1,816,688 in unrestricted state grants.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$248,651 and expenses were \$244,501. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,186,737, below last year's ending fund balances of a \$3,524,395.

### **Governmental Fund Highlights**

- The significant decrease in the combined ending fund balance from 2003 to 2004 was due to the completion of the construction on the new addition in October 2003.
- This was the first year the SILO tax was received by the school district. The first project funded by the SILO tax was the kitchen remodeling and art room addition.
- The Capital Projects Fund for the new school addition was closed out in April 2004.

### **Proprietary Fund Highlights**

- The cash flow and the operating costs of the hot lunch fund are monitored closely to make sure the revenues from the hot lunch sales are adequate to cover increased supply and transportation costs. The sales mix of regular meals (breakfast and lunch) and ala carte sale is a determining factor in keeping the hot lunch program in a positive balance with little supplement from the General Fund.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Earlham Community School District amended its annual budget one time to reflect additional expenditures associated with the construction project.

The District's receipts were \$98,983 less than budgeted receipts, a variance of 2.0%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were \$894,091 less than budgeted. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs functional area due to the timing of disbursements paid at year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2004, the District had invested \$6,639,485, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$161,793.

The original cost of the District's capital assets was \$9,000,893. Governmental funds account for \$8,958,252 with the remainder of \$42,641 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$7,611,560 at June 30, 2004, compared to \$2,266,090 reported at June 30, 2003. This increase resulted from an addition to a building.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Land	\$ 10,000	0	10,000
Construction in progress	388,856	0	388,856
Buildings	5,916,257	0	5,916,257
Improvements other than buildings	86,739	0	86,739
Machinery and equipment	230,947	6,686	237,633
Total	\$ 6,632,799	6,686	6,639,485

### Long-Term Debt

At June 30, 2004, the District had \$3,805,000 in general obligation, and other long-term debt outstanding. This represents a decrease of 5% from last year. (See figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 3,095,000	3,210,000	-3.6%
Capital loan note	710,000	785,000	-9.6%
Early retirement	0	12,836	-100.0%
Totals	\$ 3,805,000	4,007,836	-5.1%

---

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- Earlham Community School District is one of a few schools in the state that has seen consistent enrollment increases over the last several years. Due to the significant increase in 2004 and projected increases, the need for more classroom space has become an important issue, even with the new addition completed in 2003.
- Several projects have been mentioned as improvements for the district. Among them is a new elementary building, a competition gym, all-weather track, and a bus barn. Any and/or all of these would have a significant financial impact on the district.
- The challenge for the district is to prioritize the needs and look closely at the funding resources available through bonding capacity and SILO tax. Also, it is important to find a balance between the amount of debt to carry and dealing with the day-to-day operational costs.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jodi Stroud, Business Manager, Earlham Community School District, P.O. Box 430, Earlham, Iowa, 50072.

BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents:			
Other	\$ 1,335,626	11,192	1,346,818
Receivables			
Property tax:			
Delinquent	18,609	0	18,609
Succeeding year	1,622,628	0	1,622,628
Accounts	0	93	93
Due from other funds	345,928	0	345,928
Due from other governments	40,916	0	40,916
Inventories	0	1,093	1,093
Capital assets, net of accumulated depreciation (Note 4)	6,632,799	6,686	6,639,485
<b>TOTAL ASSETS</b>	<b>9,996,506</b>	<b>19,064</b>	<b>10,015,570</b>
<b>LIABILITIES</b>			
Accounts payable	131,850	0	131,850
Salaries and benefits payable	52,568	0	52,568
Due to other funds	345,928	0	345,928
Due to other governments	23,996	0	23,996
Accrued interest payable	29,426	0	29,426
Deferred revenue:			
Succeeding year property tax	1,622,628	0	1,622,628
Other	0	2,844	2,844
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	125,000	0	125,000
Capital loan note	75,000	0	75,000
Portion due after one year:			
General obligation bonds payable	2,970,000	0	2,970,000
Capital loan note	635,000	0	635,000
<b>TOTAL LIABILITIES</b>	<b>6,011,396</b>	<b>2,844</b>	<b>6,014,240</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	2,513,913	6,686	2,520,599
Restricted for:			
Teacher Compensation	138	0	138
Phase III	10,951	0	10,951
Talented and Gifted	11,845	0	11,845
Management levy	19,395	0	19,395
Physical plant and equipment levy	216,415	0	216,415
Other special revenue purposes	63,535	0	63,535
Unrestricted	1,148,918	9,534	1,158,452
<b>TOTAL NET ASSETS</b>	<b>\$ 3,985,110</b>	<b>16,220</b>	<b>4,001,330</b>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
<b>Governmental activities:</b>			
<b>Instruction:</b>			
Regular instruction	\$ 1,714,547	559,469	268,484
Special instruction	468,685	64,560	18,294
Other instruction	447,460	0	0
	<u>2,630,692</u>	<u>624,029</u>	<u>286,778</u>
<b>Support services:</b>			
Student services	68,760	0	0
Instructional staff services	87,247	0	0
Administration services	444,323	0	0
Operation and maintenance of plant services	613,861	0	0
Transportation services	45,070	478	623
Central services	52,942	0	0
	<u>1,312,203</u>	<u>478</u>	<u>623</u>
<b>Other expenditures:</b>			
Facilities acquisitions	97,276	0	0
Long-term debt interest	184,784	0	0
AEA flowthrough	146,376	0	146,376
Depreciation (unallocated) *	101,325	0	0
	<u>529,761</u>	<u>0</u>	<u>146,376</u>
<b>Total governmental activities</b>	<b>4,472,656</b>	<b>624,507</b>	<b>433,777</b>
<b>Business-Type activities:</b>			
<b>Non-instructional programs:</b>			
Nutrition services	244,501	188,893	59,694
<b>Total business-type activities</b>	<b>244,501</b>	<b>188,893</b>	<b>59,694</b>
<b>Total</b>	<b>\$ 4,717,157</b>	<b>813,400</b>	<b>493,471</b>

**General Revenues:**

Property tax levied for:  
  General purposes  
  Debt service  
  Capital outlay  
  Local option sales and services  
  Unrestricted state grants  
  Unrestricted investment earnings  
**Total general revenues**

Changes in net assets

Net assets beginning of year, as restated (Note 9)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(886,594)	0	(886,594)
(385,831)	0	(385,831)
(447,460)	0	(447,460)
<u>(1,719,885)</u>	<u>0</u>	<u>(1,719,885)</u>
(68,760)	0	(68,760)
(87,247)	0	(87,247)
(444,323)	0	(444,323)
(613,861)	0	(613,861)
(43,969)	0	(43,969)
(52,942)	0	(52,942)
<u>(1,311,102)</u>	<u>0</u>	<u>(1,311,102)</u>
(97,276)	0	(97,276)
(184,784)	0	(184,784)
0	0	0
(101,325)	0	(101,325)
<u>(383,385)</u>	<u>0</u>	<u>(383,385)</u>
(3,414,372)	0	(3,414,372)
0	4,086	4,086
0	4,086	4,086
<u>(3,414,372)</u>	<u>4,086</u>	<u>(3,410,286)</u>
\$ 1,186,671	0	1,186,671
265,567	0	265,567
144,965	0	144,965
23,903	0	23,903
1,816,688	0	1,816,688
43,015	64	43,079
<u>3,480,809</u>	<u>64</u>	<u>3,480,873</u>
66,437	4,150	70,587
<u>3,918,673</u>	<u>12,070</u>	<u>3,930,743</u>
\$ 3,985,110	16,220	4,001,330

EARLHAM COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	General	Capital Projects	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>					
Cash and pooled investments:					
Other	\$ 885,284	58,118	309,715	82,509	1,335,626
Receivables:					
Property tax:					
Delinquent	12,546	0	1,701	4,362	18,609
Succeeding year	1,102,066	0	140,141	380,421	1,622,628
Due from other funds	345,928	0	0	0	345,928
Due from other governments	32,795	8,121	0	0	40,916
<b>TOTAL ASSETS</b>	<b>\$ 2,378,619</b>	<b>66,239</b>	<b>451,557</b>	<b>467,292</b>	<b>3,363,707</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	28,137	0	95,001	8,712	131,850
Salaries and benefits payable	52,568	0	0	0	52,568
Due to other funds	0	345,928	0	0	345,928
Due to other governments	23,996	0	0	0	23,996
Deferred revenue:					
Succeeding year property tax	1,102,066	0	140,141	380,421	1,622,628
Total liabilities	<b>\$ 1,206,767</b>	<b>345,928</b>	<b>235,142</b>	<b>389,133</b>	<b>2,176,970</b>
Fund balances:					
Reserved for:					
Teacher Compensation	138	0	0	0	138
Phase III	10,951	0	0	0	10,951
Talented and Gifted	11,845	0	0	0	11,845
Unreserved:					
Undesignated	1,148,918	(279,689)	216,415	78,159	1,163,803
Total fund balances	<b>1,171,852</b>	<b>(279,689)</b>	<b>216,415</b>	<b>78,159</b>	<b>1,186,737</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,378,619</b>	<b>66,239</b>	<b>451,557</b>	<b>467,292</b>	<b>3,363,707</b>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2004

<b>Total fund balances of governmental funds (page 16)</b>	\$ 1,186,737
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	6,632,799
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(29,426)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,805,000)</u>
<b>Net assets of governmental activites (page 13)</b>	<u><u>\$ 3,985,110</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004

	General	Capital Projects	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 1,076,856	23,903	144,965	375,382	1,621,106
Tuition	329,086	0	0	0	329,086
Other	59,935	28,239	80,567	169,362	338,103
State sources	2,157,817	0	93	240	2,158,150
Federal sources	92,648	0	0	0	92,648
Total revenues	<u>3,716,342</u>	<u>52,142</u>	<u>225,625</u>	<u>544,984</u>	<u>4,539,093</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	1,716,357	0	0	0	1,716,357
Special instruction	473,000	0	0	0	473,000
Other instruction	267,847	0	0	179,613	447,460
	<u>2,457,204</u>	<u>0</u>	<u>0</u>	<u>179,613</u>	<u>2,636,817</u>
Support services:					
Student services	68,760	0	0	0	68,760
Instructional staff services	87,247	0	0	0	87,247
Administration services	464,359	0	0	0	464,359
Operation and maintenance of plant services	553,736	0	33,407	97,310	684,453
Transportation services	112,968	0	0	0	112,968
Central services	52,942	0	0	0	52,942
	<u>1,340,012</u>	<u>0</u>	<u>33,407</u>	<u>97,310</u>	<u>1,470,729</u>
Other expenditures:					
Facilities acquisitions	0	2,151,519	95,001	0	2,246,520
Long-term debt:					
Principal	0	0	0	190,000	190,000
Interest and fiscal charges	0	0	0	186,309	186,309
AEA flowthrough	146,376	0	0	0	146,376
	<u>146,376</u>	<u>2,151,519</u>	<u>95,001</u>	<u>376,309</u>	<u>2,769,205</u>
Total expenditures	<u>3,943,592</u>	<u>2,151,519</u>	<u>128,408</u>	<u>653,232</u>	<u>6,876,751</u>
Excess(deficiency) of revenues over(under) expenditures	(227,250)	(2,099,377)	97,217	(108,248)	(2,337,658)
Other financing sources:					
Transfers in	0	0	177,491	107,605	285,096
Transfers out	0	(177,491)	(107,605)	0	(285,096)
Total other financing sources	<u>0</u>	<u>(177,491)</u>	<u>69,886</u>	<u>107,605</u>	<u>0</u>
Net change in fund balances	(227,250)	(2,276,868)	167,103	(643)	(2,337,658)
Fund balance beginning of year, as restated(Note 9)	1,399,102	1,997,179	49,312	78,802	3,524,395
Fund balance end of year	<u>\$ 1,171,852</u>	<u>(279,689)</u>	<u>216,415</u>	<u>78,159</u>	<u>1,186,737</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2004

Net change in fund balances - total governmental funds (page 18) \$ (2,337,658)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 2,360,350	
Depreciation expense	<u>(160,616)</u>	2,199,734

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:

Repaid	190,000
--------	---------

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

1,525

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

Early Retirement	<u>12,836</u>
------------------	---------------

Changes in net assets of governmental activities (page 15) \$ 66,437

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

	School Nutrition
<b>ASSETS</b>	
Cash and pooled investments	\$ 11,192
Accounts receivable	93
Inventories	1,093
Capital assets, net of accumulated depreciation	6,686
<b>Total assets</b>	<b>19,064</b>
 <b>LIABILITIES</b>	
Deferred revenue:	
Other	2,844
<b>Total liabilities</b>	<b>2,844</b>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,686
Unrestricted	9,534
<b>Total net assets</b>	<b>\$ 16,220</b>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 188,893
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	88,559
Benefits	21,407
Services	627
Supplies	132,356
Other	375
Depreciation	1,177
Total operating expenses	244,501
Operating loss	(55,608)
Non-operating revenues:	
State sources	2,985
Federal sources	56,709
Interest on investments	64
Total non-operating revenues	59,758
Change in net assets	4,150
Net assets beginning of year	12,070
Net assets end of year	\$ 16,220

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 188,802
Cash payments to employees for services	(110,901)
Cash payments to suppliers for goods or services	(119,032)
Net cash used in operating activities	(41,131)
Cash flows from non-capital financing activities:	
State grants received	2,985
Federal grants received	43,271
Net cash provided by non-capital financing activities	46,256
Cash flows from capital and related financing activities:	
Purchase of capital assets	(779)
Net cash used in capital and related financing activities	(779)
Cash flows from investing activities:	
Interest on investments	64
Net cash provided by investing activities	64
Net increase in cash and cash equivalents	4,410
Cash and cash equivalents at beginning of year	6,782
Cash and cash equivalents at end of year	\$ 11,192
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (55,608)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	13,438
Depreciation	1,177
Decrease in inventories	962
Increase in accounts receivable	(93)
Decrease in accounts payable	(74)
Decrease in salaries and benefits payable	(935)
Increase in deferred revenue	2
Net cash used in operating activities	\$ (41,131)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 11,192

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$13,438.

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

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

The District reports the following major proprietary fund:

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

#### C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using the

accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable

governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted

by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District's investment in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$901,722 pursuant to Rule 2a-7 under Investment Company Act of 1940. Governmental Accounting Standards Board Statement Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the district at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	PPEL	\$ 107,605
PPEL	Capital Projects	177,491
Total		<u>\$ 285,096</u>

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

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 10,000	0	0	10,000
Construction in progress	3,585,082	2,149,244	5,345,470	388,856
Total capital assets not being depreciated	<u>3,595,082</u>	<u>2,149,244</u>	<u>5,345,470</u>	<u>398,856</u>
Capital assets being depreciated:				
Buildings	2,266,090	5,345,470	0	7,611,560
Improvements other than buildings	89,551	44,610	0	134,161
Machinery and equipment	647,179	166,496	0	813,675
Total capital assets being depreciated	<u>3,002,820</u>	<u>5,556,576</u>	<u>0</u>	<u>8,559,396</u>
Less accumulated depreciation for:				
Buildings	1,593,978	101,325	0	1,695,303
Improvements other than buildings	42,691	4,731	0	47,422
Machinery and equipment	528,168	54,560	0	582,728
Total accumulated depreciation	<u>2,164,837</u>	<u>160,616</u>	<u>0</u>	<u>2,325,453</u>
Total capital assets being depreciated, net	<u>837,983</u>	<u>5,395,960</u>	<u>0</u>	<u>6,233,943</u>
Governmental activities capital assets, net	<u>\$ 4,433,065</u>	<u>7,545,204</u>	<u>5,345,470</u>	<u>6,632,799</u>

	Beginning of Year	Increases	Decreases	End of Year
Business-type activities:				
Machinery and equipment	\$ 41,862	779	0	42,641
Less accumulated depreciation	34,778	1,177	0	35,955
Business-type activities capital assets, net	<u>\$ 7,084</u>	<u>(398)</u>	<u>0</u>	<u>6,686</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 4,590
Special		479
Support services:		
Administration		1,800
Operation and maintenance of plant		10,000
Transportation		42,422
Administration		<u>59,291</u>
Unallocated depreciation		<u>101,325</u>
Total governmental activities depreciation expense		<u>\$ 160,616</u>
Business-type activities:		
Food services		\$ 1,177
Total business-type activities depreciation expense		<u>\$ 1,177</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bond	\$ 3,210,000	0	115,000	3,095,000	125,000
Capital Loan Note	785,000	0	75,000	710,000	75,000
Early Retirement	12,836	0	12,836	0	0
Total	<u>\$ 4,007,836</u>	<u>0</u>	<u>202,836</u>	<u>3,805,000</u>	<u>200,000</u>

Capital Loan Notes

Details of the District's June 30, 2004 Capital Loan Note indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	3.40	75,000	30,055	105,055
2006	3.75	80,000	27,505	107,505
2007	4.00	85,000	24,505	109,505
2008	4.20	85,000	21,105	106,105
2009	4.40	90,000	17,535	107,535
2010	4.50	95,000	13,575	108,575
2011	4.60	100,000	9,300	109,300
2012	4.70	100,000	4,700	104,700
Total		<u>\$ 710,000</u>	<u>148,280</u>	<u>858,280</u>

Bonded Debt

Details of the District's June 30, 2004 General Obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	5.00	125,000	145,604	270,604
2006	5.00	130,000	140,254	270,254
2007	4.00	135,000	133,754	268,754
2008	4.00	140,000	128,354	268,354
2009	4.50	150,000	122,754	272,754
2010	4.50	155,000	116,004	271,004
2011	4.50	160,000	109,029	269,029
2012	4.50	165,000	101,829	266,829
2013	4.50	175,000	94,404	269,404
2014	4.60	185,000	86,529	271,529
2015	4.63	195,000	78,019	273,019
2016	5.00	200,000	69,000	269,000
2017	5.00	215,000	59,000	274,000
2018	5.00	225,000	48,250	273,250
2019	5.00	235,000	37,000	272,000
2020	5.00	245,000	25,250	270,250
2021	5.00	260,000	13,000	273,000
Total		<u>\$ 3,095,000</u>	<u>1,508,034</u>	<u>4,603,034</u>

## Early Retirement

The District offers a voluntary early retirement plan to its employees. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 20% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay plus 50% of unused sick leave. Early retirement benefits paid during the year ended June 30, 2004, totaled \$12,836.

### **(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$135,790, \$126,253, \$119,513, respectively, equal to the required contributions for each year.

### **(7) Risk Management**

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

Each members' contributions to the ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 was \$298,717.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004 no liability has been recorded in the District's financial statements. As of June 30, 2004 settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

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

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$146,376 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(9) Accounting Change and Restatements**

Governmental Accounting Standards Board(GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$3,479,505 were restated to \$4,433,065.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund				Total
	General	Capital Projects	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 1,399,102	1,997,179	49,312	78,802	3,524,395
GASB Interpretation 6 adjustments	0	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 1,399,102</u>	<u>1,997,179</u>	<u>49,312</u>	<u>78,802</u>	<u>3,524,395</u>
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$2,164,837					4,433,065
Long-term liabilities:					
Bonds and notes				3,995,000	
Early Retirement				12,836	(4,007,836)
Accrued interest payable					(30,951)
Net assets, July 1, 2003, as restated					<u>\$ 3,918,673</u>

**(10) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted expenditures at the functional are level. During the year ended June 30, 2004, disbursements in the non-instructional programs functional area exceeded the amounts budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,283,976	188,866
State sources	2,158,172	2,985
Federal sources	93,345	56,619
Total revenues	<u>4,535,493</u>	<u>248,470</u>
Disbursements:		
Instruction	2,708,061	0
Support services	1,521,096	0
Non-instructional programs	0	244,060
Other expenditures	2,948,565	0
Total expenditures	<u>7,177,722</u>	<u>244,060</u>
Excess(deficiency) of receipts over(under) disbursements	(2,642,229)	4,410
Other financing sources, net	<u>0</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements	(2,642,229)	4,410
Balance beginning of year	<u>3,977,855</u>	<u>6,782</u>
Balance end of year	<u>\$ 1,335,626</u>	<u>11,192</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,472,842	2,480,065	2,480,065	(7,223)
2,161,157	2,259,881	2,259,881	(98,724)
149,964	143,000	143,000	6,964
<u>4,783,963</u>	<u>4,882,946</u>	<u>4,882,946</u>	<u>(98,983)</u>
2,708,061	3,255,709	3,255,709	547,648
1,521,096	1,387,882	1,600,000	78,904
244,060	0	240,000	(4,060)
2,948,565	1,647,478	3,220,164	271,599
<u>7,421,782</u>	<u>6,291,069</u>	<u>8,315,873</u>	<u>894,091</u>
(2,637,819)	(1,408,123)	(3,432,927)	(795,108)
0	0	0	0
(2,637,819)	(1,408,123)	(3,432,927)	(795,108)
<u>3,984,637</u>	<u>2,408,123</u>	<u>2,408,123</u>	<u>1,576,514</u>
<u>1,346,818</u>	<u>1,000,000</u>	<u>(1,024,804)</u>	<u>2,371,622</u>

EARLHAM COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 4,535,493	3,600	4,539,093
Expenditures	7,177,722	(300,971)	6,876,751
Net	(2,642,229)	304,571	(2,337,658)
Other financing sources, net	0	0	0
Beginning fund balances	3,977,855	(453,460)	3,524,395
Ending fund balances	\$ 1,335,626	(148,889)	1,186,737

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 248,470	181	248,651
Expenditures	244,060	441	244,501
Net	4,410	(260)	4,150
Other financing sources, net	0	0	0
Beginning fund balances	6,782	5,288	12,070
Ending fund balances	\$ 11,192	5,028	16,220

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$2,024,804.

During the year ended June 30, 2004, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2004

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenue	Debt Service	
<b>ASSETS</b>					
Cash and pooled investments	\$ 18,127	72,247	90,374	(7,865)	82,509
Receivables:					
Property tax:					
Current year delinquent	1,268	0	1,268	3,094	4,362
Succeeding year	108,917	0	108,917	271,504	380,421
<b>TOTAL ASSETS</b>	<b>\$ 128,312</b>	<b>72,247</b>	<b>200,559</b>	<b>266,733</b>	<b>467,292</b>
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	\$ 0	8,712	8,712	0	8,712
Deferred revenue:					
Succeeding year property tax	108,917	0	108,917	271,504	380,421
<b>Total Liabilities</b>	<b>108,917</b>	<b>8,712</b>	<b>117,629</b>	<b>271,504</b>	<b>389,133</b>
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	19,395	63,535	82,930	(4,771)	78,159
<b>Total fund balances</b>	<b>19,395</b>	<b>63,535</b>	<b>82,930</b>	<b>(4,771)</b>	<b>78,159</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 128,312</b>	<b>72,247</b>	<b>200,559</b>	<b>266,733</b>	<b>467,292</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenue	Debt Service	
REVENUES:					
Local sources:					
Local tax	\$ 109,815	0	109,815	265,567	375,382
Other	0	169,362	169,362	0	169,362
State sources	70	0	70	170	240
TOTAL REVENUES	109,885	169,362	279,247	265,737	544,744
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	0	179,613	179,613	0	179,613
Support services:					
Operation and maintenance of plant services	97,310	0	97,310	0	97,310
Other expenditures:					
Long-term debt:					
Principal	0	0	0	190,000	190,000
Interest and fiscal charges	0	0	0	186,309	186,309
TOTAL EXPENDITURES	97,310	179,613	276,923	376,309	653,232
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	12,575	(10,251)	2,324	(110,572)	(108,488)
OTHER FINANCING SOURCES:					
Transfers in	0	0	0	107,605	107,605
Total other financing sources	0	0	0	107,605	107,605
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	12,575	(10,251)	2,324	(2,967)	(643)
FUND BALANCE BEGINNING OF YEAR, AS RESTATED(NOTE 9)	6,820	73,786	80,606	(1,804)	78,802
FUND BALANCE END OF YEAR	\$ 19,395	63,535	82,930	(4,771)	78,159

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletic	\$ 13,015	55,078	56,840	11,253
Athletic Uniforms	2,296	625	3,601	(680)
Drill Team	129	926	1,300	(245)
FFA	20,636	28,482	26,101	23,017
FCCLA	3,511	1,474	1,096	3,889
National Honor Society	467	1,103	1,149	421
General Student Activity	1,160	4,900	5,657	403
High School Pop Machine	172	0	172	0
Middle School Musical	173	1,481	931	723
Drama	1,495	4,491	2,970	3,016
Speech	216	0	216	0
Youth Festival Chorus	1,852	0	373	1,479
High School Show Choir	384	1,299	1,624	59
Annual	939	4,503	6,558	(1,116)
Cheerleaders	931	528	199	1,260
Jack Oatts Festival	1,715	2,038	2,073	1,680
Art Club	1,116	574	1,388	302
Spanish Club	(568)	419	20	(169)
High School Student Council	1,148	1,979	1,912	1,215
Middle School Student Council	3,540	15,215	13,966	4,789
TAG Club	202	0	202	0
Class of 2003	1,162	0	1,162	0
Class of 2004	4,963	4,231	10,355	(1,161)
Class of 2005	2,575	9,460	7,973	4,062
Class of 2006	2,228	1,385	377	3,236
Class of 2007	239	6,518	4,483	2,274
Elementary Fundraiser	8,037	22,092	26,303	3,826
M.S. Cheerleaders	53	561	612	2
<b>Total</b>	<b>\$ 73,786</b>	<b>169,362</b>	<b>179,613</b>	<b>63,535</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 1,621,106	1,728,152	1,252,210	1,373,040
Tuition	329,086	304,218	293,112	290,991
Other	338,103	388,591	332,045	223,566
State sources	2,158,150	2,116,211	3,052,693	2,063,193
Federal sources	92,648	73,643	74,699	97,113
Total	<u>\$ 4,539,093</u>	<u>4,610,815</u>	<u>5,004,759</u>	<u>4,047,903</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,716,357	1,746,415	1,468,423	1,425,564
Special instruction	473,000	439,607	408,219	383,219
Other instruction	447,460	447,395	534,491	420,761
Support services:				
Student services	68,760	82,510	92,387	78,596
Instructional staff services	87,247	79,973	79,076	85,321
Administration services	464,359	447,117	419,925	385,822
Operation and maintenance of plant services	684,453	514,393	353,258	505,190
Transportation services	112,968	235,925	193,157	209,243
Central services	52,942	31,572	0	0
Non-instructional programs	0	498	0	0
Other expenditures:				
Facilities acquisitions	2,246,520	2,978,375	376,912	0
Long-term debt:				
Principal	190,000	150,000	0	0
Interest and other charges	186,309	241,361	0	0
AEA flow-through	146,376	157,301	142,921	145,608
Total	<u>\$ 6,876,751</u>	<u>7,552,442</u>	<u>4,068,769</u>	<u>3,639,324</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of the  
Earlham Community School District:

We have audited the financial statements of Earlham Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 3, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for II-L-04.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Earlham Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Earlham Community School District and other parties to whom Earlham Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

*Nolte, Cornman & Johnson PC*  
NOLTE, CORNMAN & JOHNSON, P.C.

August 3, 2004

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts journal were all done by the same person.

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

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-04 Activity Admissions – The Activity gate admissions and change box were not reconciled with pre-numbered tickets.

Recommendation – The District should establish reconciliation procedures for activity admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response – Our facility does not lend itself to such a procedure. However, we will review our present procedures and consider the recommended reconciliation procedures.

Conclusion – Response accepted.

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the non-instructional programs functional area.

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

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-04 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-04 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. A dual enrolled student was counted as regular, and 6 Elementary dual enrolled students were omitted from report.

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

Response - We will contact the Iowa Department of Education and the Department of Management .

Conclusion - Response accepted.

II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-K-04 Deficit Balances – We noted that several Student Activity Fund accounts had deficit balances at June 30, 2004.

Recommendation – The District should continue to investigate alternatives to eliminate deficits in order to return these accounts to a sound financial condition.

Response – The District is continuing to investigate alternatives to eliminate deficits in the student activity accounts at the end of the fiscal year.

Conclusion – Response accepted.

II-L-04 Financial Condition - The District had a deficit unreserved fund balance of \$279,689 in the Capital Projects Fund, and a deficit unreserved fund balance of \$4,771 in the Debt Service Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will monitor these funds and investigate any available options to eliminate these deficits.

Conclusion - Response accepted.