

EARLHAM COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

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Earlham Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education
(Before September 2009 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

Board of Education
(After September 2009 Election)

Mike Madren	President	2011
David Morford	Vice President	2011
Kevin Curran	Board Member	2011
Teresa Waldron	Board Member	2013
Kathy Woolcott	Board Member	2013

School Officials

Mike Wright	Superintendent	2010
Jodi Stroud	District Secretary and Business Manager	2010
Ahlers & Cooney, P.C.	Attorney	2010

EARLHAM COMMUNITY SCHOOL DISTRICT

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, 2010, 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, 2010, 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 10, 2011 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, Budgetary Comparison Information and the Schedule of Funding for the Retiree Health Plan on pages 7 through 15 and 42 through 44 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 six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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.

January 10, 2011

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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,558,007 in fiscal 2009 to \$5,371,285 in fiscal 2010, while General Fund expenditures increased from \$5,327,737 in fiscal 2009 to \$5,401,829 in fiscal 2010. This resulted in a decrease in the District's General Fund net assets from \$889,576 in fiscal 2009 to a balance of \$859,032 in fiscal 2010, a 3.43% decrease 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.

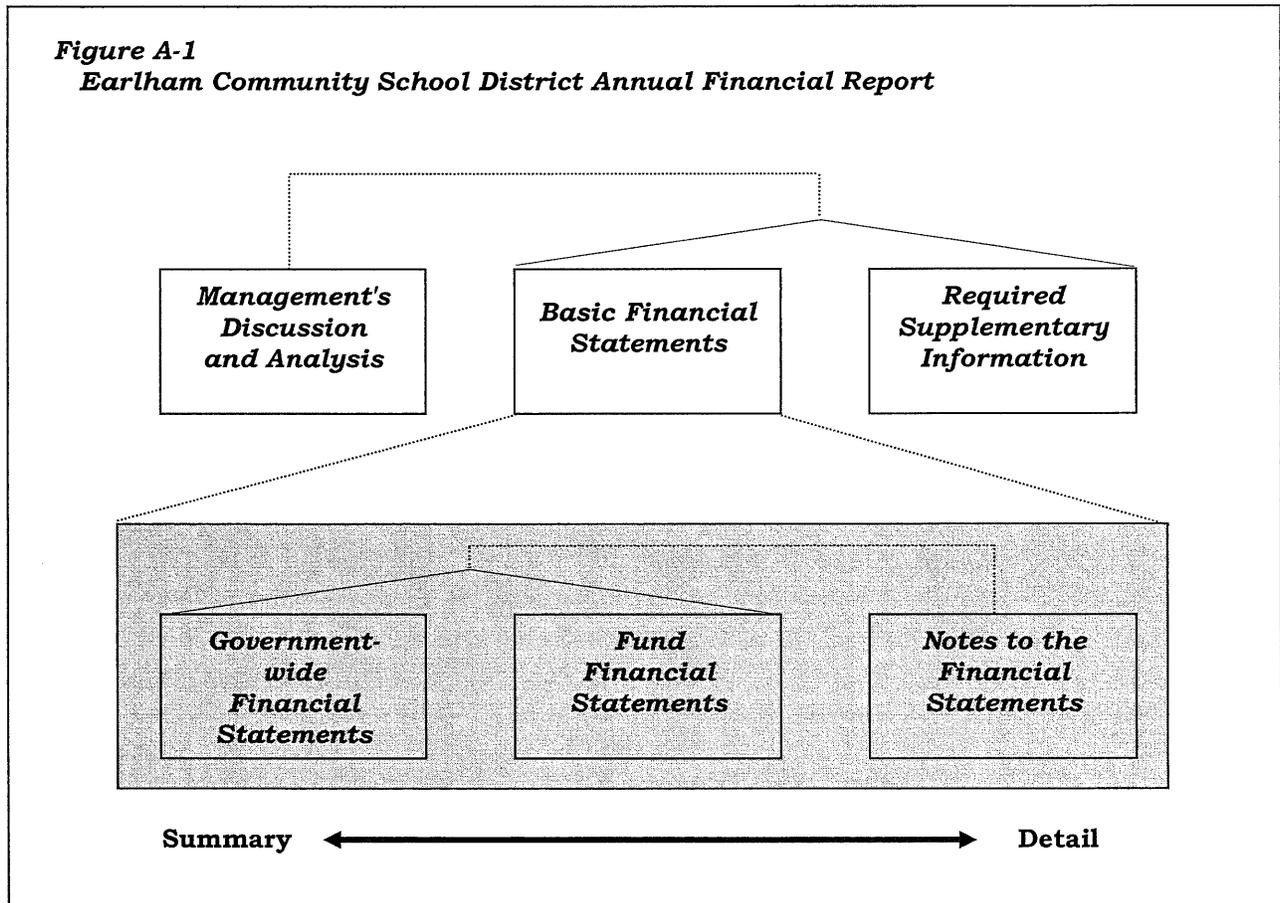


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<i>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</i>				
	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, 2010 compared to June 30, 2009.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 5,053,184	4,588,454	44,404	26,248	5,097,588	4,614,702	10.46%
Capital assets	6,496,872	6,644,525	97,952	113,121	6,594,824	6,757,646	-2.41%
Total assets	11,550,056	11,232,979	142,356	139,369	11,692,412	11,372,348	2.81%
Long-term obligations	2,519,131	2,760,519	0	0	2,519,131	2,760,519	-8.74%
Other liabilities	2,967,639	2,832,113	10,319	5,994	2,977,958	2,838,107	4.93%
Total liabilities	5,486,770	5,592,632	10,319	5,994	5,497,089	5,598,626	-1.81%
Net assets:							
Invested in capital assets, net of related debt	4,011,066	3,884,006	97,952	113,121	4,109,018	3,997,127	2.80%
Restricted	1,434,278	1,017,601	0	0	1,434,278	1,017,601	40.95%
Unrestricted	617,942	738,740	34,085	20,254	652,027	758,994	-14.09%
Total net assets	\$ 6,063,286	5,640,347	132,037	133,375	6,195,323	5,773,722	7.30%

The District's combined net assets increased by 7.30%, or \$421,601, 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 \$416,677 or 40.95% 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 decreased approximately \$106,967, or 14.09%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2010 and 2009.

Figure A-4
Changes of Net Assets

	Governmental		Business type		Total		Total Change 2009-10
	Activities		Activities		School District		
	2010	2009	2010	2009	2010	2009	
Revenues:							
Program revenues:							
Charges for services	\$ 580,305	537,018	256,992	264,792	837,297	801,810	4.43%
Operating grants and contributions and restricted interest	770,101	909,249	109,128	91,119	879,229	1,000,368	-12.11%
General revenues:							
Property tax	2,229,382	2,080,156	0	0	2,229,382	2,080,156	7.17%
Statewide sales and service tax	279,781	428,627	0	0	279,781	428,627	-34.73%
Unrestricted state grants	2,550,016	2,639,082	0	0	2,550,016	2,639,082	-3.37%
Unrestricted investment earnings	14,635	14,667	73	113	14,708	14,780	-0.49%
Other	58,460	66,220	0	0	58,460	66,220	-11.72%
Total revenues	6,482,680	6,675,019	366,193	356,024	6,848,873	7,031,043	-2.59%
Program expenses:							
Governmental activities:							
Instructional	4,057,446	3,937,067	0	0	4,057,446	3,937,067	3.06%
Support services	1,427,065	1,556,940	0	0	1,427,065	1,556,940	-8.34%
Non-instructional programs	0	0	367,531	360,958	367,531	360,958	1.82%
Other expenses	575,230	560,672	0	0	575,230	560,672	2.60%
Total expenses	6,059,741	6,054,679	367,531	360,958	6,427,272	6,415,637	0.18%
Change in net assets	422,939	620,340	(1,338)	(4,934)	421,601	615,406	-31.49%
Net assets beginning of year	5,640,347	5,020,007	133,375	138,309	5,773,722	5,158,316	11.93%
Net assets at end of year	\$ 6,063,286	5,640,347	132,037	133,375	6,195,323	5,773,722	7.30%

In fiscal 2010, property tax, statewide sales and services tax, and unrestricted state grants accounted for 78.04% of the revenue from governmental activities while charges for service, sales, and operating grants and contributions account for 99.98% of the revenue from business type activities.

The District's total revenues were approximately \$6.85 million of which \$6.48 million was for governmental activities and \$0.37 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.59% decrease in revenues and a 0.18% increase in expenses. The increase in expenses related to decrease in the negotiated salary and benefits of support staff.

Governmental Activities

Revenues, net of transfers for governmental activities were \$6,482,680 and expenses were \$6,059,741.

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		
	2010	2009	Change	2010	2009	Change
			2009-10			2009-10
Instruction	\$ 4,057,446	3,937,067	3.06%	2,947,247	2,714,203	8.59%
Support services	1,427,065	1,556,940	-8.34%	1,427,065	1,556,940	-8.34%
Other expenses	575,230	560,672	2.60%	335,023	337,269	-0.67%
Totals	\$ 6,059,741	6,054,679	0.08%	4,709,335	4,608,412	2.19%

- The cost financed by users of the District's programs was \$580,305.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$770,100.
- The net cost of governmental activities was financed with \$2,229,382 in property tax, \$279,781 in statewide sales tax, \$2,550,016 in unrestricted state grants, \$14,635 in investment earnings, and \$58,460 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$366,193 and expenses were \$367,531. 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 \$2,106,295, above last year's ending fund balances of \$1,779,904.

Governmental Fund Highlights

The General Fund has gone from net assets in FY 2009 of \$889,576 to net assets for FY 2010 of \$859,032 or a decrease of 3.43%. The decrease in revenues was due to the 10% across the board cut from the state.

The Capital Projects Fund net assets increased from \$692,551 in fiscal 2009 to \$955,696 in fiscal 2010. The increase is due to planning for partial long-term debt repayment and future construction projects.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$133,375 at June 30, 2009 to \$132,037 at June 30, 2010, representing a decrease of 1.00%.

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 \$1,135,932 less than budgeted revenues, a variance of 14.22%. The decrease can be attributed to the District receiving less local and state monies than were originally anticipated.

Total expenditures were \$1,135,393 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, 2010 the District had invested \$6,594,824, 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 \$282,845.

The original cost of the District's capital assets was \$10,538,043. Governmental funds account for \$10,334,462 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 improvements other than buildings category. The District's improvements other than buildings totaled \$35,262 at June 30, 2010, compared to \$45,894 reported at June 30, 2009. This decrease was the result of depreciation expenses for the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 373,930	373,930	0	0	373,930	373,930	0.00%
Buildings	5,950,739	6,113,155	0	0	5,950,739	6,113,155	-2.66%
Improvements other than buildings	35,262	45,894	0	0	35,262	45,894	-23.17%
Machinery and equipment	136,941	111,546	97,952	113,121	234,893	224,667	4.55%
Total	\$ 6,496,872	6,644,525	97,952	113,121	6,594,824	6,757,646	-2.41%

Long-Term Debt

At June 30, 2010, the District had \$2,520,757 in general obligation, and other long-term debt outstanding. This represents a decrease of 8.69% 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,
	2010	2009	2009-10
General obligation bonds	\$ 2,260,000	2,415,000	-6.42%
Capital loan note	200,000	295,000	-32.20%
Bus Lease	25,806	50,519	-48.92%
Other postemployment/net OPEB Liability	34,951	0	100.00%
Totals	\$ 2,520,757	2,760,519	-8.69%

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:

- Other projects have been mentioned as improvements for the district such as courtyard renovation into an outdoor classroom, an all-weather track facility, new windows for the three-story building, and lighting for the parking lot.
- The district is involved in an extensive technology renovation.
- 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.
- 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.

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BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,377,409	32,234	2,409,643
Receivables			
Property tax:			
Delinquent	42,511	0	42,511
Succeeding year	2,360,983	0	2,360,983
Accounts	102,256	2,875	105,131
Due from other governments	170,025	0	170,025
Inventories	0	9,295	9,295
Capital assets, net of accumulated depreciation	6,496,872	97,952	6,594,824
Total Assets	11,550,056	142,356	11,692,412
Liabilities			
Accounts payable	89,523	0	89,523
Salaries and benefits payable	496,384	3,551	499,935
Accrued interest payable	20,749	0	20,749
Deferred revenue:			
Succeeding year property tax	2,360,983	0	2,360,983
Unearned revenue	0	5,142	5,142
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	160,000	0	160,000
Capital loan note	100,000	0	100,000
Bus lease	25,806	0	25,806
Portion due after one year:			
General obligation bonds payable	2,100,000	0	2,100,000
Capital loan note	100,000	0	100,000
Net OPEB Liability	33,325	1,626	34,951
Total Liabilities	5,486,770	10,319	5,497,089
Net Assets			
Invested in capital assets, net of related debt	4,011,066	97,952	4,109,018
Restricted for:			
Categorical Funding	187,016	0	187,016
Capital projects	955,696	0	955,696
Debt service levy	6,272	0	6,272
Other special revenue purposes	285,294	0	285,294
Unrestricted	617,942	34,085	652,027
Total Net Assets	\$ 6,063,286	132,037	6,195,323

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating Grants,		Govern- mental Activities	Business Type Activities	Total
		Charges for Services	Contributions and Restricted Interest			
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 2,683,329	381,223	461,714	(1,840,392)	0	(1,840,392)
Special	689,498	15,732	68,180	(605,586)	0	(605,586)
Other	684,619	183,350	0	(501,269)	0	(501,269)
	<u>4,057,446</u>	<u>580,305</u>	<u>529,894</u>	<u>(2,947,247)</u>	<u>0</u>	<u>(2,947,247)</u>
Support services:						
Student	91,797	0	0	(91,797)	0	(91,797)
Instructional staff	124,026	0	0	(124,026)	0	(124,026)
Administration	581,251	0	0	(581,251)	0	(581,251)
Operation and maintenance of plant	523,139	0	0	(523,139)	0	(523,139)
Transportation	106,852	0	0	(106,852)	0	(106,852)
	<u>1,427,065</u>	<u>0</u>	<u>0</u>	<u>(1,427,065)</u>	<u>0</u>	<u>(1,427,065)</u>
Other expenditures:						
Facilities acquisitions	8,449	0	0	(8,449)	0	(8,449)
Long-term debt interest	128,999	0	0	(128,999)	0	(128,999)
AEA flowthrough	240,207	0	240,207	0	0	0
Depreciation(unallocated)*	197,575	0	0	(197,575)	0	(197,575)
	<u>575,230</u>	<u>0</u>	<u>240,207</u>	<u>(335,023)</u>	<u>0</u>	<u>(335,023)</u>
Total governmental activities	6,059,741	580,305	770,101	(4,709,335)	0	(4,709,335)
Business Type activities:						
Non-instructional programs:						
Nutrition services	367,531	256,992	109,128	0	(1,411)	(1,411)
Total business type activities	<u>367,531</u>	<u>256,992</u>	<u>109,128</u>	<u>0</u>	<u>(1,411)</u>	<u>(1,411)</u>
Total	<u>\$ 6,427,272</u>	<u>837,297</u>	<u>879,229</u>	<u>(4,709,335)</u>	<u>(1,411)</u>	<u>(4,710,746)</u>
General Revenues and Transfers:						
Property tax levied for:						
General purposes				\$ 1,776,838	0	1,776,838
Debt service				269,428	0	269,428
Capital outlay				183,116	0	183,116
Statewide sales, services and use tax				279,781	0	279,781
Unrestricted state grants				2,550,016	0	2,550,016
Unrestricted investment earnings				14,635	73	14,708
Other				58,460	0	58,460
Total general revenues				<u>5,132,274</u>	<u>73</u>	<u>5,132,347</u>
Changes in net assets				422,939	(1,338)	421,601
Net assets beginning of year				<u>5,640,347</u>	<u>133,375</u>	<u>5,773,722</u>
Net assets end of year				<u>\$ 6,063,286</u>	<u>132,037</u>	<u>6,195,323</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, 2010

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 1,285,349	791,045	301,015	2,377,409
Receivables:				
Property tax:				
Delinquent	32,229	0	10,282	42,511
Succeeding year	2,010,201	0	350,782	2,360,983
Accounts	102,256	0	0	102,256
Due from other governments	0	170,025	0	170,025
Total Assets	\$ 3,430,035	961,071	662,079	5,053,184
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 64,417	5,375	19,731	89,523
Salaries and benefits payable	496,384	0	0	496,384
Deferred revenue:				
Succeeding year property tax	2,010,201	0	350,782	2,360,983
Total liabilities	2,571,003	5,375	370,513	2,946,891
Fund balances:				
Reserved for:				
Categorical Funding	187,016	0	0	187,016
Debt service	0	0	6,272	6,272
Unreserved:				
Designated for special purpose	16,460	0	0	16,460
Undesignated:				
General fund	655,556	0	0	655,556
Capital Projects fund	0	955,696	0	955,696
Other Special Revenue Purposes	0	0	285,294	285,294
Total fund balances	859,032	955,696	291,566	2,106,294
Total Liabilities and Fund Balances	\$ 3,430,035	961,071	662,079	5,053,184

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, 2010

Total fund balances of governmental funds (page 20) \$ 2,106,294

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds. 6,496,872

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. (20,749)

Long-term liabilities, including bonds and notes payable, other postemployment payable and bus lease payable are not due and payable in the current period and, therefore, are not reported in the funds. (2,519,131)

Net assets of governmental activities (page 18) \$ 6,063,286

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, 2010

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,687,486	279,781	541,896	2,509,163
Tuition	396,955	0	0	396,955
Other	81,737	5,339	169,369	256,445
State sources	2,790,223	115,010	0	2,905,233
Federal sources	414,884	0	0	414,884
Total revenues	<u>5,371,285</u>	<u>400,130</u>	<u>711,265</u>	<u>6,482,680</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,659,127	0	0	2,659,127
Special	689,498	0	0	689,498
Other	502,171	0	182,448	684,619
	<u>3,850,796</u>	<u>0</u>	<u>182,448</u>	<u>4,033,244</u>
Support services:				
Student	91,797	0	0	91,797
Instructional staff	123,213	0	0	123,213
Administration	569,325	516	800	570,641
Operation and maintenance of plant	382,203	9,495	136,677	528,375
Transportation	144,288	0	0	144,288
	<u>1,310,826</u>	<u>10,011</u>	<u>137,477</u>	<u>1,458,314</u>
Other expenditures:				
Facilities acquisitions	0	17,999	0	17,999
Long-term debt:				
Principal	0	0	274,713	274,713
Interest and fiscal charges	0	0	131,813	131,813
AEA flowthrough	240,207	0	0	240,207
	<u>240,207</u>	<u>17,999</u>	<u>406,526</u>	<u>664,732</u>
Total expenditures	<u>5,401,829</u>	<u>28,010</u>	<u>726,451</u>	<u>6,156,290</u>
Excess(deficiency) of revenues over(under)expenditures	(30,544)	372,120	(15,186)	326,390
Other financing sources(uses):				
Transfers in	0	0	135,922	135,922
Transfers out	0	(108,975)	(26,947)	(135,922)
Total other financing sources(uses)	<u>0</u>	<u>(108,975)</u>	<u>108,975</u>	<u>0</u>
Net change in fund balances	(30,544)	263,145	93,789	326,390
Fund balance beginning of year	<u>889,576</u>	<u>692,551</u>	<u>197,777</u>	<u>1,779,904</u>
Fund balance end of year	<u>\$ 859,032</u>	<u>955,696</u>	<u>291,566</u>	<u>2,106,294</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, 2010

Net change in fund balances - total governmental funds (page 22) \$ 326,390

*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	\$ 120,023	
Depreciation expense	<u>(267,676)</u>	(147,653)

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.

Repaid	<u>274,713</u>	274,713
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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.

2,814

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:

Other Postemployment Benefits		<u>(33,325)</u>
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Changes in net assets of governmental activities (page 19) \$ 422,939

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	School Nutrition
Assets	
Cash and pooled investments	\$ 32,234
Accounts receivable	2,875
Inventories	9,295
Capital assets, net of accumulated depreciation	97,952
Total Assets	142,356
 Liabilities	
Salaries and benefits payable	3,551
Unearned revenue	5,142
Net OPEB Liability	1,626
Total Liabilities	10,319
 Net Assets	
Invested in capital assets	97,952
Unrestricted	34,085
Total Net Assets	\$ 132,037

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, 2010

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 256,992
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	112,015
Benefits	38,229
Services	2,409
Supplies	199,709
Depreciation	15,169
Total operating expenses	367,531
Operating loss	(110,539)
Non-operating revenues:	
State sources	2,990
Federal sources	106,138
Interest on investments	73
Total non-operating revenues	109,201
Change in net assets	(1,338)
Net assets beginning of year	133,375
Net assets end of year	\$ 132,037

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 251,057
Cash received from miscellaneous operating activities	2,477
Cash payments to employees for services	(145,091)
Cash payments to suppliers for goods or services	(168,391)
Net cash used in operating activities	(59,948)
Cash flows from non-capital financing activities:	
State grants received	2,990
Federal grants received	76,931
Net cash provided used in non-capital financing activities	79,921
Cash flows from investing activities:	
Interest on investments	73
Net increase in cash and cash equivalents	20,046
Cash and cash equivalents at beginning of year	12,188
Cash and cash equivalents at end of year	\$ 32,234
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (110,539)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	29,207
Depreciation	15,169
Decrease in inventories	4,568
Increase in accounts receivable	(2,678)
Decrease in accounts payable	(48)
Increase in salaries and benefits payable	3,527
Increase in net OPEB liability	1,626
Decrease in unearned revenue	(780)
Net cash used in operating activities	\$ (59,948)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$29,207.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2010

	Private Purpose Trust	Scholarship
Assets		
Cash and pooled investments	\$ 39,000	
Accounts receivable		1,500
Total Assets		<u>40,500</u>
Liabilities		
Accounts Payable		<u>40,500</u>
Net Assets		
Unrestricted	\$	<u><u>0</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2010

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Donations	\$ 51,586
Deductions:	
Scholarships	51,750
Change in net assets	(164)
Net assets beginning of year	164
Net assets end of year	\$ 0

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

(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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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, equipment, and intangibles 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
Intangibles	25,000
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
Intangibles	5-10 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, 2010 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, 2010, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 376,653

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, 2010 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	108,975
Debt Service	Special Revenue: Physical Plant and Equipment Levy	26,947
		<u>\$ 135,922</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 bus lease.

Capital Projects transferred funds for the payment of principal and interest on the Capital Loan Notes.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2010 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/amortized:				
Buildings	8,727,848	26,740	0	8,754,588
Improvements other than buildings	186,107	0	0	186,107
Machinery and equipment	926,554	93,283	0	1,019,837
Total capital assets being depreciated	<u>9,840,509</u>	<u>120,023</u>	<u>0</u>	<u>9,960,532</u>
Less accumulated depreciation/amortization for:				
Buildings	2,614,693	189,156	0	2,803,849
Improvements other than buildings	140,213	10,632	0	150,845
Machinery and equipment	815,008	67,888	0	882,896
Total accumulated depreciation/amortization	<u>3,569,914</u>	<u>267,676</u>	<u>0</u>	<u>3,837,590</u>
Total capital assets being depreciated/amortized, net	<u>6,270,595</u>	<u>(147,653)</u>	<u>0</u>	<u>6,122,942</u>
Governmental activities capital assets, net	<u>\$ 6,644,525</u>	<u>(147,653)</u>	<u>0</u>	<u>6,496,872</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	90,460	15,169	0	105,629
Business type activities capital assets, net	\$ 113,121	(15,169)	0	97,952

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 5,796
Support services:		
Administrative		6,546
Operation and maintenance of plant		15,516
Transportation		40,030
		67,888
Unallocated depreciation		199,788
		<u>267,676</u>
Total governmental activities depreciation/amortization expense		\$ 267,676
Business type activities:		
Food services		\$ 15,169

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General Obligation Bond	\$ 2,415,000	0	155,000	2,260,000	160,000
Capital Loan Note	295,000	0	95,000	200,000	100,000
Bus Lease	50,519	0	24,713	25,806	25,806
Net OPEB Liability	0	33,325	0	33,325	0
Total	\$ 2,760,519	33,325	274,713	2,519,131	285,806

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB Liability	\$ 0	1,626	0	1,626	0

Capital Loan Notes

Details of the District's June 30, 2010 Capital Loan Note indebtedness that is paid by the Physical Plant and Equipment Levy Fund is as follows:

Year	Issue dated February 1, 2002			
Ending	Interest			
June 30,	Rates	Principal	Interest	Total
2011	4.60	\$ 100,000	9,300	109,300
2012	4.70	100,000	4,700	104,700
Total		\$ 200,000	14,000	214,000

General Obligation Bonds Payable

Details of the District's June 30, 2010 General Obligation bonded indebtedness is as follows:

Year	Issue dated February 1, 2002			
Ending	Interest			
June 30,	Rates	Principal	Interest	Total
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		\$ 2,260,000	721,310	2,981,310

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, 2010 are as follows:

Year	Bus Lease			
Ending	Interest			
June 30,	Rates	Principal	Interest	Total
2011	4.42	\$ 25,806	1,141	26,947

(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 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered payroll for the years ended June 30, 2010, 2009, 2008. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$230,309, \$220,233, and \$195,403, respectively, equal to the required contributions for each year.

(7) Other Post-employment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 83 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize and unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 34,951
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost	<u>34,951</u>
Contributions made	0
Increase in net OPEB obligation	<u>34,951</u>
Net OPEB obligation beginning of year	<u>0</u>
Net OPEB obligation end of year	<u><u>\$ 34,951</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$0 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 34,951	0.00%	\$ 34,951

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$212,402, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$212,042. The covered payroll (annual payroll of active employees covered by the plan) was \$3,114,487, and the ratio of the UAAL to covered payroll was 6.81%. As of June 30, 2010 there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of event far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were based upon national termination studies performed by the Society of Actuaries.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(8) 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.

(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 \$240,207 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Categorical Funding

The District's ending reserved balances for categorical funding as of June 30, 2010 are broken out by the following projects:

Project	Amount
Talented and gifted	23,200
Beginning teacher mentoring	469
Salary Improvement Program	33,964
Core Curriculum	18,750
Dropout prevention	68,080
Professional development	42,553
Total Reserved for Categorical Funding	<u>\$ 187,016</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, 2010

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 3,162,562	257,066	3,419,628	4,088,563	4,088,563	(668,935)
State sources	2,905,233	2,990	2,908,223	3,578,703	3,578,703	(670,480)
Federal sources	414,885	106,138	521,023	317,000	317,000	204,023
Total revenues	6,482,680	366,193	6,848,873	7,984,266	7,984,266	(1,135,393)
Expenditures/Expenses:						
Instruction	4,033,243	0	4,033,243	4,302,291	4,302,291	269,048
Support services	1,456,470	0	1,456,470	2,498,642	2,498,642	1,042,172
Non-instructional programs	0	367,531	367,531	651,359	651,359	283,828
Other expenditures	666,577	0	666,577	1,026,053	1,026,053	359,476
Total expenditures/expenses	6,156,290	367,531	6,523,821	8,478,345	8,478,345	1,954,524
Excess(deficiency) of revenues over(under) expenditures/expenses	326,390	(1,338)	325,052	(494,079)	(494,079)	819,131
Other financing sources, net	0	0	0	3,000	3,000	(3,000)
Excess(deficiency)of revenues and other financing sources over(under)expenditures/expenses	326,390	(1,338)	325,052	(491,079)	(491,079)	816,131
Balance beginning of year	1,779,904	133,375	1,913,279	1,669,164	1,669,164	244,115
Balance end of year	\$ 2,106,294	132,037	2,238,331	1,178,085	1,178,085	1,060,246

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

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.

EARLHAM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2010

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ 0	\$ 212,402	\$ 212,402	0.00%	\$ 3,114,488	6.82%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	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	\$ 96,484	55,116	148,239	299,839	1,176	301,015
Receivables:						
Property tax:						
Delinquent	1,701	0	3,485	5,186	5,096	10,282
Succeeding year	80,777	0	168,470	249,247	101,535	350,782
Total Assets	\$ 178,962	55,116	320,194	554,272	107,807	662,079
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 0	5,304	14,427	19,731	0	19,731
Deferred revenue:						
Succeeding year property tax	80,777	0	168,470	249,247	101,535	350,782
Total liabilities	80,777	5,304	182,897	268,978	101,535	370,513
Fund balances:						
Reserved for debt service	0	0	0	0	6,272	6,272
Unreserved fund balances	98,185	49,812	137,297	285,294	0	285,294
Total fund balances	98,185	49,812	137,297	285,294	6,272	291,566
Total Liabilities and Fund Balances	\$ 178,962	55,116	320,194	554,272	107,807	662,079

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, 2010

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 89,352	0	183,116	272,468	269,428	541,896
Other	499	167,821	699	169,019	350	169,369
TOTAL REVENUES	89,851	167,821	183,815	441,487	269,778	711,265
EXPENDITURES:						
Current:						
Instruction:						
Other	0	149,780	32,668	182,448	0	182,448
Support services:						
Administration	0	0	0	0	800	800
Operation and maintenance of plant	84,634	0	52,043	136,677	0	136,677
Long-term debt:						
Principal	0	0	0	0	274,713	274,713
Interest and fiscal charges	0	0	0	0	131,813	131,813
TOTAL EXPENDITURES	84,634	149,780	84,711	319,125	407,326	726,451
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,217	18,041	99,104	122,362	(137,548)	(15,186)
OTHER FINANCING SOURCES (USES):						
Transfers in	0	0	0	0	135,922	135,922
Transfers out	0	0	(26,947)	(26,947)	0	(26,947)
Total other financing sources (uses)	0	0	(26,947)	(26,947)	135,922	108,975
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	5,217	18,041	72,157	95,415	(1,626)	93,789
FUND BALANCE BEGINNING OF YEAR	92,968	31,771	65,140	189,879	7,898	197,777
FUND BALANCE END OF YEAR	\$ 98,185	49,812	137,297	285,294	6,272	291,566

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- -tures	Balance End of Year
Athletic	\$ 56	78,622	74,132	4,546
Drill Team	939	3,057	3,036	960
General Student Activity	721	6,223	6,154	790
Drama	6,510	5,752	5,061	7,201
Flags	229	326	153	402
High School Music Trip	0	9,564	7,950	1,614
Jack Oatts Festival	2,160	7,035	7,389	1,806
Cheerleaders	498	5,463	5,916	45
FFA	10,432	8,010	13,640	4,802
FCCLA	2,427	1,903	2,411	1,919
National Honors Society	518	205	282	441
Annual	80	7,438	6,144	1,374
International Trip	0	3,230	3,230	0
Science Club	205	0	40	165
Art Club	255	908	1,144	19
Spanish Club	137	205	311	31
High School Student Council	4,149	22,470	5,803	20,816
Middle School Student Council	991	3,677	2,853	1,815
Class of 2010	659	0	659	0
Class of 2011	805	1,000	1,263	542
Class of 2012	0	2,733	2,209	524
Total	\$ 31,771	167,821	149,780	49,812

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 SEVEN YEARS

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 2,509,163	2,410,896	2,230,997	2,078,124	2,047,415	1,818,495	1,621,106
Tuition	396,955	355,381	347,771	333,225	384,846	336,582	329,086
Other	256,445	262,524	311,747	401,244	259,814	293,339	338,103
State sources	2,905,233	3,453,417	3,309,388	2,983,782	2,626,931	2,258,234	2,158,150
Federal sources	414,884	192,801	142,997	128,331	111,875	132,318	92,648
Total	\$ 6,482,680	6,675,019	6,342,900	5,924,706	5,430,881	4,838,968	4,539,093
Expenditures:							
Current:							
Instruction:							
Regular	\$ 2,659,127	2,664,548	2,589,742	2,289,655	2,136,718	1,866,121	1,716,357
Special	689,498	591,899	539,737	540,525	425,315	534,336	473,000
Other	684,619	688,507	655,987	681,938	569,161	481,314	447,460
Support services:							
Student	91,797	76,014	71,135	82,723	78,266	71,110	68,760
Instructional staff	123,213	112,008	109,127	114,410	117,377	113,857	87,247
Administration	570,641	586,681	625,624	564,344	550,297	516,682	464,359
Operation and maintenance							
of plant	528,375	481,119	520,895	557,528	510,278	645,614	684,453
Transportation	144,288	254,955	192,214	160,321	141,083	152,665	112,968
Central	0	0	0	0	0	0	52,942
Other expenditures:							
Facilities acquisitions	17,999	66,849	677,155	19,452	38,921	353,456	2,246,520
Long-term debt:							
Principal	274,713	266,947	233,895	220,000	210,000	200,000	190,000
Interest and other charges	131,813	140,288	150,126	167,259	177,934	177,359	186,309
AEA flow-through	240,207	223,403	207,424	188,419	170,580	149,175	146,376
Total	\$ 6,156,290	6,153,218	6,573,061	5,586,574	5,125,930	5,261,689	6,876,751

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2010

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	\$ 5,450
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	100,688 *
			<u>106,138</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I, PART A CLUSTER:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1701-G	22,608
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	4,998
			<u>27,606</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 10	<u>4,181</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 10	<u>1,156</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 10	<u>13,795</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 10	<u>4,245</u>
ARRA - STATE FISCAL STABILIZATION FUND(SFSF) EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	<u>261,014</u>
RURAL EDUCATION ACHIEVEMENT PROGRAM	84.358	FY 10	<u>3,539</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION CLUSTER (IDEA)			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 10	31,168
ARRA - SPECIAL EDUCATION GRANTS TO STATES, RECOVERY ACT	84.391	FY 10	68,180
			<u>99,348</u>
TOTAL			<u>\$ 521,022</u>

* - Includes \$29,207 of non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Earlham Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

To the Board of Education of 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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 10, 2011. 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Finding and Questioned Costs as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Finding and Questioned Costs as items II-B-10 and II-C-10 to be significant deficiencies.

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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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 and Questioned Costs. 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, and 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 10, 2011

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Earlham Community School District

Compliance

We have audited the compliance of Earlham Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Earlham Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Earlham Community School District's management. Our responsibility is to express an opinion on Earlham Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Earlham Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Earlham Community School District's compliance with those requirements.

In our opinion, Earlham Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Earlham Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Earlham Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Earlham Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over compliance that might be significant deficiencies or material weaknesses and, therefore there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Finding and Questionable Costs as item III-A-10 as a material weakness.

Earlham Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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, and is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

January 10, 2011

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

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.394 – ARRA – State Fiscal Stabilization Fund - Education State Grants, Recovery Act.
 - Clustered Programs:
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.553 - School Breakfast Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Earlham Community School District did not qualify as a low-risk auditee.

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 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 segregate duties as much as possible with two part-time and one full time employee. We will continue to look for ways to modify our business procedures.

Conclusion - Response accepted.

II-B-10 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. Cash boxes with a set amount and audit slip are used for every event. 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. They are brought to the central office or placed in a safe in a secure location in the building. We will continue to monitor our procedures and implement further controls where possible.

Conclusion - Response acknowledged

II-C-10 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.

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

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

Conclusion - Response accepted.

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.394: ARRA – State Fiscal Stabilization Fund – Education State Grants,
Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2010
U.S. Department of Agriculture
Passed through the Iowa Department of Education

III-A-10 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 duties of two individuals include preparing checks and recording the transactions in the general ledger.

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

Response - We segregate duties as much as possible with two part-time and one full time employee. We will continue to look for ways to modify our business procedures.

Conclusion - Response accepted.

EARLHAM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-10 Certified Budget - District disbursements for the year ended June 30, 2010, did not exceed the amount budgeted.
- IV-B-10 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.
- IV-C-10 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.
- IV-D-10 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 | \$235 |
- 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
- IV-E-10 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.
- IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-10 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-10 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-10 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.
- IV-J-10 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.
- IV-K-10 Categorical Funding - No instance were noted of categorical funding being used to supplant rather than supplement other funds.
- IV-L-10 Statewide Sales, Services and Use 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, 2010, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning Balance		\$ 280,647
Statewide sales and servicing tax revenue		279,781
Expenditures/transfers out:		
School Infrastructure		
Equipment	\$ 9,495	
Other improvements	18,515	
Debt service for school infrastructure:		
Capital loan note	108,975	<u>136,985</u>
Ending Balance		<u>\$ 423,443</u>

As a result of the statewide sales, service and use tax revenue received during the year ended June 30, 2010 the District reduced the following levy:

	<u>Per \$1000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Physical plant and equipment levy	0.34000	\$ 47,154

IV-M-10 Sports camps - We noted during our audit that the District currently has sports camps/clinics which are handled as both a school sponsored camp and privately sponsored camp using the District facilities.

Recommendation - Although a District may have District sponsored or privately sponsored camps, it is essential that the District adopt policies and procedures with regard to these activities. We would recommend that the District be consistent in the operating of camps to eliminate confusion to participants as well as the staff in understanding what guidelines are to be followed.

Advertisements and other materials related to the sports camp should clearly identify or distinguish whether it is a District-sponsored sports camp or privately-sponsored sport camp using the District facilities.

If a District is sponsoring camps the Board should approve the salaries along with the approval to the hold the sports camp. Revenue for fees collected should be deposited and recorded in the Student Activity Fund. All sports camps related expenses would require prior approval and payments would be processed through the normal disbursement process. Salaries for District personnel should be negotiated in advance and salary payments should be made through normal payroll process, subject to withholdings. Wages would be reported on the employee's W-2 at year-end. Non-employees do not need to be paid through payroll, provided they meet the criteria for an independent contractor. However, a 1099 should be issued at year-end if applicable depending on the amount paid.

Sports camp fees should be based on actual costs anticipated and fees would be established to at least break-even. Excess funds (profits), if any, should be retained by the

District in the Student Activity Fund and not remitted or retained by the sports camp coaching staff.

If the District chooses to have privately sponsored camps the contract between the sports camp facilitator and District should address facility and equipment use and rental fees; insurance and other costs of conducting the sports camp. The sports camp facilitator would need to rent the facility for the sports camp pursuant to Chapter 297.9 and 297.10 of the Code of Iowa and the District's policy. The sports camp facilitator would need to provide a certificate of insurance for liability coverage. The insurance coverage is essential, to mitigate the District's liability.

Response - The coaching staff each uses the camps as a fundraiser for their individual sports. To ensure consistency with our procedures, we will make sure that all camps are handled the same way and run through the school so there is no question about responsibility or liability. The coaches will turn in all receipts to the business office and do all purchasing in accordance with the district purchasing procedures.

Conclusion – Response accepted.

IV-N-10 Use of District Property - We noted that teachers appear to be using the District facilities as a site for their personal business activities which they charge fees, such as summer lessons, however do not pay rent for the use of the facility nor do they appear to provide proof of liability insurance.

Recommendation -The District should collect rent and require a certificate of insurance for liability coverage when a privately sponsored activity is conducted on the District property. The District should review the policies and procedures in place and make necessary changes.

Response – We will consult legal counsel and others to determine how best to handle private lessons on school property and put those procedures in place. We will make sure that the procedure decided on will be communicated to those who will be impacted.

Conclusion - Response accepted.