

EARLHAM COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Earlham Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2004 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

**Board of Education  
(After September 2004 Election)**

Mike Madren	President	2005
David Steward	Vice President	2007
Ernie Barnes	Board Member	2005
Lynn Boyle	Board Member	2006
Trish Hopkins	Board Member	2007

**School Officials**

H. Douglas Latham	Superintendent	2005
Jodi Stroud	District Secretary and Business Manager	2005
Ahlers & Cooney, P.C.	Attorney	2005

**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, the business type activities, each major fund and the aggregate remaining fund information of Earlham Community School District, Earlham Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements 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 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 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, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated August 4, 2005 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 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 and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 36 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting 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. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions 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 three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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 PC*  
NOLTE, CORNMAN & JOHNSON, P.C.

August 4, 2005

BASIC FINANCIAL STATEMENTS

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

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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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2005 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,716,342 in fiscal 2004 to \$3,854,687 in fiscal 2005, while General Fund expenditures increased from \$3,943,592 in fiscal 2004 to \$4,224,459 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$1,171,852 in fiscal 2004 to a balance of \$802,080 in fiscal 2005, a 32% decrease from the prior year. This is in line with the school board's 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.

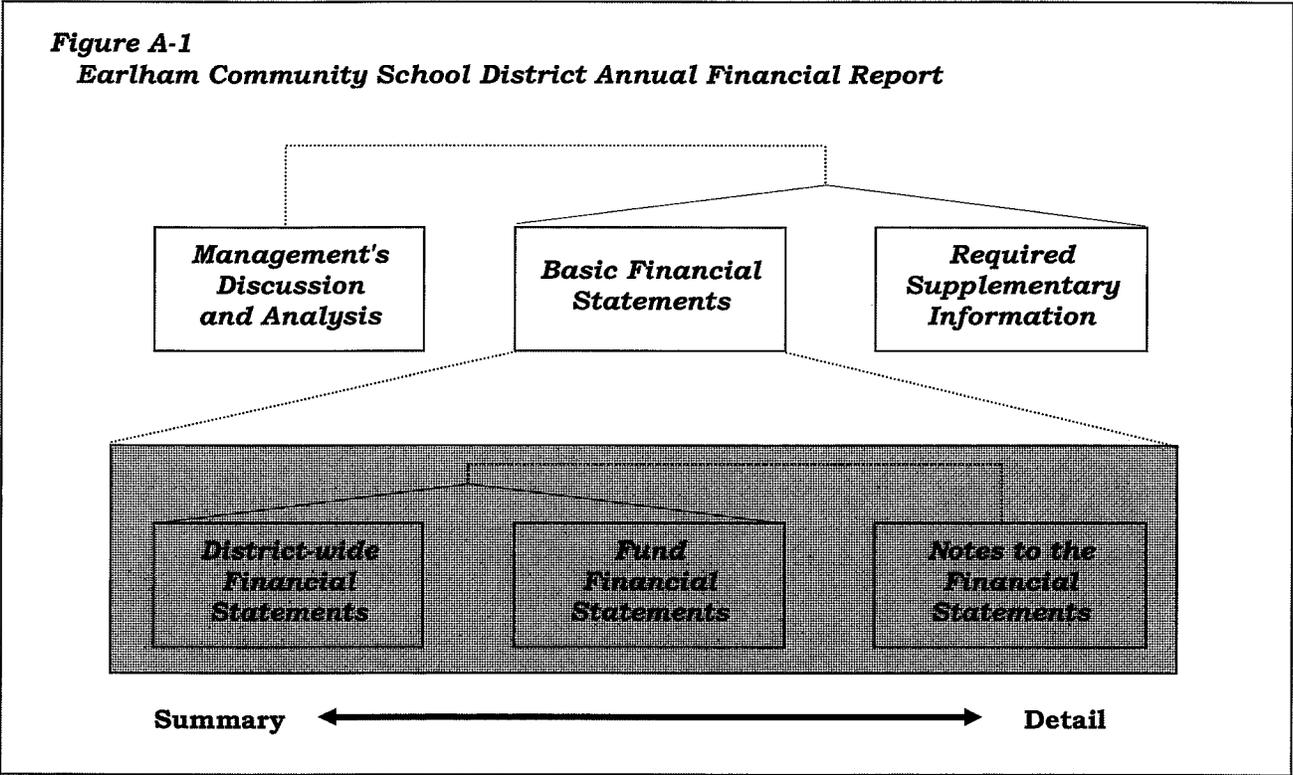


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<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

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## **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, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 2,840,152	3,363,707	5,927	12,378	2,846,079	3,376,085	-15.70%
Capital assets	6,827,012	6,632,799	139,995	6,686	6,967,007	6,639,485	4.93%
Total assets	9,667,164	9,996,506	145,922	19,064	9,813,086	10,015,570	-2.02%
Long-term obligations	3,605,000	3,805,000	0	0	3,605,000	3,805,000	-5.26%
Other liabilities	2,108,440	2,206,396	5,987	2,844	2,114,427	2,209,240	-4.29%
Total liabilities	5,713,440	6,011,396	5,987	2,844	5,719,427	6,014,240	-4.90%
Net assets:							
Invested in capital assets, net of related debt	3,219,937	2,513,913	139,995	6,686	3,359,932	2,520,599	33.30%
Restricted	125,213	322,279	0	0	125,213	322,279	-61.15%
Unrestricted	608,574	1,148,918	(60)	9,534	608,514	1,158,452	-47.47%
Total net assets	\$ 3,953,724	3,985,110	139,935	16,220	4,093,659	4,001,330	2.31%

The District's combined net assets increased by 2.31%, or \$92,329, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$197,066 or 61.15% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$549,938, or 47.47%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 608,721	624,507	200,739	188,893	809,460	813,400
Operating grants and contributions and restricted interest	481,277	433,777	59,254	59,694	540,531	493,471
General revenues:						
Property tax	1,577,727	1,597,203	0	0	1,577,727	1,597,203
Local option sales and service tax	240,768	23,903	0	0	240,768	23,903
Unrestricted state grants	1,909,275	1,816,688	0	0	1,909,275	1,816,688
Unrestricted investment earnings	21,200	43,015	31	64	21,231	43,079
Total revenues	4,838,968	4,539,093	260,024	248,651	5,098,992	4,787,744
Program expenses:						
Governmental activities:						
Instructional	2,876,556	2,630,692	0	0	2,876,556	2,630,692
Support services	1,498,215	1,312,203	0	0	1,498,215	1,312,203
Non-instructional programs	0	0	279,498	244,501	279,498	244,501
Other expenses	495,583	529,761	0	0	495,583	529,761
Total expenses	4,870,354	4,472,656	279,498	244,501	5,149,852	4,717,157
Excess (deficiency) of revenues over (under) expenses	(31,386)	66,437	(19,474)	4,150	(50,860)	70,587
Other financing sources, net	0	0	143,189	0	143,189	0
Change in net assets	(31,386)	66,437	123,715	4,150	92,329	70,587
Net assets beginning of year	3,985,110	3,918,673	16,220	12,070	4,001,330	3,930,743
Net assets at end of year	\$ 3,953,724	3,985,110	139,935	16,220	4,093,659	4,001,330

Property tax and unrestricted state grants account for approximately 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 85% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$4,838,968 and expenses were \$4,870,354.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,876,556	1,937,142
Support services	1,498,215	1,496,806
Other expenses	495,583	346,408
Totals	\$ 4,870,354	3,780,356

- 
- The cost financed by users of the District's programs was \$608,721.
  - Federal and state governments subsidized certain programs with grants and contributions totaling \$481,277.
  - The net cost of governmental activities was financed with \$1,577,727 in property tax, \$240,768 in local option sales tax, \$1,909,275 in unrestricted state grants, and \$21,200 in investment earnings.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$260,024 and expenses were \$279,498. 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 \$764,016, below last year's ending fund balances of a \$1,186,737.

### **Governmental Fund Highlights**

- The continued substantial decreases in the year ending fund balances require a steady monitoring of cash flow. The District is now looking at ways to segment the purchasing of supplies over the course of the whole school year and not just during the summer month when funds are stagnant. Also, the payroll has been balanced out by switching teachers to twice monthly paydays year round.

### **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. Due to successive years of budget deficits in the hot lunch program, the budget for fiscal year 2007 has been significantly increased to cover the increased costs of the program.

## **BUDGETARY HIGHLIGHTS**

The District's receipts were \$58,741 more than budgeted receipts, a variance of 1.2%. The increase can be attributed to the District receiving more local and federal monies than were budgeted.

Total expenditures were \$984,312 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 end.

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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 end.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2005, the District had invested \$6,967,012, 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 5 to the financial statements. Depreciation expense for the year was \$242,729.

The original cost of the District's capital assets was \$9,554,886. Governmental funds account for \$9,382,054 with the remainder of \$172,832 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 \$8,367,384 at June 30, 2005, compared to \$7,611,560 reported at June 30, 2004. This increase resulted from the completion of an addition to a building.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 10,000	10,000	0	0	10,000	10,000	0.00%
Construction in progress	0	388,856	0	0	0	388,856	0.00%
Buildings	6,514,886	5,916,257	0	0	6,514,886	5,916,257	9.19%
Improvements other than buildings	59,907	86,739	0	0	59,907	86,739	-44.79%
Machinery and equipment	242,219	230,947	139,995	6,686	382,214	237,633	37.83%
Total	\$ 6,827,012	6,632,799	139,995	6,686	6,967,007	6,639,485	4.70%

### Long-Term Debt

At June 30, 2005, the District had \$3,605,000 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 6 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total
	2005	2004	Change
General obligation bonds	\$ 2,970,000	3,095,000	-4.0%
Capital loan note	635,000	710,000	-10.6%
Totals	\$ 3,605,000	3,805,000	-5.3%

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## **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 increase in 2005 and projected increases, the need for more classroom space has become an important issue.
- 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, 2005

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents:			
Other	\$ 791,930	1,022	792,952
Receivables			
Property tax:			
Delinquent	76,569	0	76,569
Succeeding year	1,647,735	0	1,647,735
Accounts	7,909	15	7,924
Due from other funds	279,087	0	279,087
Due from other governments	36,922	0	36,922
Inventories	0	4,890	4,890
Capital assets, net of accumulated depreciation (Note 5)	6,827,012	139,995	6,967,007
<b>TOTAL ASSETS</b>	<b>9,667,164</b>	<b>145,922</b>	<b>9,813,086</b>
<b>LIABILITIES</b>			
Accounts payable	119,168	0	119,168
Salaries and benefits payable	30,146	0	30,146
Due to other funds	279,087	0	279,087
Accrued interest payable	27,960	0	27,960
ISEBA assessment payable (Note 8)	4,344	0	4,344
Deferred revenue:			
Succeeding year property tax	1,647,735	0	1,647,735
Other	0	5,987	5,987
Long-term liabilities: (Note 6)			
Portion due within one year:			
General obligation bonds payable	130,000	0	130,000
Capital loan note	80,000	0	80,000
Portion due after one year:			
General obligation bonds payable	2,840,000	0	2,840,000
Capital loan note	555,000	0	555,000
<b>TOTAL LIABILITIES</b>	<b>5,713,440</b>	<b>5,987</b>	<b>5,719,427</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	3,219,937	139,995	3,359,932
Restricted for:			
Teacher Compensation	572	0	572
Phase III	4,712	0	4,712
Talented and Gifted	19,657	0	19,657
Management levy	39,998	0	39,998
Other special revenue purposes	60,274	0	60,274
Unrestricted	608,574	(60)	608,514
<b>TOTAL NET ASSETS</b>	<b>\$ 3,953,724</b>	<b>139,935</b>	<b>4,093,659</b>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,847,394	566,869	304,330
Special instruction	534,336	41,530	26,685
Other instruction	481,314	0	0
	<u>2,863,044</u>	<u>608,399</u>	<u>331,015</u>
Support services:			
Student services	71,110	0	0
Instructional staff services	113,857	0	0
Administration services	516,682	0	0
Operation and maintenance of plant services	614,596	0	0
Transportation services	181,970	322	1,087
	<u>1,498,215</u>	<u>322</u>	<u>1,087</u>
Other expenditures:			
Long-term debt interest	175,893	0	0
AEA flowthrough	149,175	0	149,175
Depreciation(unallocated)*	184,027	0	0
	<u>509,095</u>	<u>0</u>	<u>149,175</u>
Total governmental activities	<u>4,870,354</u>	<u>608,721</u>	<u>481,277</u>
Business-Type activities:			
Non-instructional programs:			
Nutrition services	279,498	200,739	59,254
Total business-type activities	<u>279,498</u>	<u>200,739</u>	<u>59,254</u>
Total	<u>\$ 5,149,852</u>	<u>809,460</u>	<u>540,531</u>

**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 before other financing sources (uses)

Other financing sources (uses)

  Capital contribution  
  Loss on disposal of assets

Total other financing sources (uses)

Changes in net assets after other financing sources (uses)

Net assets beginning of year

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
(976,195)	0	(976,195)
(466,121)	0	(466,121)
(481,314)	0	(481,314)
<u>(1,923,630)</u>	<u>0</u>	<u>(1,923,630)</u>
(71,110)	0	(71,110)
(113,857)	0	(113,857)
(516,682)	0	(516,682)
(614,596)	0	(614,596)
(180,561)	0	(180,561)
<u>(1,496,806)</u>	<u>0</u>	<u>(1,496,806)</u>
(175,893)	0	(175,893)
0	0	0
(184,027)	0	(184,027)
<u>(359,920)</u>	<u>0</u>	<u>(359,920)</u>
(3,780,356)	0	(3,780,356)
0	(19,505)	(19,505)
0	(19,505)	(19,505)
<u>(3,780,356)</u>	<u>(19,505)</u>	<u>(3,799,861)</u>
\$ 1,165,695	0	1,165,695
271,747	0	271,747
140,285	0	140,285
240,768	0	240,768
1,909,275	0	1,909,275
21,200	31	21,231
<u>3,748,970</u>	<u>31</u>	<u>3,749,001</u>
(31,386)	(19,474)	(50,860)
0	144,022	144,022
0	(833)	(833)
0	143,189	143,189
(31,386)	123,715	92,329
<u>3,985,110</u>	<u>16,220</u>	<u>4,001,330</u>
<u>\$ 3,953,724</u>	<u>139,935</u>	<u>4,093,659</u>

EARLHAM COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments:				
Other	\$ 613,001	62,790	116,139	791,930
Receivables:				
Property tax:				
Delinquent	16,402	52,076	8,091	76,569
Succeeding year	1,138,102	0	509,633	1,647,735
Accounts	0	0	7,909	7,909
Due from other funds	279,087	0	0	279,087
Due from other governments	36,922	0	0	36,922
<b>TOTAL ASSETS</b>	<b>\$ 2,083,514</b>	<b>114,866</b>	<b>641,772</b>	<b>2,840,152</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	113,186	0	5,982	119,168
Salaries and benefits payable	30,146	0	0	30,146
Due to other funds	0	279,087	0	279,087
Deferred revenue:				
Succeeding year property tax	1,138,102	0	509,633	1,647,735
Total liabilities	<b>\$ 1,281,434</b>	<b>279,087</b>	<b>515,615</b>	<b>2,076,136</b>
Fund balances:				
Reserved for:				
Teacher Compensation	572	0	0	572
Phase III	4,712	0	0	4,712
Talented and Gifted	19,657	0	0	19,657
Unreserved:				
Undesignated	777,139	(164,221)	126,157	739,075
Total fund balances	<b>802,080</b>	<b>(164,221)</b>	<b>126,157</b>	<b>764,016</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,083,514</b>	<b>114,866</b>	<b>641,772</b>	<b>2,840,152</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, 2005

<b>Total fund balances of governmental funds (page 16)</b>	\$	764,016
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		6,827,012
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.		(27,960)
ISEBA assessment payable, is not yet due and payable in the current period due to the completion of a lawsuit settlement and, therefore, is not reported as a liability in the governmental funds.		(4,344)
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>(3,605,000)</u>
<b>Net assets of governmental activites (page 13)</b>	<b>\$</b>	<b><u><u>3,953,724</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,056,627	240,768	521,100	1,818,495
Tuition	336,582	0	0	336,582
Other	70,926	261	222,152	293,339
State sources	2,258,234	0	0	2,258,234
Federal sources	132,318	0	0	132,318
Total revenues	<u>3,854,687</u>	<u>241,029</u>	<u>743,252</u>	<u>4,838,968</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,866,121	0	0	1,866,121
Special instruction	534,336	0	0	534,336
Other instruction	266,015	0	215,299	481,314
	<u>2,666,472</u>	<u>0</u>	<u>215,299</u>	<u>2,881,771</u>
Support services:				
Student services	71,110	0	0	71,110
Instructional staff services	113,857	0	0	113,857
Administration services	516,682	0	0	516,682
Operation and maintenance of plant services	554,498	0	91,116	645,614
Transportation services	152,665	0	0	152,665
	<u>1,408,812</u>	<u>0</u>	<u>91,116</u>	<u>1,499,928</u>
Other expenditures:				
Facilities acquisitions	0	116,617	236,839	353,456
Long-term debt:				
Principal	0	0	200,000	200,000
Interest and fiscal charges	0	0	177,359	177,359
AEA flowthrough	149,175	0	0	149,175
	<u>149,175</u>	<u>116,617</u>	<u>614,198</u>	<u>879,990</u>
Total expenditures	<u>4,224,459</u>	<u>116,617</u>	<u>920,613</u>	<u>5,261,689</u>
Excess(deficiency) of revenues over(under)expenditures	(369,772)	124,412	(177,361)	(422,721)
Other financing sources (uses):				
Transfers in	0	0	114,399	114,399
Transfers out	0	(8,944)	(105,455)	(114,399)
Total other financing sources (uses)	<u>0</u>	<u>(8,944)</u>	<u>8,944</u>	<u>0</u>
Net change in fund balances	(369,772)	115,468	(168,417)	(422,721)
Fund balance beginning of year	<u>1,171,852</u>	<u>(279,689)</u>	<u>294,574</u>	<u>1,186,737</u>
Fund balance end of year	<u>\$ 802,080</u>	<u>(164,221)</u>	<u>126,157</u>	<u>764,016</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, 2005

Net change in fund balances - total governmental funds (page 18) \$ (422,721)

*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	\$ 423,802	
Depreciation expense	<u>(229,589)</u>	194,213

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	200,000
--------	---------

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.

1,466

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:

ISEBA assessment	<u>(4,344)</u>
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**Changes in net assets of governmental activities (page 15) \$ (31,386)**

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2005

	School Nutrition
<b>ASSETS</b>	
Cash and pooled investments	\$ 1,022
Accounts receivable	15
Inventories	4,890
Capital assets, net of accumulated depreciation	139,995
<b>Total assets</b>	<b>145,922</b>
 <b>LIABILITIES</b>	
Deferred revenue:	
Other	5,987
<b>Total liabilities</b>	<b>5,987</b>
 <b>NET ASSETS</b>	
Invested in capital assets	139,995
Unrestricted	(60)
<b>Total net assets</b>	<b>\$ 139,935</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, 2005

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 200,739
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	92,822
Benefits	22,999
Services	862
Supplies	149,584
Other	91
Depreciation	13,140
Total operating expenses	279,498
Operating loss	(78,759)
Non-operating revenues:	
State sources	3,231
Federal sources	56,023
Interest on investments	31
Total non-operating revenues	59,285
Change in net assets before other financing sources (uses)	(19,474)
Other financing sources (uses):	
Capital contribution	144,022
Loss on disposal of assets	(833)
Total other financing sources (uses)	143,189
Change in net assets after other financing sources (uses)	123,715
Net assets beginning of year	16,220
Net assets end of year	\$ 139,935

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 203,306
Cash received from miscellaneous operating activities	654
Cash payments to employees for services	(115,821)
Cash payments to suppliers for goods or services	(141,381)
Net cash used in operating activities	(53,242)
Cash flows from non-capital financing activities:	
State grants received	3,231
Federal grants received	43,070
Net cash provided by non-capital financing activities	46,301
Cash flows from capital and related financing activities:	
Purchase of capital assets	(3,260)
Net cash used in capital and related financing activities	(3,260)
Cash flows from investing activities:	
Interest on investments	31
Net cash provided by investing activities	31
Net decrease in cash and cash equivalents	(10,170)
Cash and cash equivalents at beginning of year	11,192
Cash and cash equivalents at end of year	\$ 1,022
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (78,759)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	12,953
Depreciation	13,140
Increase in inventories	(3,797)
Decrease in accounts receivable	78
Increase in deferred revenue	3,143
Net cash used in operating activities	\$ (53,242)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 1,022

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

During the year ended June 30, 2005, the District received Federal commodities valued at \$12,953.

During the year ended June 30, 2005, the Nutrition Fund received \$144,022 in contributed capital from the Physical Plant and Equipment Levy Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

**(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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Salaries and Benefits Payable - Payroll and related expenditures 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, 2005, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit 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; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 512,609</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) **Interfund Receivables and Payables**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Local Option Sales and Services Tax	<u>\$ 279,087</u>

**(4) Transfers**

The detail of transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Local Option Sales and Services Tax	\$ 8,944
Debt Service	Physical Plant and Equipment Levy	105,455
Total		<u>\$ 114,399</u>

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

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2005 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 10,000	0	0	10,000
Construction in progress	388,856	154,650	543,506	0
Total capital assets not being depreciated	<u>398,856</u>	<u>154,650</u>	<u>543,506</u>	<u>10,000</u>
Capital assets being depreciated:				
Buildings	7,611,560	755,824	0	8,367,384
Improvements other than buildings	134,161	0	0	134,161
Machinery and equipment	813,675	56,834	0	870,509
Total capital assets being depreciated	<u>8,559,396</u>	<u>812,658</u>	<u>0</u>	<u>9,372,054</u>
Less accumulated depreciation for:				
Buildings	1,695,303	157,195	0	1,852,498
Improvements other than buildings	47,422	26,832	0	74,254
Machinery and equipment	582,728	45,562	0	628,290
Total accumulated depreciation	<u>2,325,453</u>	<u>229,589</u>	<u>0</u>	<u>2,555,042</u>
Total capital assets being depreciated, net	<u>6,233,943</u>	<u>583,069</u>	<u>0</u>	<u>6,817,012</u>
Governmental activities capital assets, net	<u>\$ 6,632,799</u>	<u>737,719</u>	<u>543,506</u>	<u>6,827,012</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 42,641	147,282	17,091	172,832
Less accumulated depreciation	35,955	13,140	16,258	32,837
Business-type activities capital assets, net	\$ 6,686	134,142	833	139,995

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 4,071
Support services:		
Transportation		41,491
		<u>45,562</u>
Unallocated depreciation		<u>184,027</u>
Total governmental activities depreciation expense		<u>\$ 229,589</u>
Business-type activities:		
Food services		\$ 13,140
Total business-type activities depreciation expense		<u>\$ 13,140</u>

**(6) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bond	\$ 3,095,000	0	125,000	2,970,000	130,000
Capital Loan Note	710,000	0	75,000	635,000	80,000
Total	\$ 3,805,000	0	200,000	3,605,000	210,000

Capital Loan Notes

Details of the District's June 30, 2005 Capital Loan Note indebtedness that is paid by the Physical Plant and Equipment Levy Fund is as follows:

Year Ending June 30,	Issue dated February 1, 2002			
	Interest Rates	Principal	Interest	Total
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	13,375	108,375
2011	4.60	100,000	9,300	109,300
2012	4.70	100,000	4,700	104,700
Total		\$ 635,000	118,025	753,025

Bonded Debt

Details of the District's June 30, 2005 General Obligation bonded indebtedness is as follows:

Year Ending June 30,	Issue dated February 1, 2002			
	Interest Rates	Principal	Interest	Total
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		\$ 2,970,000	1,362,430	4,332,430

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. There were no early retirement benefits paid by the District for year ended June 30, 2005.

**(7) 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, 2005, 2004, and 2003 were \$145,821, \$135,790, \$126,253, respectively, equal to the required contributions for each year.

**(8) Risk Management**

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$4,344 which is recorded as a liability as of June 30, 2005.

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

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$149,175 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted expenditures at the functional area level. During the year ended June 30, 2005, disbursements in the non-instructional programs functional area exceeded the amounts budgeted.

**(11) Deficit Fund Balance/Net Assets**

The Capital Projects Fund had a deficit undesignated fund balance of \$164,221 at June 30, 2005. The Nutrition Fund also had a negative unrestricted fund balance of \$60.

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, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
<b>Receipts:</b>		
Local sources	\$ 2,398,179	203,991
State sources	2,258,235	3,231
Federal sources	122,010	56,023
Total revenues	<u>4,778,424</u>	<u>263,245</u>
<b>Disbursements:</b>		
Instruction	2,888,416	0
Support services	1,454,503	0
Non-instructional programs	0	273,415
Other expenditures	979,201	0
Total expenditures	<u>5,322,120</u>	<u>273,415</u>
Deficiency of receipts under disbursements	(543,696)	(10,170)
Other financing sources, net	<u>0</u>	<u>0</u>
Deficiency of receipts under disbursements	(543,696)	(10,170)
Balance beginning of year	<u>1,335,626</u>	<u>11,192</u>
Balance end of year	<u>\$ 791,930</u>	<u>1,022</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,602,170	2,561,928	2,561,928	40,242
2,261,466	2,287,000	2,287,000	(25,534)
178,033	134,000	134,000	44,033
<u>5,041,669</u>	<u>4,982,928</u>	<u>4,982,928</u>	<u>58,741</u>
2,888,416	3,657,749	3,657,749	769,333
1,454,503	1,481,000	1,481,000	26,497
273,415	268,182	268,182	(5,233)
979,201	1,172,916	1,172,916	193,715
<u>5,595,535</u>	<u>6,579,847</u>	<u>6,579,847</u>	<u>984,312</u>
(553,866)	(1,596,919)	(1,596,919)	(1,043,053)
0	0	0	0
(553,866)	(1,596,919)	(1,596,919)	(1,043,053)
<u>1,346,818</u>	<u>1,953,885</u>	<u>1,953,885</u>	<u>(607,067)</u>
<u>792,952</u>	<u>356,966</u>	<u>356,966</u>	<u>435,986</u>

EARLHAM COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2005

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 4,778,424	60,544	4,838,968
Expenditures	5,322,120	(60,431)	5,261,689
Net	(543,696)	120,975	(422,721)
Beginning fund balances	1,335,626	(148,889)	1,186,737
Ending fund balances	791,930	(27,914)	764,016

	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 263,245	(3,221)	260,024
Expenditures	273,415	6,083	279,498
Net	(10,170)	(9,304)	(19,474)
Other financing sources, net	0	143,189	143,189
Beginning fund balances	11,192	5,028	16,220
Ending fund balances	\$ 1,022	138,913	139,935

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on 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 functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, 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, 2005

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
<b>ASSETS</b>						
Cash and pooled investments	\$ 38,305	58,347	19,487	116,139	0	116,139
Receivables:						
Property tax:						
Current year delinquent	1,693	0	2,178	3,871	4,220	8,091
Succeeding year	98,000	0	141,379	239,379	270,254	509,633
Accounts	0	7,909	0	7,909	0	7,909
<b>TOTAL ASSETS</b>	<b>\$ 137,998</b>	<b>66,256</b>	<b>163,044</b>	<b>367,298</b>	<b>274,474</b>	<b>641,772</b>
<b>LIABILITIES AND FUND EQUITY</b>						
Liabilities:						
Accounts payable	\$ 0	5,982	0	5,982	0	5,982
Deferred revenue:						
Succeeding year property tax	98,000	0	141,379	239,379	270,254	509,633
<b>Total Liabilities</b>	<b>98,000</b>	<b>5,982</b>	<b>141,379</b>	<b>245,361</b>	<b>270,254</b>	<b>515,615</b>
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	39,998	60,274	21,665	121,937	4,220	126,157
<b>Total fund balances</b>	<b>39,998</b>	<b>60,274</b>	<b>21,665</b>	<b>121,937</b>	<b>4,220</b>	<b>126,157</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 137,998</b>	<b>66,256</b>	<b>163,044</b>	<b>367,298</b>	<b>274,474</b>	<b>641,772</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, 2005

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 109,068	0	140,285	249,353	271,747	521,100
Other	2,651	212,038	7,259	221,948	204	222,152
TOTAL REVENUES	111,719	212,038	147,544	471,301	271,951	743,252
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	215,299	0	215,299	0	215,299
Support services:						
Operation and maintenance of plant services	91,116	0	0	91,116	0	91,116
Other expenditures:						
Facilities acquisitions	0	0	236,839	236,839	0	236,839
Long-term debt:						
Principal	0	0	0	0	200,000	200,000
Interest and fiscal charges	0	0	0	0	177,359	177,359
TOTAL EXPENDITURES	91,116	215,299	236,839	543,254	377,359	920,613
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	20,603	(3,261)	(89,295)	(71,953)	(105,408)	(177,361)
OTHER FINANCING SOURCES (USES):						
Transfers in	0	0	0	0	114,399	114,399
Transfers out	0	0	(105,455)	(105,455)	0	(105,455)
Total other financing sources (uses)	0	0	(105,455)	(105,455)	114,399	8,944
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	20,603	(3,261)	(194,750)	(177,408)	8,991	(168,417)
FUND BALANCE BEGINNING OF YEAR	19,395	63,535	216,415	299,345	(4,771)	294,574
FUND BALANCE END OF YEAR	\$ 39,998	60,274	21,665	121,937	4,220	126,157

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletic	\$ 11,253	62,472	58,618	15,107
Athletic Uniforms	(680)	680	0	0
Drill Team	(245)	2,908	2,436	227
FFA	23,017	37,007	53,447	6,577
FCCLA	3,889	1,380	1,274	3,995
National Honor Society	421	1,127	756	792
General Student Activity	403	4,512	4,594	321
Middle School Musical	723	6,515	6,476	762
Drama	3,016	3,116	3,465	2,667
Speech	0	653	619	34
Youth Festival Chorus	1,479	0	1,479	0
High School Show Choir	59	996	1,055	0
Annual	(1,116)	9,903	5,601	3,186
Cheerleaders	1,260	4,971	5,564	667
Jack Oatts Festival	1,680	11,259	12,081	858
Art Club	302	47	77	272
Spanish Club	(169)	5,319	5,027	123
Science Club	0	102	0	102
High School Student Council	1,215	2,841	3,551	505
Middle School Student Council	4,789	12,106	13,401	3,494
Class of 2004	(1,161)	1,161	0	0
Class of 2005	4,062	3,057	6,950	169
Class of 2006	3,236	7,983	3,945	7,274
Class of 2007	2,274	810	409	2,675
Class of 2008	0	6,407	5,263	1,144
Elementary Fundraiser	3,826	24,706	19,209	9,323
M.S. Cheerleaders	2	0	2	0
<b>Total</b>	<b>\$ 63,535</b>	<b>212,038</b>	<b>215,299</b>	<b>60,274</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,			
	2005	2004	2003	2002
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,818,495	1,621,106	1,728,152	1,252,210
Tuition	336,582	329,086	304,218	293,112
Other	293,339	338,103	388,591	332,045
State sources	2,258,234	2,158,150	2,116,211	3,052,693
Federal sources	132,318	92,648	73,643	74,699
Total	<u>\$ 4,838,968</u>	<u>4,539,093</u>	<u>4,610,815</u>	<u>5,004,759</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular instruction	\$ 1,866,121	1,716,357	1,746,415	1,468,423
Special instruction	534,336	473,000	439,607	408,219
Other instruction	481,314	447,460	447,395	534,491
Support services:				
Student services	71,110	68,760	82,510	92,387
Instructional staff services	113,857	87,247	79,973	79,076
Administration services	516,682	464,359	447,117	419,925
Operation and maintenance of plant services	645,614	684,453	514,393	353,258
Transportation services	152,665	112,968	235,925	193,157
Central services	0	52,942	31,572	0
Non-instructional programs	0	0	498	0
Other expenditures:				
Facilities acquisitions	353,456	2,246,520	2,978,375	376,912
Long-term debt:				
Principal	200,000	190,000	150,000	0
Interest and other charges	177,359	186,309	241,361	0
AEA flow-through	149,175	146,376	157,301	142,921
Total	<u>\$ 5,261,689</u>	<u>6,876,751</u>	<u>7,552,442</u>	<u>4,068,769</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Earlham Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 4, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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 opinions on the financial statements and not to provide an opinion 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 Part I of 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 caused by error or fraud 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-05 is a material weakness.

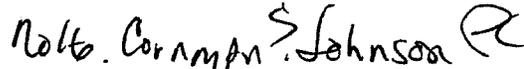
Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

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, including federal awarding agencies and pass-through entities. 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, P.C.

August 4, 2005

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

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

REPORTABLE CONDITIONS:

I-A-05 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 and bank deposits are done by one person and the posting of the cash receipts journal is done by a different 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-05 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, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 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, 2005.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005 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-05 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-05 Travel Expense - Expenditures of District money for travel expenses of spouses of District officials were noted. During the National Convention in San Francisco meal reimbursements were allotted for the spouse of the District's principal. There was insufficient detail on receipts for reimbursement to determine if procedures were handled properly.

Recommendation - The District should review their procedures to make sure reimbursements are done properly.

Response - The amount in question has been repaid to the District.

Conclusion - Response accepted.

II-E-05 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-F-05 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-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-05 Deposits and Investments - We noted during our audit that the District received dividends from stock owned in Prudential, which is an instance 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.

Recommendation - The District should sell the stock, and invest in an investment within compliance of District policy.

Response – The Prudential stock has been sold.

Conclusion – Response accepted.

II-J-05 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-05 Financial Condition - The District had a deficit unreserved fund balance of \$164,221 in the Capital Projects Fund. The Nutrition Fund also had a negative unrestricted fund balance of \$60.

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 the deficits.

Conclusion - Response accepted.