

EARLHAM COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2009

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Earlham Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2008 Election)		
Mike Madren	President	2008
David Morford	Vice President	2008
Kevin Curran	Board Member	2011*
Neal Hanley	Board Member	2009
Craig Hamilton	Board Member	2009

**Board of Education
(After September 2008 Election)**

Mike Madren	President	2011
David Morford	Vice President	2011
Kevin Curran	Board Member	2011*
Neal Hanley	Board Member	2009
Craig Hamilton	Board Member	2009

School Officials

Mike Wright	Superintendent	2009
Jodi Stroud	District Secretary and Business Manager	2009
Ahlers & Cooney, P.C.	Attorney	2009

*Board term extended per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

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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, 2009, 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, 2009, 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 report dated January 15, 2010 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 law, 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 35 through 36 are not required parts of the basic financial statements, but are supplementary

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 five years ended June 30, 2008 (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, P.C.

January 15, 2010

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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,197,188 in fiscal 2008 to \$5,558,007 in fiscal 2009, while General Fund expenditures increased from \$5,167,241 in fiscal 2008 to \$5,327,737 in fiscal 2009. This resulted in an increase in the District's General Fund balance from \$659,306 in fiscal 2008 to a balance of \$889,576 in fiscal 2009, a 34.93% increase over the prior year.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net 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 non-major funds.

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

Figure A-1
Earlham Community School District Annual Financial Report

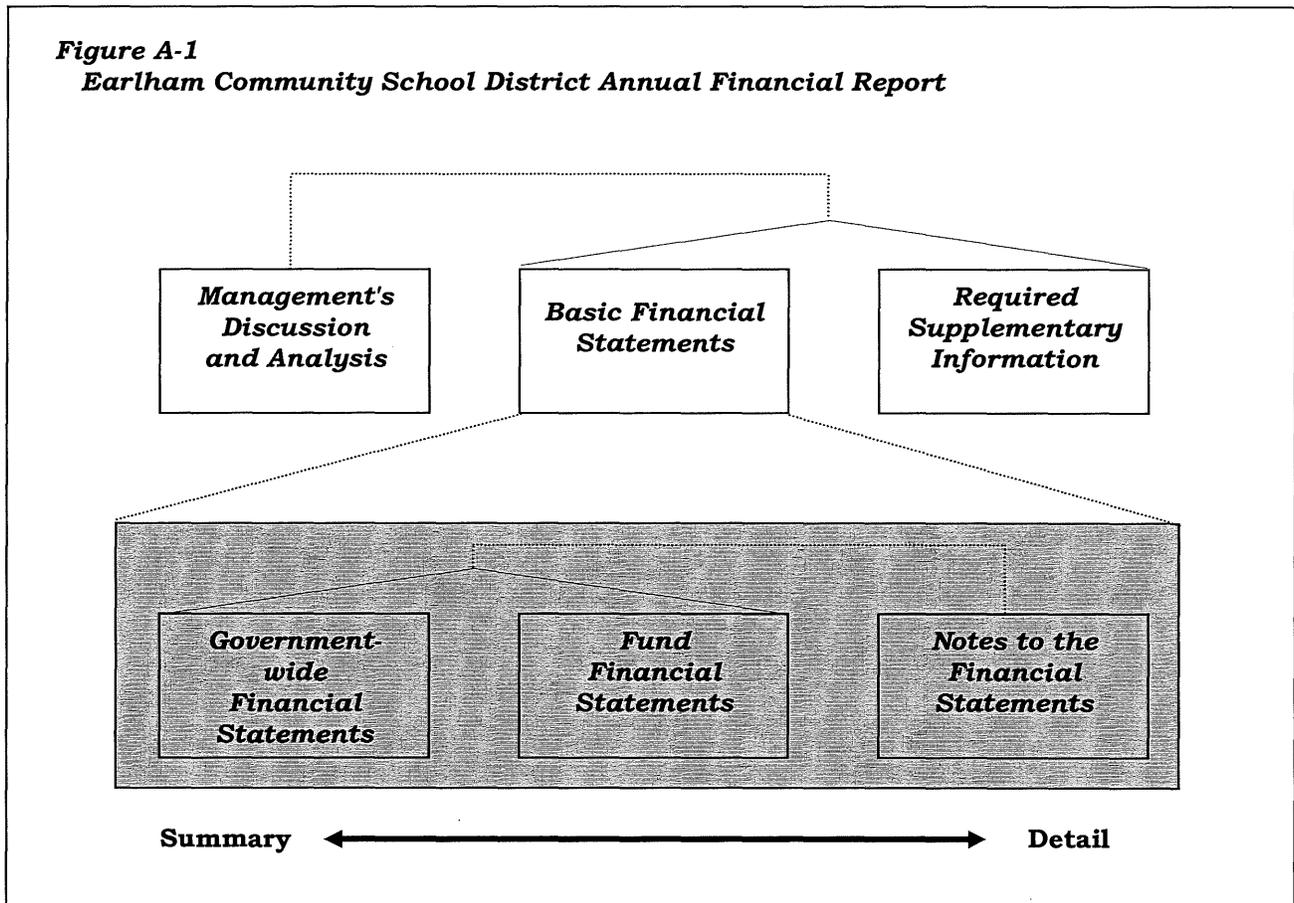


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net 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 net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust.

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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 total net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business Type		Total		Total Change June 30, 2008-09
	Activities		Activities		School District		
	June 30, 2009	2008	June 30, 2009	2008	June 30, 2009	2008	
Current and other assets	\$ 4,588,454	3,803,468	26,248	13,912	4,614,702	3,817,380	20.89%
Capital assets	6,644,525	6,812,832	113,121	128,824	6,757,646	6,941,656	-2.65%
Total assets	11,232,979	10,616,300	139,369	142,736	11,372,348	10,759,036	5.70%
Long-term obligations	2,760,519	2,950,001	0	0	2,760,519	2,950,001	-6.42%
Other liabilities	2,832,113	2,646,292	5,994	4,427	2,838,107	2,650,719	7.07%
Total liabilities	5,592,632	5,596,293	5,994	4,427	5,598,626	5,600,720	-0.04%
Net assets:							
Invested in capital assets, net of related debt	3,884,006	3,862,833	113,121	128,823	3,997,127	3,991,656	0.14%
Restricted	1,017,601	608,647	0	0	1,017,601	608,647	67.19%
Unrestricted	738,740	548,527	20,254	9,486	758,994	558,013	36.02%
Total net assets	\$ 5,640,347	5,020,007	133,375	138,309	5,773,722	5,158,316	11.93%

The District’s combined net assets increased by 11.93%, or \$615,406, 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 invested 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 increased approximately \$408,954 or 67.19% from 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 increased approximately \$200,981, or 36.02%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2009 and 2008.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
Revenues:							
Program revenues:							
Charges for services	\$ 537,018	530,581	264,792	249,827	801,810	780,408	2.74%
Operating grants and contributions and restricted interest	909,249	742,666	91,119	81,505	1,000,368	824,171	21.38%
General revenues:							
Property tax	2,080,156	1,910,586	0	0	2,080,156	1,910,586	8.88%
Statewide sales and service tax	428,627	320,411	0	0	428,627	320,411	33.77%
Unrestricted state grants	2,639,082	2,716,564	0	0	2,639,082	2,716,564	-2.85%
Unrestricted investment earnings	14,667	68,000	113	159	14,780	68,159	-78.32%
Other	66,220	54,092	0	0	66,220	54,092	22.42%
Transfers	0	(25,967)	0	25,967	0	0	0.00%
Total revenues	6,675,019	6,316,933	356,024	357,458	7,031,043	6,674,391	5.34%
Program expenses:							
Governmental activities:							
Instructional	3,937,067	3,779,008	0	0	3,937,067	3,779,008	4.18%
Support services	1,556,940	1,525,777	0	0	1,556,940	1,525,777	2.04%
Non-instructional programs	0	0	360,958	350,359	360,958	350,359	3.03%
Other expenses	560,672	509,014	0	0	560,672	509,014	10.15%
Total expenses	6,054,679	5,813,799	360,958	350,359	6,415,637	6,164,158	4.08%
Change in net assets	620,340	503,134	(4,934)	7,099	615,406	510,233	20.61%
Net assets beginning of year	5,020,007	4,516,873	138,309	131,210	5,158,316	4,648,083	10.98%
Net assets at end of year	\$ 5,640,347	5,020,007	133,375	138,309	5,773,722	5,158,316	11.93%

In fiscal 2009, property tax, statewide sales and services tax, and unrestricted state grants accounted for 77.12% of the revenue from governmental activities while charges for service, sales, and operating grants and contributions account for 99.97% of the revenue from business type activities.

The District's total revenues were approximately \$7.03 million of which \$6.68 million was for governmental activities and \$0.35 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.34% increase in revenues and a 4.08% increase in expenses. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues, net of transfers for governmental activities were \$6,675,019 and expenses were \$6,054,679.

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		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	\$ 3,937,067	3,779,008	4.18%	2,714,203	2,713,757	0.02%
Support services	1,556,940	1,525,777	2.04%	1,556,940	1,525,205	2.08%
Other expenses	560,672	509,014	10.15%	337,269	301,590	11.83%
Totals	<u>\$ 6,054,679</u>	<u>5,813,799</u>	<u>4.14%</u>	<u>4,608,412</u>	<u>4,540,552</u>	<u>1.49%</u>

- The cost financed by users of the District's programs was \$537,018.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$909,249.
- The net cost of governmental activities was financed with \$2,080,156 in property tax, \$428,627 in statewide sales tax, \$2,639,082 in unrestricted state grants, \$14,667 in investment earnings, and \$66,220 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$356,024 and expenses were \$360,958. 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 \$1,779,904, under last year's ending fund balances of \$1,180,557.

Governmental Fund Highlights

The General Fund has gone from a fund balance in FY 2008 of \$659,306 to a fund balance for FY 2009 of \$859,576 or an increase of 34.93%. The increase in revenues was greater than the increase in expenses.

The Capital Projects Fund balance increased from \$307,600 in fiscal 2008 to \$692,551 in fiscal 2009. The increase is attributable to increased statewide sales and services tax collected and decrease in expenditures, in the fiscal year of 2009.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$138,309 at June 30, 2008 to \$133,375 at June 30, 2009, representing a decrease of 3.57%.

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 labor, supply and transportation costs.

BUDGETARY HIGHLIGHTS

The District's revenues were \$698,518 less than budgeted revenues, a variance of 9.04%. The decrease can be attributed to the District receiving less local and state monies than were originally anticipated.

Total expenditures were \$2,818,548 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009 the District had invested \$6,757,646, 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 \$273,224.

The original cost of the District's capital assets was \$10,418,020. Governmental funds account for \$10,214,439 with the remainder of \$203,581 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$224,667 at June 30, 2009, compared to \$289,939 reported at June 30, 2008. This decrease was the result of depreciation expenses for the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Land	\$ 373,930	373,930	0	0	373,930	373,930	0.00%
Buildings	6,113,155	6,228,995	0	0	6,113,155	6,228,995	-1.86%
Improvements other than buildings	45,894	48,791	0	0	45,894	48,791	-5.94%
Machinery and equipment	111,546	161,116	113,121	128,823	224,667	289,939	-22.51%
Total	\$ 6,644,525	6,812,832	113,121	128,823	6,757,646	6,941,655	-2.65%

Long-Term Debt

At June 30, 2009, the District had \$2,760,519 in general obligation, and other long-term debt outstanding. This represents a decrease of 6.42% from the prior 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		Total
	School District		Change
	June 30,	June 30,	June 30,
	2009	2008	2008-09
General obligation bonds	\$ 2,415,000	2,565,000	-5.85%
Capital loan note	295,000	385,000	-23.38%
Bus Lease	50,519	0	100.00%
Totals	\$ 2,760,519	2,950,000	-6.42%

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's enrollment has dropped slightly so the need for additional classroom space and staff has stabilized.
- Other projects have been mentioned as improvements for the district such as courtyard renovation into an outdoor classroom.
- Significant investment has been made in energy conservation measures with the anticipation of long-term energy savings for the district.
- The challenge for the district in the wake of state budget cuts and possible future reductions is to prioritize the needs and look closely at the funding resources available from all funds.

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, 2009

	Governmental Activities	Business type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,054,792	12,188	2,066,980
Receivables			
Property tax:			
Delinquent	29,727	0	29,727
Succeeding year	2,245,813	0	2,245,813
Accounts	109,197	197	109,394
Due from other governments	148,925	0	148,925
Inventories	0	13,863	13,863
Capital assets, net of accumulated depreciation	6,644,525	113,121	6,757,646
Total Assets	11,232,979	139,369	11,372,348
Liabilities			
Accounts payable	\$ 82,352	48	82,400
Salaries and benefits payable	480,385	24	480,409
Accrued interest payable	23,563	0	23,563
Deferred revenue:			
Succeeding year property tax	2,245,813	0	2,245,813
Unearned revenue	0	5,922	5,922
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	155,000	0	155,000
Capital loan note	95,000	0	95,000
Bus lease	24,713	0	24,713
Portion due after one year:			
General obligation bonds payable	2,260,000	0	2,260,000
Capital loan note	200,000	0	200,000
Bus lease	25,806	0	25,806
Total Liabilities	5,592,632	5,994	5,598,626
Net Assets			
Invested in capital assets, net of related debt	\$ 3,884,006	113,121	3,997,127
Restricted for:			
Categorical Funding	127,273	0	127,273
Capital projects	692,551	0	692,551
Debt service levy	7,898	0	7,898
Other special revenue purposes	189,879	0	189,879
Unrestricted	738,740	20,254	758,994
Total Net Assets	\$ 5,640,347	133,375	5,773,722

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges	Contributions	Govern- mental Activities	Business Type Activities	
		for Services	and Restricted Interest			
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 2,656,661	335,054	668,801	(1,652,806)	0	(1,652,806)
Special	591,899	37,038	17,045	(537,816)	0	(537,816)
Other	688,507	164,926	0	(523,581)	0	(523,581)
	<u>3,937,067</u>	<u>537,018</u>	<u>685,846</u>	<u>(2,714,203)</u>	<u>0</u>	<u>(2,714,203)</u>
Support services:						
Student	76,014	0	0	(76,014)	0	(76,014)
Instructional staff	112,008	0	0	(112,008)	0	(112,008)
Administration	590,309	0	0	(590,309)	0	(590,309)
Operation and maintenance of plant	495,792	0	0	(495,792)	0	(495,792)
Transportation	282,817	0	0	(282,817)	0	(282,817)
	<u>1,556,940</u>	<u>0</u>	<u>0</u>	<u>(1,556,940)</u>	<u>0</u>	<u>(1,556,940)</u>
Other expenditures:						
Facilities acquisitions	5,817	0	0	(5,817)	0	(5,817)
Long-term debt interest	140,469	0	0	(140,469)	0	(140,469)
AEA flowthrough	223,403	0	223,403	0	0	0
Depreciation(unallocated)*	190,983	0	0	(190,983)	0	(190,983)
	<u>560,672</u>	<u>0</u>	<u>223,403</u>	<u>(337,269)</u>	<u>0</u>	<u>(337,269)</u>
Total governmental activities	6,054,679	537,018	909,249	(4,608,412)	0	(4,608,412)
Business Type activities:						
Non-instructional programs:						
Nutrition services	360,958	264,792	91,119	0	(5,047)	(5,047)
Total business type activities	<u>360,958</u>	<u>264,792</u>	<u>91,119</u>	<u>0</u>	<u>(5,047)</u>	<u>(5,047)</u>
Total	<u>\$ 6,415,637</u>	<u>801,810</u>	<u>1,000,368</u>	<u>(4,608,412)</u>	<u>(5,047)</u>	<u>(4,613,459)</u>
General Revenues and Transfers:						
Property tax levied for:						
General purposes				\$ 1,649,563	0	1,649,563
Debt service				272,804	0	272,804
Capital outlay				157,789	0	157,789
Statewide sales and services				428,627	0	428,627
Unrestricted state grants				2,639,082	0	2,639,082
Unrestricted investment earnings				14,667	113	14,780
Other				66,220	0	66,220
Total general revenues				<u>5,228,752</u>	<u>113</u>	<u>5,228,865</u>
Changes in net assets				620,340	(4,934)	615,406
Net assets beginning of year				<u>5,020,007</u>	<u>138,309</u>	<u>5,158,316</u>
Net assets end of year				<u>\$ 5,640,347</u>	<u>133,375</u>	<u>5,773,722</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 1,302,254	563,814	188,724	2,054,792
Receivables:				
Property tax:				
Delinquent	22,376	0	7,351	29,727
Succeeding year	1,699,954	0	545,859	2,245,813
Accounts	105,635	0	3,562	109,197
Due from other governments	0	148,925	0	148,925
Total Assets	\$ 3,130,219	712,739	745,496	4,588,454
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 60,304	20,188	1,860	82,352
Salaries and benefits payable	480,385	0	0	480,385
Deferred revenue:				
Succeeding year property tax	1,699,954	0	545,859	2,245,813
Total liabilities	2,240,643	20,188	547,719	2,808,550
Fund balances:				
Reserved for:				
Categorical Funding	127,273	0	0	127,273
Debt service	0	0	7,898	7,898
Unreserved:				
Designated for special purpose	14,727	0	0	14,727
Undesignated:				
General fund	747,576	0	0	747,576
Capital Projects fund	0	692,551	0	692,551
Other Special Revenue Purposes	0	0	189,879	189,879
Total fund balances	889,576	692,551	197,777	1,779,904
Total Liabilities and Fund Balances	\$ 3,130,219	712,739	745,496	4,588,454

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2009

Total fund balances of governmental funds (page 15)	\$ 1,779,904
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,644,525
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.	(23,563)
Long-term liabilities, including bonds and notes payable, and bus lease payable are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,760,519)</u>
Net assets of governmental activities (page 13)	<u><u>\$ 5,640,347</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,564,659	330,740	515,497	2,410,896
Tuition	355,381	0	0	355,381
Other	89,556	6,417	166,551	262,524
State sources	3,355,530	97,887	0	3,453,417
Federal sources	192,801	0	0	192,801
Total revenues	<u>5,557,927</u>	<u>435,044</u>	<u>682,048</u>	<u>6,675,019</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,664,548	0	0	2,664,548
Special	591,899	0	0	591,899
Other	517,882	0	170,625	688,507
	<u>3,774,329</u>	<u>0</u>	<u>170,625</u>	<u>3,944,954</u>
Support services:				
Student	76,014	0	0	76,014
Instructional staff	112,008	0	0	112,008
Administration	585,391	490	800	586,681
Operation and maintenance of plant	379,103	7,319	94,697	481,119
Transportation	177,489	0	77,466	254,955
	<u>1,330,005</u>	<u>7,809</u>	<u>172,963</u>	<u>1,510,777</u>
Other expenditures:				
Facilities acquisitions	0	42,284	24,565	66,849
Long-term debt:				
Principal	0	0	266,947	266,947
Interest and fiscal charges	0	0	140,288	140,288
AEA flowthrough	223,403	0	0	223,403
	<u>223,403</u>	<u>42,284</u>	<u>431,800</u>	<u>697,487</u>
Total expenditures	<u>5,327,737</u>	<u>50,093</u>	<u>775,388</u>	<u>6,153,218</u>
Excess(deficiency) of revenues over(under)expenditures	230,190	384,951	(93,340)	521,801
Other financing sources(uses):				
Sale of equipment	80	0	0	80
Proceeds from lease purchases	0	0	77,466	77,466
Transfers in	0	0	134,882	134,882
Transfers out	0	0	(134,882)	(134,882)
Total other financing sources(uses)	<u>80</u>	<u>0</u>	<u>77,466</u>	<u>77,546</u>
Net change in fund balances	230,270	384,951	(15,874)	599,347
Fund balance beginning of year	659,306	307,600	213,651	1,180,557
Fund balance end of year	<u>\$ 889,576</u>	<u>692,551</u>	<u>197,777</u>	<u>1,779,904</u>

SEE NOTES TO BASIC 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, 2009

Net change in fund balances - total governmental funds (page 17) \$ 599,347

*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	\$ 89,215	
Depreciation expense	(257,522)	(168,307)

Proceed from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. 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.

Issued	(77,466)	
Repaid	266,947	189,481

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.

(181)

Changes in net assets of governmental activities (page 14) \$ 620,340

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

	School Nutrition
Assets	
Cash and pooled investments	\$ 12,188
Accounts receivable	197
Inventories	13,863
Capital assets, net of accumulated depreciation	113,121
Total Assets	139,369
 Liabilities	
Accounts Payable	48
Salaries and benefits payable	24
Unearned revenue	5,922
Total Liabilities	5,994
 Net Assets	
Invested in capital assets	113,121
Unrestricted	20,254
Total Net Assets	\$ 133,375

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2009

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 264,792
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	113,882
Benefits	32,592
Services	1,660
Supplies	197,122
Depreciation	15,702
Total operating expenses	360,958
Operating loss	(96,166)
Non-operating revenues:	
State sources	3,592
Federal sources	87,527
Interest on investments	113
Total non-operating revenues	91,232
Change in net assets	(4,934)
Net assets beginning of year	138,309
Net assets end of year	\$ 133,375

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 263,983
Cash received from miscellaneous operating activities	2,798
Cash payments to employees for services	(146,475)
Cash payments to suppliers for goods or services	(184,722)
Net cash used in operating activities	(64,416)
Cash flows from non-capital financing activities:	
Interfund payment to General Fund	271
State grants received	3,592
Federal grants received	65,100
Net cash provided used in non-capital financing activities	68,963
Cash flows from investing activities:	
Interest on investments	113
Net increase in cash and cash equivalents	4,660
Cash and cash equivalents at beginning of year	7,528
Cash and cash equivalents at end of year	\$ 12,188
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (96,166)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	22,427
Depreciation	15,702
Increase in inventories	(8,415)
Decrease in accounts receivable	469
Increase in accounts payable	48
Decrease in salaries and benefits payable	(1)
Increase in unearned revenue	1,520
Net cash used in operating activities	\$ (64,416)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 12,188
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2009, the District received Federal commodities valued at \$22,427.	

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 164
Liabilities	0
Net Assets	
Unrestricted	<u>\$ 164</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2009

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Donations	\$ 0
Deductions	0
Change in net assets	0
Net assets beginning of year	164
Net assets end of year	<u>\$ 164</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

(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, 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 non-fiduciary activities of the District. For the most part, the effect of inter-fund 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 Non-fiduciary 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 non-major 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 is 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 fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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, is 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
Other machinery and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated 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 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.

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

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

Fund Balances - 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.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2009 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, 2009, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 1,176,144

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) Transfers

The detail of transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
	Special Revenue:	
	Physical Plant and	
Debt Service	Equipment Levy	<u>\$ 134,882</u>

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

Physical Plant and Equipment Levy transferred funds for the payment of principal and interest on the Capital Loan Notes and the bus lease.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 373,930	0	0	373,930
Total capital assets not being depreciated	<u>373,930</u>	<u>0</u>	<u>0</u>	<u>373,930</u>
Capital assets being depreciated:				
Buildings	8,664,537	63,311	0	8,727,848
Improvements other than buildings	177,172	8,935	0	186,107
Machinery and equipment	952,448	16,969	42,863	926,554
Total capital assets being depreciated	<u>9,794,157</u>	<u>89,215</u>	<u>42,863</u>	<u>9,840,509</u>
Less accumulated depreciation for:				
Buildings	2,435,542	179,151	0	2,614,693
Improvements other than buildings	128,381	11,832	0	140,213
Machinery and equipment	791,332	66,539	42,863	815,008
Total accumulated depreciation	<u>3,355,255</u>	<u>257,522</u>	<u>42,863</u>	<u>3,569,914</u>
Total capital assets being depreciated, net	<u>6,438,902</u>	<u>(168,307)</u>	<u>0</u>	<u>6,270,595</u>
Governmental activities capital assets, net	<u>\$ 6,812,832</u>	<u>(168,307)</u>	<u>0</u>	<u>6,644,525</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 203,581	0	0	203,581
Less accumulated depreciation	74,758	15,702	0	90,460
Business type activities capital assets, net	\$ 128,823	(15,702)	0	113,121

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular \$ 7,568

Support services:

Administrative 9,118

Operation and maintenance of plant 21,991

Transportation 27,862

66,539

Unallocated depreciation

190,983

Total governmental activities depreciation expense

\$ 257,522

Business type activities:

Food services \$ 15,702

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2009 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bond	\$ 2,565,000	0	150,000	2,415,000	155,000
Capital Loan Note	385,000	0	90,000	295,000	95,000
Bus Lease	0	77,466	26,947	50,519	24,713
Total	\$ 2,950,000	77,466	266,947	2,760,519	274,713

Capital Loan Notes

Details of the District's June 30, 2009 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		Principal	Interest	Total
Rates					
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			\$ 295,000	27,375	322,375

General Obligation Bonds Payable

Details of the District's June 30, 2009 General Obligation bonded indebtedness is as follows:

Year Ending June 30,	Issue dated February 1, 2002				
	Interest		Principal	Interest	Total
Rates					
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			\$ 2,415,000	837,314	3,252,314

Bus Lease

During the year ended June 30, 2009, the District entered into a bus lease agreement. The lease bears an annual interest rate of 4.42% and is payable equally from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the District's indebtedness under the lease agreement as of June 30, 2009 are as follows:

Year Ending June 30,	Bus Lease				
	Interest		Principal	Interest	Total
Rates					
2010	4.42	% \$	24,713	2,233	26,946
2011	4.42		25,806	1,141	26,947
Total			\$ 50,519	3,374	53,893

(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 4.10% of their annual salary and the District is required to contribute 6.35% of annual covered payroll for the years ended June 30, 2009, 2008, 2007. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$220,233, \$195,403 and \$173,168, respectively, equal to the required contributions for each year.

(7) Risk Management

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

(8) 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 \$223,403 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Other Post-employment Benefits (OPEB)

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other post-employment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB No. 45.

(10) Categorical Funding

The District's ending reserved balances for categorical funding as of June 30, 2009 are broken out by the following projects:

<u>Project</u>	<u>Amount</u>
Market factor incentives	\$ 1,842
Talented and gifted	35,799
Beginning teacher mentoring	1,388
Salary Improvement Porgram	763
Additional teacher contract day	7,439
Core Curriculum	10,080
Phase I	178
Phase II	312
Dropout prevention	27,317
Professional development	42,155
Total Reserved for Categorical Funding	<u>\$ 127,273</u>

REQUIRED SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2009

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 3,028,801	264,905	3,293,706	4,005,260	4,005,260	(711,554)
State sources	3,453,417	3,592	3,457,009	3,504,301	3,504,301	(47,292)
Federal sources	192,801	87,527	280,328	220,000	220,000	60,328
Total revenues	6,675,019	356,024	7,031,043	7,729,561	7,729,561	(698,518)
Expenditures/Expenses:						
Instruction	3,944,954	0	3,944,954	4,079,852	4,079,852	134,898
Support services	1,510,777	0	1,510,777	3,237,898	3,237,898	1,727,121
Non-instructional programs	0	360,958	360,958	500,000	500,000	139,042
Other expenditures	697,487	0	697,487	1,514,974	1,514,974	817,487
Total expenditures/expenses	6,153,218	360,958	6,514,176	9,332,724	9,332,724	2,818,548
Excess(deficiency) of revenues over(under) expenditures/expenses	521,801	(4,934)	516,867	(1,603,163)	(1,603,163)	2,120,030
Other financing sources, net	77,546	0	77,546	3,500	3,500	74,046
Excess(deficiency)of revenues and other financing sources over(under)expenditures/expenses	599,347	(4,934)	594,413	(1,599,663)	(1,599,663)	2,194,076
Balance beginning of year	1,180,557	138,309	1,318,866	686,696	686,696	632,170
Balance end of year	\$ 1,779,904	133,375	1,913,279	(912,967)	(912,967)	2,826,246

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund 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.

OTHER SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
Assets						
Cash and pooled investments	\$ 91,757	30,069	62,865	184,691	4,033	188,724
Receivables:						
Property tax:						
Current year delinquent	1,211	0	2,275	3,486	3,865	7,351
Succeeding year	90,000	0	184,455	274,455	271,404	545,859
Accounts	0	3,562	0	3,562	0	3,562
Total Assets	\$ 182,968	33,631	249,595	466,194	279,302	745,496
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 0	1,860	0	1,860	0	1,860
Deferred revenue:						
Succeeding year property tax	90,000	0	184,455	274,455	271,404	545,859
Total liabilities	90,000	1,860	184,455	276,315	271,404	547,719
Fund balances:						
Reserved for debt service	0	0	0	0	7,898	7,898
Unreserved fund balances	92,968	31,771	65,140	189,879	0	189,879
Total fund balances	92,968	31,771	65,140	189,879	7,898	197,777
Total Liabilities and Fund Balances	\$ 182,968	33,631	249,595	466,194	279,302	745,496

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, 2009

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical	Total Special Revenue	Debt Service	
			Plant and Equipment Levy			
REVENUES:						
Local sources:						
Local tax	\$ 84,905	0	157,788	242,693	272,804	515,497
Other	728	164,926	709	166,363	188	166,551
TOTAL REVENUES	85,633	164,926	158,497	409,056	272,992	682,048
EXPENDITURES:						
Current:						
Instruction:						
Other	0	167,700	2,925	170,625	0	170,625
Support services:						
Administration	0	0	0	0	800	800
Operation and maintenance of plant	82,455	0	12,242	94,697	0	94,697
Student transportation	0	0	77,466	77,466	0	77,466
Other expenditures:						
Facilities acquisitions	0	0	24,565	24,565	0	24,565
Long-term debt:						
Principal	0	0	0	0	266,947	266,947
Interest and fiscal charges	0	0	0	0	140,288	140,288
TOTAL EXPENDITURES	82,455	167,700	117,198	367,353	408,035	775,388
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,178	(2,774)	41,299	41,703	(135,043)	(93,340)
OTHER FINANCING SOURCES (USES):						
Proceeds for lease purchases	0	0	77,466	77,466	0	77,466
Transfers in	0	0	0	0	134,882	134,882
Transfers out	0	0	(134,882)	(134,882)	0	(134,882)
Total other financing sources (uses)	0	0	(57,416)	(57,416)	134,882	77,466
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	3,178	(2,774)	(16,117)	(15,713)	(161)	(15,874)
FUND BALANCE BEGINNING OF YEAR	89,790	34,545	81,257	205,592	8,059	213,651
FUND BALANCE END OF YEAR	\$ 92,968	31,771	65,140	189,879	7,898	197,777

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expendi- -tures	Balance End of Year
Athletic	\$ 432	78,618	78,994	56
Drill Team	1,900	3,023	3,984	939
General Student Activity	814	5,989	6,082	721
Drama	3,843	6,587	3,920	6,510
Flags	0	229	0	229
Jack Oatts Festival	2,664	14,065	14,569	2,160
Cheerleaders	1,088	6,046	6,636	498
FFA	9,419	10,110	9,097	10,432
FCCLA	2,070	2,348	1,991	2,427
National Honors Society	630	318	430	518
Annual	1,650	4,608	6,178	80
International Trip	0	18,982	18,982	0
Science Club	102	103	0	205
Art Club	231	189	165	255
Spanish Club	156	313	332	137
High School Student Council	3,651	6,489	5,991	4,149
Middle School Student Council	414	3,768	3,191	991
Class of 2009	1,923	803	2,726	0
Class of 2010	3,558	0	2,899	659
Class of 2011	0	2338	1,533	805
 Total	 \$ 34,545	 164,926	 167,700	 31,771

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

	Modified Accrual Basis					
	Years Ended June 30,					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 2,410,896	2,230,997	2,078,124	2,047,415	1,818,495	1,621,106
Tuition	355,381	347,771	333,225	384,846	336,582	329,086
Other	262,524	311,747	401,244	259,814	293,339	338,103
State sources	3,453,417	3,309,388	2,983,782	2,626,931	2,258,234	2,158,150
Federal sources	192,801	142,997	128,331	111,875	132,318	92,648
Total	\$ 6,675,019	6,342,900	5,924,706	5,430,881	4,838,968	4,539,093
Expenditures:						
Current:						
Instruction:						
Regular	\$ 2,664,548	2,589,742	2,289,655	2,136,718	1,866,121	1,716,357
Special	591,899	539,737	540,525	425,315	534,336	473,000
Other	688,507	655,987	681,938	569,161	481,314	447,460
Support services:						
Student	76,014	71,135	82,723	78,266	71,110	68,760
Instructional staff	112,008	109,127	114,410	117,377	113,857	87,247
Administration	586,681	625,624	564,344	550,297	516,682	464,359
Operation and maintenance of plant	481,119	520,895	557,528	510,278	645,614	684,453
Transportation	254,955	192,214	160,321	141,083	152,665	112,968
Central	0	0	0	0	0	52,942
Other expenditures:						
Facilities acquisitions	66,849	677,155	19,452	38,921	353,456	2,246,520
Long-term debt:						
Principal	266,947	233,895	220,000	210,000	200,000	190,000
Interest and other charges	140,288	150,126	167,259	177,934	177,359	186,309
AEA flow-through	223,403	207,424	188,419	170,580	149,175	146,376
Total	\$ 6,153,218	6,573,061	5,586,574	5,125,930	5,261,689	6,876,751

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, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 15, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Earlham Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Earlham Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Earlham Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Earlham Community School District's financial statements that is more than inconsequential will not be prevented or detected by Earlham Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Earlham Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-09 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 such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2009 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.

Earlham Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Earlham Community School District's responses and, accordingly, we express no opinion on them.

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 PC
NOLTE, CORNMAN & JOHNSON, P.C.

January 15, 2010

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-09 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-09 Gate Admissions - It was noted that the District does not utilize pre-numbered tickets for all events that requires an admission.

Recommendation -The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to the individuals involved. The Board would of course, approve any policies that the District's business office should be involved in developing the detailed procedures. At a minimum the procedures should be:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" function at the event.

- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - The district does not use pre-numbered tickets. Our facility does not lend itself to such a procedure. We do have a reconciliation process and double counting of funds before they are returned to the office. The funds are secured by the athletic director and district administration staff after the events. We will continue to monitor our procedures and implement further controls where possible.

Conclusion - Response acknowledged.

- I-C-09 General Fund and Activity Invoices - We noted during our audit, instances of expenditures being paid which did not have invoices to support the payment.

Recommendation - The District should present the bills for payment to the Board for proper approval in accordance with the District's policy of payment of goods. The District should also, review their procedures that are in place to ensure that all bills are supported, approved, and paid from an invoice with a purchase order. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or support documentation other than the invoice.

Response - The items in question were check requests mainly for event registrations with the proper administration approvals but no supporting documentation showing event details. We are now requiring all check requests to have support documentation when possible.

Conclusion- Response accepted.

- I-D-09 Scholarships - During our audit we noted scholarship donations in the General fund and scholarship expenditures in the Activity fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Per Chapter 9 of the LEA Financial Accounting Manual, "The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8)." Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

The Student Council and FFA accounts award scholarships from proceeds from fundraising during the year. When fundraising takes place the revenues should be recorded in the fund that may legally pay for the purpose of the fundraiser. Scholarships

are most appropriately paid from the Private Purpose Trust Fund; therefore, proceeds from scholarship fundraising should be placed and expended from the Private Purpose Trust Fund.

Response - When the individual activity groups decide on the amount of scholarships to be awarded, the funds will be transferred and payments made from the Trust fund.

Conclusion - Response accepted.

I-E-09 Board Policies - We noted during our audit the District has not updated their board policies as required by Department of Education. The policies are to be reviewed and updated every 5 years. It was also, noted that the District has not developed and implemented a cell phone policy or an investment policy.

Recommendation - The District should review their board policies in place and update or implement the necessary policies.

Response - There is a committee to review and revise board policies. We will continue to review policies and get everything up to date.

Conclusion - Response accepted.

I-F-09 Supporting Documents for Payments Made with Credit Card and or Pre-paid Card - It was noted during the audit, that when purchases are being made with credit cards and pre-paid cards, a detailed receipt is not always turned into the Central Office for supporting documentation of the purchase. The credit card and pre-paid card receipts did not provide a detail description of the purchase.

Recommendation - The District has a policy in place for credit card and pre-paid card usage, which states that the users need to provide detailed receipts for purchases made. The District should review their procedures in place with personnel to ensure that the proper detailed documentation will be available for supporting documentation. The District should require additional approval of expense, if proper documentation is not available.

Response - We will require detailed receipts for reimbursements.

Conclusion - Response accepted.

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 Certified Budget - District disbursements for the year ended June 30, 2009, did not exceed the amount budgeted.
- II-B-09 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-C-09 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-09 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Madren, Board President	Official	\$449

In accordance with the Chapter 279.7A of the code of Iowa, the above transactions with Mr. Madren do not appear to represent a conflict of interest

- II-E-09 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-F-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response – We had a timing issue when our newspaper changed ownership. We will continue to work with our newspaper editor to make sure our notices are published timely.

Conclusion - Response accepted.

- II-G-09 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-09 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-I-09 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-J-09 Statewide Sales and Servicing Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and servicing tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning Balance		\$	0
Statewide sales and servicing tax revenue			330,740
Expenditures/transfers out:			
School Infrastructure			
Equipment	\$	9,888	
Other improvements		40,205	50,093
			<u>50,093</u>
Ending Balance		\$	<u><u>280,647</u></u>