

EARLHAM COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2011

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Earlham Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Mike Madren	President	2011
David Morford	Vice President	2011
Kevin Curran	Board Member	2011
Teresa Waldron	Board Member	2013
Kathy Woolcott	Board Member	2013
<b>School Officials</b>		
Mike Wright	Superintendent	2011
Jodi Stroud	District Secretary and Business Manager	2011
Ahlers & Cooney, P.C.	Attorney	2011

*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, 2011, 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, the business type activities, each major fund and the aggregate remaining fund information of Earlham Community School District at June 30, 2011, 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 February 8, 2012 on our consideration of Earlham Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 46 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 seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in schedules 1 through 6 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.

Handwritten signature in black ink, reading "Nolte, Cornman & Johnson PC". The signature is written in a cursive style with a large, stylized "N" and "J".

NOLTE, CORNMAN & JOHNSON, P.C.

February 8, 2012

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

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Earlham Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$5,371,285 in fiscal 2010 to \$5,900,288 in fiscal 2011, while General Fund expenditures increased from \$5,401,829 in fiscal 2010 to \$5,511,245 in fiscal 2011. This resulted in an increase in the District's General Fund balance from \$859,032 in fiscal 2010 to a balance of \$1,248,075 in fiscal 2011, a 45.29% increase over the prior year.
- The District's solvency ratio increased from 12.20% in 2010 to 18.78% in 2011.

### **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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the non-major governmental funds.

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

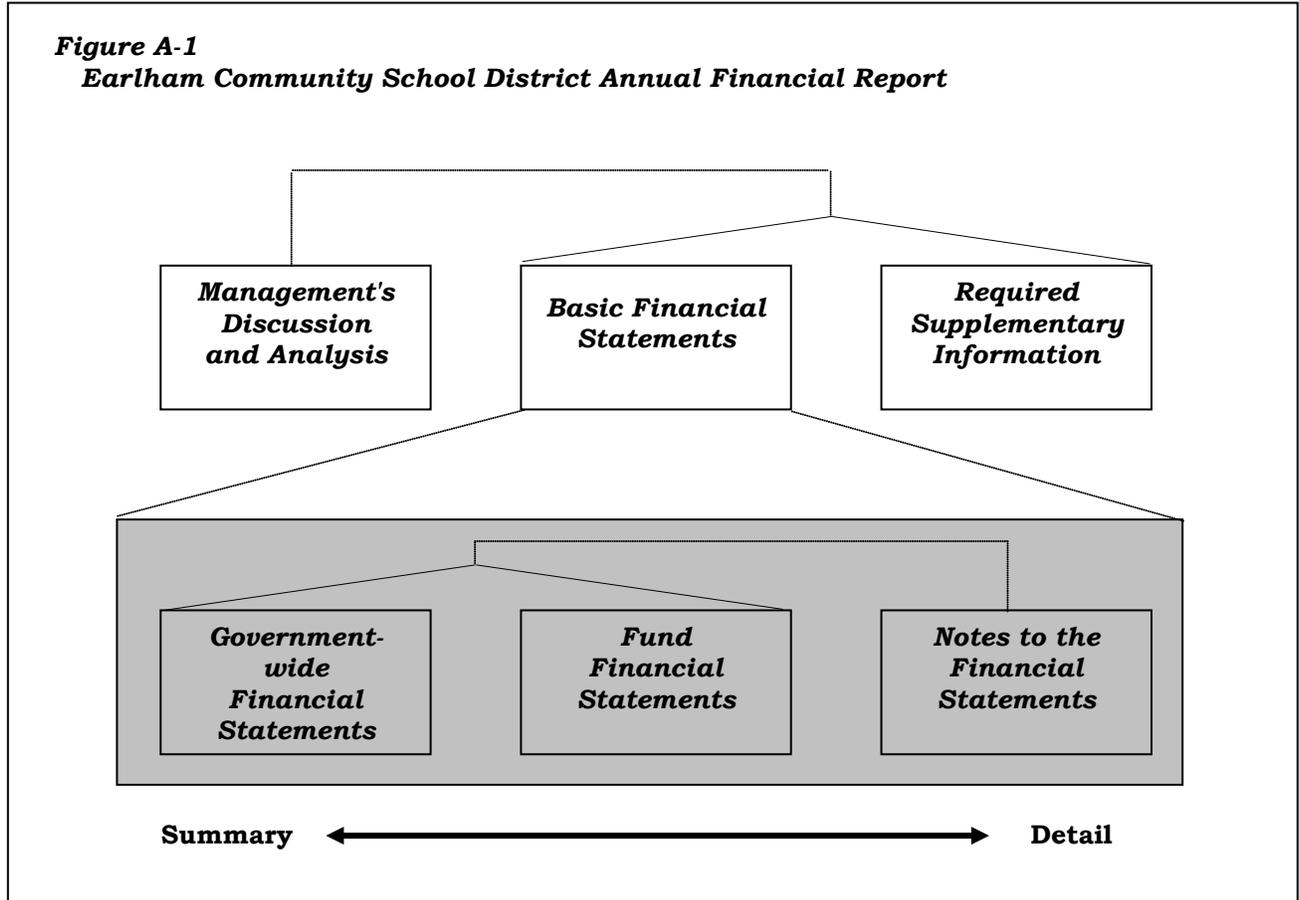


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	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.

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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 three 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's proprietary funds include the School Nutrition Fund and Internal Service 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, 2011 compared to June 30, 2010.

Figure A-3 Condensed Statement of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 7,408,224	5,053,184	33,075	44,404	7,441,299	5,097,588	45.98%
Capital assets	6,597,286	6,496,872	89,344	97,952	6,686,630	6,594,824	1.39%
Total assets	14,005,510	11,550,056	122,419	142,356	14,127,929	11,692,412	20.83%
Long-term obligations	4,392,472	2,519,131	3,379	-	4,395,851	2,519,131	74.50%
Other liabilities	3,095,582	2,967,639	8,891	10,319	3,104,473	2,977,958	4.25%
Total liabilities	7,488,054	5,486,770	12,270	10,319	7,500,324	5,497,089	36.44%
Net assets:							
Invested in capital assets, net of related debt	2,367,286	4,011,066	89,344	97,952	2,456,630	4,109,018	-40.21%
Restricted	3,114,482	1,434,278	-	-	3,114,482	1,434,278	117.15%
Unrestricted	1,035,688	617,942	20,805	34,085	1,056,493	652,027	62.03%
Total net assets	\$ 6,517,456	6,063,286	110,149	132,037	6,627,605	6,195,323	6.98%

The District's combined net assets increased 6.98% or \$432,282 over the prior year. A large portion of the District's net assets is 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 \$1,680,204 or 117.15% from the prior year. The main reason for the increase was growth in the Debt Service Fund balance resulting from the issuance of \$2,030,000 of crossover refunding general obligation bonds during the year.

Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements increased approximately \$404,466 or 62.03%. This is largely a result of the increase in the General Fund unassigned fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 as compared to the year ended June 30, 2010.

	Figure A-4						
	Changes of Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
2011	2010	2011	2010	2011	2010	2010-11	
Revenues:							
Program revenues:							
Charges for services	\$ 540,435	580,305	253,088	256,992	793,523	837,297	-5.23%
Operating grants and contributions and restricted interest	400,128	770,101	106,571	109,128	506,699	879,229	-42.37%
General revenues:							
Property tax	2,357,741	2,229,382	-	-	2,357,741	2,229,382	5.76%
Statewide sales, services and use tax	458,601	279,781	-	-	458,601	279,781	63.91%
Unrestricted state grants	2,853,527	2,550,016	-	-	2,853,527	2,550,016	11.90%
Nonspecific program federal grants	182,311	-	-	-	182,311	-	100.00%
Unrestricted investment earnings	17,387	14,635	37	73	17,424	14,708	18.47%
Other	77,041	58,460	-	-	77,041	58,460	31.78%
Total revenues	<u>6,887,171</u>	<u>6,482,680</u>	<u>359,696</u>	<u>366,193</u>	<u>7,246,867</u>	<u>6,848,873</u>	<u>5.81%</u>
Program expenses:							
Governmental activities:							
Instructional	4,210,431	4,057,446	-	-	4,210,431	4,057,446	3.77%
Support services	1,620,719	1,427,065	-	-	1,620,719	1,427,065	13.57%
Non-instructional programs	-	-	381,584	367,531	381,584	367,531	3.82%
Other expenses	601,851	575,230	-	-	601,851	575,230	4.63%
Total expenses	<u>6,433,001</u>	<u>6,059,741</u>	<u>381,584</u>	<u>367,531</u>	<u>6,814,585</u>	<u>6,427,272</u>	<u>6.03%</u>
Change in net assets	454,170	422,939	(21,888)	(1,338)	432,282	421,601	2.53%
Net assets beginning of year	<u>6,063,286</u>	<u>5,640,347</u>	<u>132,037</u>	<u>133,375</u>	<u>6,195,323</u>	<u>5,773,722</u>	<u>7.30%</u>
Net assets at end of year	<u>\$ 6,517,456</u>	<u>6,063,286</u>	<u>110,149</u>	<u>132,037</u>	<u>6,627,605</u>	<u>6,195,323</u>	<u>6.98%</u>

In fiscal 2011, property tax, statewide sales and services tax, and unrestricted state grants accounted for 82.33% of the revenue from governmental activities while charges for service, sales, and operating grants and contributions account for 99.99% of the revenue from business type activities.

The District's total revenues were approximately \$7.25 million, of which approximately \$6.89 million was for governmental activities and approximately \$0.36 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.81% increase in revenues and a 6.03% increase in expenses. The increase in expenses is related to increases in negotiated salaries and benefits.

## Governmental Activities

Revenues for governmental activities were \$6,887,171 and expenses were \$6,433,001. In a difficult budget year, the District was able to balance the budget by limiting expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2009-10	2011	2010	Change 2010-11
Instruction	\$ 4,210,431	4,057,446	3.77%	3,518,401	2,947,247	19.38%
Support services	1,620,719	1,427,065	13.57%	1,615,627	1,427,065	13.21%
Other expenses	601,851	575,230	4.63%	358,410	335,023	6.98%
Totals	\$ 6,433,001	6,059,741	6.16%	5,492,438	4,709,335	16.63%

- The cost financed by users of the District's programs was \$540,435.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$400,128.
- The net cost of governmental activities was financed with \$2,357,741 in property tax, \$458,601 in statewide sales, services and use tax, \$2,853,527 in unrestricted state grants, \$182,311 in nonspecific program federal grants, \$17,387 in investment earnings, and \$77,041 in other general revenues.

## Business Type Activities

Revenues of the District's business type activities were \$359,696 and expenses were \$381,584. 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 \$4,317,579, above last year's ending fund balances of \$2,106,294. The increase resulted in part from the District issuing \$2,030,000 of crossover refunding general obligation bonds during the year which will be used to repay a portion of the general obligation bonds issued February 1, 2002 when they become callable on May 1, 2012.

## Governmental Fund Highlights

- The General Fund balance increased from \$859,032 in fiscal 2010 to \$1,248,075 in fiscal 2011. The increase was due primarily to increases in local and state sources of revenue.

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- The Capital Projects Fund balance decreased from restated \$1,092,993 at the beginning of fiscal year 2011 to \$972,194 at the end of fiscal year 2011. The beginning balance was restated as a result of the Physical Plant and Equipment Levy Fund reclassification as a Capital Projects Fund account in accordance with GASB Statement No. 54. Increased expenditures for school infrastructure were the main cause for the decline in fund balance. The Statewide Sales, Services and Use Tax Fund revenues increased \$64,467 and expenses increased \$384,026 when compared to the previous year. Physical Plant and Equipment Levy Fund revenues increased \$53,261 and expenses increased \$189,803 when compared to the previous year.
  - The Debt Service Fund balance increased to \$1,977,471 at June 30, 2011 from \$6,272 at June 30, 2010. The increase was the result of the sale of \$2,030,000 of cross-over refunding general obligation bonds that will be used to pay off the remaining portion of general obligation bonds issued February 1, 2002. More details of the crossover refunding are available in Note 5 to the financial statements.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$132,037 at June 30, 2010 to \$110,149 at June 30, 2011, representing a decrease of 16.58%.

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 \$991,641 less than budgeted revenues, a variance of 12.04%. The shortfall can be attributed to the District receiving less local and state source revenues than were originally anticipated.

Total expenditures were \$1,162,604 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, 2011 the District had invested \$6,686,630, 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 \$276,336.

The original cost of the District's capital assets was \$10,906,185. Governmental funds account for \$10,695,579 with the remainder of \$210,606 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$492,693 at June 30, 2011, compared to \$234,893 reported at June 30, 2010. A large portion of the increase can be attributed to the purchase of several smart boards to be used in instructional classrooms.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 373,930	373,930	-	-	373,930	373,930	0.00%
Buildings	5,774,173	5,950,739	-	-	5,774,173	5,950,739	-2.97%
Improvements other than buildings	45,834	35,262	-	-	45,834	35,262	29.98%
Machinery and equipment	403,349	136,941	89,344	97,952	492,693	234,893	109.75%
Total	\$ 6,597,286	6,496,872	89,344	97,952	6,686,630	6,594,824	1.39%

### Long-Term Debt

At June 30, 2011, the District had \$4,395,851 in general obligation, and other long-term debt outstanding. This represents an increase of 74.39% 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

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
General obligation bonds	\$ 4,130,000	2,260,000	-	-	4,130,000	2,260,000	82.74%
Capital loan note	100,000	200,000	-	-	100,000	200,000	-50.00%
Bus lease	-	25,806	-	-	-	25,806	-100.00%
Computer lease	68,193	-	-	-	68,193	-	100.00%
Early retirement	26,636	-	-	-	26,636	-	100.00%
Net OPEB Liability	67,643	33,325	3,379	1,626	71,022	34,951	103.20%
	\$ 4,392,472	2,519,131	3,379	1,626	4,395,851	2,520,757	74.39%

### 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:

- The District continues to discuss a possible track/football field renovation along with new windows for the three-story building.
- The District continues collaboration with neighboring Districts to share educational programs and staff.
- The district continues with its facility wide technology upgrade.
- The challenge for the District with the stagnation of state allowable growth is to prioritize the needs, look closely at the funding resources available in all funds and utilize them fully. Also, try to develop new funding streams through grants.

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

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

BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
U.S. Treasury Securities on deposit with fiscal agent	\$ 1,972,549	-	1,972,549
Cash and cash equivalents	2,724,190	26,332	2,750,522
Receivables			
Property tax:			
Delinquent	29,900	-	29,900
Succeeding year	2,464,289	-	2,464,289
Accounts	-	135	135
Due from other governments	217,296	-	217,296
Inventories	-	6,608	6,608
Capital assets, net of accumulated depreciation	6,597,286	89,344	6,686,630
<b>Total assets</b>	<b>14,005,510</b>	<b>122,419</b>	<b>14,127,929</b>
<b>Liabilities</b>			
Accounts payable	71,660	345	72,005
Salaries and benefits payable	534,550	2,492	537,042
Accrued interest payable	25,083	-	25,083
Deferred revenue:			
Succeeding year property tax	2,464,289	-	2,464,289
Unearned revenue	-	6,054	6,054
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	165,000	-	165,000
Capital loan note	100,000	-	100,000
Computer lease	21,524	-	21,524
Early retirement	5,327	-	5,327
Portion due after one year:			
General obligation bonds payable	3,965,000	-	3,965,000
Computer lease	46,669	-	46,669
Early retirement	21,309	-	21,309
Net OPEB liability	67,643	3,379	71,022
<b>Total liabilities</b>	<b>7,488,054</b>	<b>12,270</b>	<b>7,500,324</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,367,286	89,344	2,456,630
Restricted for:			
Categorical funding	139,807	-	139,807
Debt service levy	1,977,471	-	1,977,471
Management levy	64,677	-	64,677
Student activities	28,526	-	28,526
School infrastructure	831,089	-	831,089
Physical plant and equipment levy	72,912	-	72,912
Unrestricted	1,035,688	20,805	1,056,493
<b>Total net assets</b>	<b>\$ 6,517,456</b>	<b>110,149</b>	<b>6,627,605</b>

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 2,948,545	367,668	88,057	(2,492,820)	-	(2,492,820)
Special	543,999	-	30,851	(513,148)	-	(513,148)
Other	717,887	172,767	32,687	(512,433)	-	(512,433)
	<u>4,210,431</u>	<u>540,435</u>	<u>151,595</u>	<u>(3,518,401)</u>	<u>-</u>	<u>(3,518,401)</u>
Support services:						
Student	92,320	-	-	(92,320)	-	(92,320)
Instructional staff	91,282	-	4,206	(87,076)	-	(87,076)
Administration	657,280	-	-	(657,280)	-	(657,280)
Operation and maintenance of plant	578,927	-	-	(578,927)	-	(578,927)
Transportation	200,910	-	886	(200,024)	-	(200,024)
	<u>1,620,719</u>	<u>-</u>	<u>5,092</u>	<u>(1,615,627)</u>	<u>-</u>	<u>(1,615,627)</u>
Other expenses:						
Long-term debt interest	154,547	-	-	(154,547)	-	(154,547)
AEA flowthrough	243,441	-	243,441	-	-	-
Depreciation(unallocated)*	203,863	-	-	(203,863)	-	(203,863)
	<u>601,851</u>	<u>-</u>	<u>243,441</u>	<u>(358,410)</u>	<u>-</u>	<u>(358,410)</u>
Total governmental activities	6,433,001	540,435	400,128	(5,492,438)	-	(5,492,438)
Business type activities:						
Non-instructional programs:						
Nutrition services	381,584	253,088	106,571	-	(21,925)	(21,925)
Total business type activities	<u>381,584</u>	<u>253,088</u>	<u>106,571</u>	<u>-</u>	<u>(21,925)</u>	<u>(21,925)</u>
Total	\$ <u>6,814,585</u>	<u>793,523</u>	<u>506,699</u>	<u>(5,492,438)</u>	<u>(21,925)</u>	<u>(5,514,363)</u>
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$ 2,088,109	-	2,088,109
Debt service				101,395	-	101,395
Capital outlay				168,237	-	168,237
Statewide sales, services and use tax				458,601	-	458,601
Unrestricted state grants				2,853,527	-	2,853,527
Nonspecific program federal grants				182,311	-	182,311
Unrestricted investment earnings				17,387	37	17,424
Other				77,041	-	77,041
Total general revenues				<u>5,946,608</u>	<u>37</u>	<u>5,946,645</u>
Change in net assets				454,170	(21,888)	432,282
Net assets beginning of year				<u>6,063,286</u>	<u>132,037</u>	<u>6,195,323</u>
Net assets end of year				\$ <u>6,517,456</u>	<u>110,149</u>	<u>6,627,605</u>

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

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	Debt		Capital		Total
	General	Service	Projects	Nonmajor	
<b>Assets</b>					
U.S. Treasury Securities on deposit with fiscal agent	\$ -	1,972,549	-	-	1,972,549
Cash and pooled investments	1,789,575	3,636	788,063	122,770	2,704,044
Receivables:					
Property tax:					
Delinquent	25,458	1,286	2,133	1,023	29,900
Succeeding year	2,100,024	107,629	201,636	55,000	2,464,289
Due from other governments	34,973	-	182,323	-	217,296
<b>Total assets</b>	<b>\$ 3,950,030</b>	<b>2,085,100</b>	<b>1,174,155</b>	<b>178,793</b>	<b>7,388,078</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 67,381	-	325	3,954	71,660
Salaries and benefits payable	534,550	-	-	-	534,550
Deferred revenue:					
Succeeding year property tax	2,100,024	107,629	201,636	55,000	2,464,289
<b>Total liabilities</b>	<b>2,701,955</b>	<b>107,629</b>	<b>201,961</b>	<b>58,954</b>	<b>3,070,499</b>
Fund balances:					
Restricted for:					
Categorical funding	139,807	-	-	-	139,807
Debt service	-	1,977,471	-	-	1,977,471
Management levy purposes	-	-	-	91,313	91,313
Student activities	-	-	-	28,526	28,526
School infrastructure	-	-	899,282	-	899,282
Physical plant and equipment levy	-	-	72,912	-	72,912
Unassigned	1,108,268	-	-	-	1,108,268
<b>Total fund balances</b>	<b>1,248,075</b>	<b>1,977,471</b>	<b>972,194</b>	<b>119,839</b>	<b>4,317,579</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,950,030</b>	<b>2,085,100</b>	<b>1,174,155</b>	<b>178,793</b>	<b>7,388,078</b>

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2011

<b>Total fund balances of governmental funds(page 20)</b>	\$	4,317,579
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		6,597,286
Blending of the Internal Service Fund to be reflected on an entity-wide basis.		20,146
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.		(25,083)
Long-term liabilities, including bonds and notes payable, other postemployment benefits payable, early retirement payable and computer lease payable are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(4,392,472)</u>
<b>Net assets of governmental activities(page 18)</b>	<b>\$</b>	<b><u><u>6,517,456</u></u></b>

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 2,007,443	101,395	626,838	80,666	2,816,342
Tuition	360,328	-	-	-	360,328
Other	113,674	2,344	6,642	171,917	294,577
State sources	3,142,783	-	-	-	3,142,783
Federal sources	273,141	-	-	-	273,141
Total revenues	5,897,369	103,739	633,480	252,583	6,887,171
Expenditures:					
Current:					
Instruction:					
Regular	2,799,400	-	300,798	-	3,100,198
Special	543,999	-	-	-	543,999
Other	525,599	-	-	192,288	717,887
	3,868,998	-	300,798	192,288	4,362,084
Support services:					
Student	91,960	-	-	-	91,960
Instructional staff	90,814	-	-	-	90,814
Administration	631,585	22,221	606	-	654,412
Operation and maintenance of plant	400,351	-	135,016	88,453	623,820
Transportation	184,096	-	12,489	-	196,585
	1,398,806	22,221	148,111	88,453	1,657,591
Other expenditures:					
Facilities acquisitions	-	-	77,863	-	77,863
Long-term debt:					
Principal	-	285,806	-	-	285,806
Interest and fiscal charges	-	135,477	-	-	135,477
AEA flowthrough	243,441	-	-	-	243,441
	243,441	421,283	77,863	-	742,587
Total expenditures	5,511,245	443,504	526,772	280,741	6,762,262
Excess(Deficiency) of revenues over(under)expenditures	386,124	(339,765)	106,708	(28,158)	124,909
Other financing sources(uses):					
Transfer in	-	295,700	-	-	295,700
Transfer out	-	-	(295,700)	-	(295,700)
Sale of equipment	2,919	-	-	-	2,919
Proceeds from computer lease	-	-	68,193	-	68,193
Crossover refunding bond issuance	-	2,030,000	-	-	2,030,000
Discount on crossover refunding bond issuance	-	(15,225)	-	-	(15,225)
Accrued interest on crossover refunding bond issuance	-	489	-	-	489
Total other financing sources(uses)	2,919	2,310,964	(227,507)	-	2,086,376
Net change in fund balances	389,043	1,971,199	(120,799)	(28,158)	2,211,285
Fund balances beginning of year, as restated	859,032	6,272	1,092,993	147,997	2,106,294
Fund balances end of year	\$ 1,248,075	1,977,471	972,194	119,839	4,317,579

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds(page 22) \$ 2,211,285

**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	\$ 361,117	
Depreciation expense	<u>(260,703)</u>	100,414

Net change in Internal Service Fund charged back against expenditures made for self-funded insurance on an entity-wide basis		20,146
--	--	--------

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

Issued	(2,098,193)	
Repaid	<u>285,806</u>	(1,812,387)

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.		(4,334)
--	--	---------

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

Early retirement	(26,636)	
Other postemployment benefits	<u>(34,318)</u>	<u>(60,954)</u>

Changes in net assets of governmental activities(page 19) \$ 454,170

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2011

	Business Type	
	Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	
<b>Assets</b>		
Cash and cash equivalents	\$ 26,332	20,146
Accounts receivable	135	-
Inventories	6,608	-
Capital assets, net of accumulated depreciation	89,344	-
<b>Total assets</b>	<b>122,419</b>	<b>20,146</b>
<b>Liabilities</b>		
Accounts payable	345	-
Salaries and benefits payable	2,492	-
Unearned revenue	6,054	-
Net OPEB liability	3,379	-
<b>Total liabilities</b>	<b>12,270</b>	<b>-</b>
<b>Net Assets</b>		
Invested in capital assets	89,344	-
Unrestricted	20,805	20,146
<b>Total net assets</b>	<b>\$ 110,149</b>	<b>20,146</b>

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2011

	Business Type	
	Activites: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Operating revenues:		
Local sources:		
Charges for services	\$ 253,088	-
Miscellaneous	-	28,444
Total operating revenues	<u>253,088</u>	<u>28,444</u>
Operating expenses:		
Non-instructional programs:		
Salaries	113,801	-
Benefits	38,060	8,346
Purchased services	2,283	-
Supplies	211,807	-
Depreciation	15,633	-
Total operating expenses	<u>381,584</u>	<u>8,346</u>
Operating income(loss)	<u>(128,496)</u>	<u>20,098</u>
Non-operating revenues:		
State sources	2,939	-
Federal sources	103,632	-
Interest on investments	37	48
Total non-operating revenues	<u>106,608</u>	<u>48</u>
Change in net assets	(21,888)	20,146
Net assets beginning of year	<u>132,037</u>	-
Net assets end of year	<u>\$ 110,149</u>	<u>20,146</u>

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2011

	Business Type	
	Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 256,740	-
Cash received from miscellaneous	-	28,444
Cash paid to employees for services	(151,167)	(8,346)
Cash paid to suppliers for goods or services	(186,424)	-
Net cash provided by(used in) operating activities	<u>(80,851)</u>	<u>20,098</u>
Cash flows from non-capital financing activities:		
State grants received	2,939	-
Federal grants received	78,998	-
Net cash provided by non-capital financing activities	<u>81,937</u>	<u>-</u>
Cash flows used by capital and related financing activities:		
Purchase of capital assets	(7,025)	-
Cash flows from investing activities:		
Interest on investments	37	48
Net increase(decrease) in cash and cash equivalents	(5,902)	20,146
Cash and cash equivalents at beginning of year	32,234	-
Cash and cash equivalents at end of year	<u>\$ 26,332</u>	<u>20,146</u>
<b>Reconciliation of operating gain(loss) to net cash provided by(used in) operating activities:</b>		
Operating gain(loss)	\$ (128,496)	20,098
Adjustments to reconcile operating gain(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	24,634	-
Depreciation	15,633	-
Decrease in inventories	2,687	-
Decrease in accounts receivable	2,740	-
Increase in accounts payable	345	-
Decrease in salaries and benefits payable	(1,059)	-
Increase in other postemployment benefits	1,753	-
Increase in unearned revenue	912	-
Net cash provided by(used in) operating activities	<u>\$ (80,851)</u>	<u>20,098</u>

**Non-cash investing, capital and related financing activities:**

During the year ended June 30, 2011, the District received \$24,634 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2011

	Private Purpose Trust
	Scholarship
<b>Assets</b>	
Cash and pooled investments	\$ 250
<b>Liabilities</b>	-
<b>Net Assets</b>	
Reserved for scholarships	\$ 250

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2011

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Gifts and contributions	\$ 41,250
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	41,000
Change in net assets	250
Net assets beginning of year	-
Net assets end of year	\$ 250

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

(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 Organization - 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 interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in the following 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 attributed to the acquisition, construction, or improvement of those assets.

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

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which 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 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, proprietary and fiduciary 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. Combining schedules are also included for the Capital Project Fund accounts.

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 Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

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

The District's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The Nutrition fund is used to account for the food service operations of the

District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

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

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

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

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

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

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 for teachers with annual contracts corresponding to the current school year, which are 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, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

#### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2011 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, 2011, the District had investments in U.S. Treasury Securities which are stated at the fair value of \$1,972,549. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$176,868 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

**(3) Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 160,000
Debt Service	Capital Projects: Physical Plant and Equipment Levy	135,700
		<u>\$ 295,700</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for the principal payment on the District's General Obligation Bond indebtedness.

The transfer from the Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was needed for the principal and interest payments on the District's Capital Loan Note indebtedness and bus lease.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 373,930	-	-	373,930
Total capital assets not being depreciated	373,930	-	-	373,930
Capital assets being depreciated:				
Buildings	8,754,588	14,309	-	8,768,897
Improvements other than buildings	186,107	23,560	-	209,667
Machinery and equipment	1,019,837	323,248	-	1,343,085
Total capital assets being depreciated	9,960,532	361,117	-	10,321,649
Less accumulated depreciation for:				
Buildings	2,803,849	190,875	-	2,994,724
Improvements other than buildings	150,845	12,988	-	163,833
Machinery and equipment	882,896	56,840	-	939,736
Total accumulated depreciation	3,837,590	260,703	-	4,098,293
Total capital assets being depreciated, net	6,122,942	100,414	-	6,223,356
Governmental activities capital assets, net	\$ 6,496,872	100,414	-	6,597,286
<b>Business type activities:</b>				
Machinery and equipment	\$ 203,581	7,025	-	210,606
Less accumulated depreciation	105,629	15,633	-	121,262
Business type activities capital assets, net	\$ 97,952	(8,608)	-	89,344

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 16,405
Support services:		
Administrative		4,738
Operation and maintenance of plant		16,896
Transportation		18,801
		56,840
Unallocated		203,863
Total depreciation expense - governmental activities		\$ 260,703
Business type activities:		
Food service operations		\$ 15,633

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 2,260,000	2,030,000	160,000	4,130,000	165,000
Capital loan note	200,000	-	100,000	100,000	100,000
Bus lease	25,806	-	25,806	-	-
Computer lease	-	68,193	-	68,193	21,524
Early retirement	-	26,636	-	26,636	5,327
Net OPEB liability	33,325	34,318	-	67,643	-
<b>Total</b>	<b>\$ 2,519,131</b>	<b>2,159,147</b>	<b>285,806</b>	<b>4,392,472</b>	<b>291,851</b>
<b>Business type activities:</b>					
Net OPEB liability	\$ 1,626	1,753	-	3,379	-

Capital Loan Notes

Details of the District's June 30, 2011 Capital Loan Note indebtedness that is paid by the Physical Plant and Equipment Levy Fund is as follows:

Year Ending	Interest Rates	Issue dated February 1, 2002		
June 30,		Principal	Interest	Total
2012	4.70	% \$ 100,000	4,700	104,700

General Obligation Bonds Payable

On January 1, 2011, the District issued \$2,030,000 of general obligation refunding bonds, with interest rates ranging from 1.00% to 3.15%, for a crossover refunding of a portion of the general obligation bonds issued February 2, 2002. The District entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$1,935,000 principal of the refunded general obligation bonds when they become callable on May 1, 2012 and the interest from January 1, 2011 to and including May 1, 2012 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished. The present value of savings of the crossover refunding is \$133,595.

Details of the District's June 30, 2011 General Obligation bonded indebtedness is as follows:

Year Ending June 30,	Issue dated February 1, 2002			Issue dated January 1, 2011			Total		
	Interest			Interest			Principal	Interest	Total
	Rates	Principal	Interest	Rates	Principal	Interest			
2012	4.50 %	\$ 165,000	101,829	1.00 %	-	43,975	165,000	145,804	310,804
2013	4.50	175,000	94,404	1.00	210,000	43,975	385,000	138,379	523,379
2014	4.60	185,000	86,529	1.35	215,000	41,875	400,000	128,404	528,404
2015	4.63	195,000	78,019	1.60	220,000	38,973	415,000	116,992	531,992
2016	5.00	200,000	69,000	1.85	215,000	35,452	415,000	104,452	519,452
2017-2021	5.00	1,180,000	182,500	2.10-3.15	1,170,000	101,940	2,350,000	284,440	2,634,440
Total		\$ 2,100,000	612,281		\$ 2,030,000	306,190	4,130,000	918,471	5,048,471

#### Computer Lease

During the year ended June 30, 2011, the District entered into a lease purchase agreement for the purchase of computer equipment. The lease bears an annual interest rate of 5.51% and is payable from the Physical Plant and Equipment Levy. Details of the District's indebtedness under the lease agreement as of June 30, 2011 are as follows:

Year Ending June 30,	Computer Lease				
	Interest				
	Rates	Principal	Interest	Total	
2012	5.51 %	\$ 21,524	3,755	25,279	
2013	5.51	22,709	2,570	25,279	
2014	5.51	23,960	1,319	25,279	
Total		\$ 68,193	7,644	75,837	

#### Early Retirement

The District offered a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-eight and must have completed ten years of continuous service to the District. Employees must submit an application for the early retirement program on or before January 30 of the last year of employment and may be contingent upon approval by the Board of Education. The early retirement incentive for each eligible certified employee is equal to the monthly premium costs for single coverage in the District's group health insurance plan. This benefit will continue for up to seven years or until the retiree is eligible for Medicare coverage or becomes eligible for health insurance coverage from another employer.

#### **(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 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$233,498, \$230,309, and \$220,233, 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 any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Districts OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 38,038
Interest on net OPEB obligation	874
Adjustment to annual required contribution	(2,841)
Annual OPEB cost	<u>36,071</u>
Contributions made	-
Increase in net OPEB obligation	<u>36,071</u>
Net OPEB obligation beginning of year	<u>34,951</u>
Net OPEB obligation end of year	<u>\$ 71,022</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, 2011, neither the District nor plan members eligible for benefits contributed towards the medical plan.

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, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 34,951	0.00%	\$ 34,951
2011	36,071	0.00%	71,022

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, 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 \$3,014,064, and the ratio of the UAAL to covered payroll was 7.04%. As of June 30, 2011 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 frozen entry age 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 \$243,441 for the year ended June 30, 2011 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 restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

Program	Amount
Returning dropouts and dropout prevention program	51,274
Beginning teacher mentoring and induction program	527
Teacher salary supplement	31,126
Professional development for model core curriculum	18,734
Professional development	38,146
Total	<u>\$ 139,807</u>

**(11) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010, as previously stated	\$ 955,696	137,297
Change in fund type classification per implementation of GASB Statement No. 54	137,297	(137,297)
Balances July 1, 2010, as restated	<u>\$ 1,092,993</u>	<u>-</u>

*Earlham Community School District*

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 FUND  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2011

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Actual
<b>Revenues:</b>						
Local sources	\$ 3,471,247	253,125	3,724,372	4,313,732	4,313,732	(589,360)
State sources	3,142,783	2,939	3,145,722	3,552,776	3,552,776	(407,054)
Federal sources	273,141	103,632	376,773	372,000	372,000	4,773
Total revenues	6,887,171	359,696	7,246,867	8,238,508	8,238,508	(991,641)
<b>Expenditures/Expenses:</b>						
Instruction	4,362,084	-	4,362,084	4,416,934	4,416,934	54,850
Support services	1,657,591	-	1,657,591	2,487,368	2,487,368	829,777
Non-instructional programs	-	381,584	381,584	650,000	650,000	268,416
Other expenditures	742,587	-	742,587	752,148	752,148	9,561
Total expenditures/expenses	6,762,262	381,584	7,143,846	8,306,450	8,306,450	1,162,604
Excess(deficiency) of revenues over(under) expenditures/expenses	124,909	(21,888)	103,021	(67,942)	(67,942)	170,963
Other financing sources, net	2,086,376	-	2,086,376	2,000	2,000	2,084,376
Excess(deficiency)of revenues and other financing sources over(under)expenditures/expenses	2,211,285	(21,888)	2,189,397	(65,942)	(65,942)	2,255,339
Balances beginning of year	2,106,294	132,037	2,238,331	1,438,816	1,438,816	799,515
Balances end of year	\$ 4,317,579	110,149	4,427,728	1,372,874	1,372,874	3,054,854

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2011

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, 2011

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	-	\$ 212,402	212,402	0.00%	\$ 3,114,488	6.82%
2011	July 1, 2009	-	212,402	212,402	0.00%	3,014,064	7.04%

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

OTHER SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2011

	Special Revenue		
	Manage-	Student	Total
	ment Levy	Activity	
<b>Assets</b>			
Cash and pooled investments	\$ 90,290	32,480	122,770
Receivables:			
Property tax:			
Delinquent	1,023	-	1,023
Succeeding year	55,000	-	55,000
<b>Total assets</b>	<b>\$ 146,313</b>	<b>32,480</b>	<b>178,793</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ -	3,954	3,954
Deferred revenue:			
Succeeding year property tax	55,000	-	55,000
<b>Total liabilities</b>	<b>55,000</b>	<b>3,954</b>	<b>58,954</b>
Fund balances:			
Restricted for:			
Management levy purposes	91,313	-	91,313
Student activities	-	28,526	28,526
<b>Total fund balances</b>	<b>91,313</b>	<b>28,526</b>	<b>119,839</b>
<b>Total liabilities and fund balances</b>	<b>\$ 146,313</b>	<b>32,480</b>	<b>178,793</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2011

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 80,666	-	80,666
Other	915	171,002	171,917
Total revenues	<u>81,581</u>	<u>171,002</u>	<u>252,583</u>
Expenditures:			
Current:			
Instruction:			
Other	-	192,288	192,288
Support services:			
Operation and maintenance of plant	88,453	-	88,453
Total expenditures	<u>88,453</u>	<u>192,288</u>	<u>280,741</u>
Deficiency of revenues under expenditures	(6,872)	(21,286)	(28,158)
Fund balances beginning of year, as restated	<u>98,185</u>	<u>49,812</u>	<u>147,997</u>
Fund balances end of year	<u>\$ 91,313</u>	<u>28,526</u>	<u>119,839</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 717,284	70,779	788,063
Receivables:			
Property tax:			
Delinquent	-	2,133	2,133
Succeeding year	-	201,636	201,636
Due from other governments	182,323	-	182,323
<b>Total assets</b>	<b>\$ 899,607</b>	<b>274,548</b>	<b>1,174,155</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 325	-	325
Deferred revenue:			
Succeeding year property tax	-	201,636	201,636
<b>Total liabilities</b>	<b>325</b>	<b>201,636</b>	<b>201,961</b>
Fund balances:			
Restricted for:			
School infrastructure	899,282	-	899,282
Physical plant and equipment	-	72,912	72,912
<b>Total fund balances</b>	<b>899,282</b>	<b>72,912</b>	<b>972,194</b>
<b>Total liabilities and fund balances</b>	<b>\$ 899,607</b>	<b>274,548</b>	<b>1,174,155</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENSES  
 AND CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 458,601	168,237	626,838
Other	5,996	646	6,642
Total revenues	<u>464,597</u>	<u>168,883</u>	<u>633,480</u>
Expenditures:			
Current:			
Instruction:			
Regular	164,876	135,922	300,798
Support services:			
Administration	606	-	606
Operation and maintenance of plant	117,666	17,350	135,016
Transportation	-	12,489	12,489
Other expenditures:			
Facilities acquisitions	77,863	-	77,863
Total expenditures	<u>361,011</u>	<u>165,761</u>	<u>526,772</u>
Excess of revenues over expenditures	103,586	3,122	106,708
Other financing sources(uses):			
Transfer out	(160,000)	(135,700)	(295,700)
Proceeds from computer lease	-	68,193	68,193
Total other financing sources(uses)	<u>(160,000)</u>	<u>(67,507)</u>	<u>(227,507)</u>
Net change in fund balances	(56,414)	(64,385)	(120,799)
Fund balances beginning of year, as restated	<u>955,696</u>	<u>137,297</u>	<u>1,092,993</u>
Fund balances end of year	<u>\$ 899,282</u>	<u>72,912</u>	<u>972,194</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletic	\$ 4,546	74,524	77,876	1,194
Drill Team	960	2,980	3,258	682
General Student Activity	790	26	304	512
Drama	7,201	2,205	3,966	5,440
Flags	402	-	239	163
High School Music Trip	1,614	12,988	12,215	2,387
Jack Oatts Festival	1,806	5,478	5,619	1,665
Cheerleaders	45	11,389	10,976	458
FFA	4,802	27,559	23,138	9,223
FCCLA	1,919	-	500	1,419
National Honors Society	441	761	584	618
Annual	1,374	7,993	8,536	831
International Trip	-	4,156	3,414	742
Science Club	165	-	-	165
Art Club	19	50	-	69
Spanish Club	31	711	499	243
High School Student Council	20,816	16,828	37,077	567
Middle School Student Council	1,815	3,354	3,021	2,148
Class of 2011	542	-	542	-
Class of 2012	524	-	524	-
 Total	 \$ 49,812	 171,002	 192,288	 28,526

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 EIGHT YEARS

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 2,816,342	2,509,163	2,410,896	2,230,997	2,078,124	2,047,415	1,818,495	1,621,106
Tuition	360,328	396,955	355,381	347,771	333,225	384,846	336,582	329,086
Other	294,577	256,445	262,524	311,747	401,244	259,814	293,339	338,103
State sources	3,142,783	2,905,233	3,453,417	3,309,388	2,983,782	2,626,931	2,258,234	2,158,150
Federal sources	273,141	414,884	192,801	142,997	128,331	111,875	132,318	92,648
<b>Total</b>	<b>\$ 6,887,171</b>	<b>6,482,680</b>	<b>6,675,019</b>	<b>6,342,900</b>	<b>5,924,706</b>	<b>5,430,881</b>	<b>4,838,968</b>	<b>4,539,093</b>
Expenditures:								
Current:								
Instruction:								
Regular	\$ 3,100,198	2,659,127	2,664,548	2,589,742	2,289,655	2,136,718	1,866,121	1,716,357
Special	543,999	689,498	591,899	539,737	540,525	425,315	534,336	473,000
Other	717,887	684,619	688,507	655,987	681,938	569,161	481,314	447,460
Support services:								
Student	91,960	91,797	76,014	71,135	82,723	78,266	71,110	68,760
Instructional staff	90,814	123,213	112,008	109,127	114,410	117,377	113,857	87,247
Administration	654,412	570,641	586,681	625,624	564,344	550,297	516,682	464,359
Operation and maintenance of plant	623,820	528,375	481,119	520,895	557,528	510,278	645,614	684,453
Transportation	196,585	144,288	254,955	192,214	160,321	141,083	152,665	112,968
Central	-	-	-	-	-	-	-	52,942
Other expenditures:								
Facilities acquisitions	77,863	17,999	66,849	677,155	19,452	38,921	353,456	2,246,520
Long-term debt:								
Principal	285,806	274,713	266,947	233,895	220,000	210,000	200,000	190,000
Interest and fiscal charges	135,477	131,813	140,288	150,126	167,259	177,934	177,359	186,309
AEA flow-through	243,441	240,207	223,403	207,424	188,419	170,580	149,175	146,376
<b>Total</b>	<b>\$ 6,762,262</b>	<b>6,156,290</b>	<b>6,153,218</b>	<b>6,573,061</b>	<b>5,586,574</b>	<b>5,125,930</b>	<b>5,261,689</b>	<b>6,876,751</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
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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  
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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 8, 2012. 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, 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 I of the accompanying Schedule of Finding as item I-A-11 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 as item I-B-11 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Earlham Community School District and other parties to whom Earlham Community School District may report, including federal awarding agencies and pass-through entities, 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, P.C.

February 8, 2012

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-11 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 the duties as much as possible with two part-time and one full-time employee. We are separating the cash counting and cash receipting as much as possible between the part-time staff and will continue to work on further controls.

Conclusion - Response accepted.

I-B-11 Gate Admissions - It was noted that the District does not utilize pre-numbered tickets for performances and athletic events that require an admission fee. Individuals collecting cash at District events do not have a process for reconciling the number of people admitted to the event to the amount of cash collected for the event.

Recommendation -The District's Board of Directors should develop internal control procedures for handling cash for all events that the District charges an admission fee. The Board of directors should involve the District's business office staff in developing detailed procedures for handling cash before and after District events. Once the Board of Directors has approved these procedures, the procedures should be communicated and followed by persons involved in cash collection at District events. At a minimum these procedures should include:

- 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 or district administration staff after the events. They are either brought to the central office or placed in a safe in a secure location in the building. The District is looking at a track/football field renovation. Planning includes a new ticket booth which would finally allow for a pre-numbered ticket system. If this project happens, we will implement a new procedure for admissions and ticket reconciliation.

Conclusion - Response accepted. However, a process involving reconciling pre-numbered tickets to the deposit amount is needed to ensure that all funds are collected and subsequently deposited.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2011

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-11 Certified Budget - Expenditures for the year ended June 30, 2011 did not exceed the certified budget amounts in any of the functional areas.
- II-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-11 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	\$470
Mike Book, Transportation Liason owns Mike's Body & Paint	Repairs	\$2,000

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

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the District employee do not appear to represent a conflict of interest.

- II-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-11 Certified Enrollment - We noted the following variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by 1.0 student.

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

Response - Our auditors will be contacting the Iowa Department of Education and the Department of Management to resolve this issue.

Conclusion - Response accepted.

- II-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

- II-I-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-11 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-K-11 Categorical Funding - No instance were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-11 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use 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, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2011 audit.

Beginning Balance		\$	955,696
Revenues:			
Sales tax revenues	\$	458,601	
Other local revenues		5,996	464,597
			<u>1,420,293</u>
Expenditures/transfers out:			
School infrastructure construction	\$	31,273	
Equipment		307,234	
Other		22,504	
Transferred to other funds			
Debt service fund		160,000	521,011
			<u>521,011</u>
Ending Balance		\$	<u>899,282</u>

For the year ended June 30, 2011, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy	Property
	Reduction	Tax
	Per \$1000	Dollars
	of Taxable	Reduced
	Valuation	
Debt service levy	\$ 1.04000	\$ 160,000