

EARLHAM COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

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Earlham Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2011 election)</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>Board of Education (After September 2011 election)</b>		
David Morford	President	2015
Teresa Waldron	Vice President	2013
Steve Willem	Board Member	2015
Andrew Arnburg	Board Member	2015
Kathy Woolcott	Board Member	2013
<b>School Officials</b>		
Mike Wright	Superintendent	2012
Jodi Stroud	District Secretary and Business Manager	2012
Ahlers & Cooney, P.C.	Attorney	2012

*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, 2012, 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, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2013 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the

financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2013

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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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$5,900,288 in fiscal 2011 to \$6,175,114 in fiscal 2012, while General Fund expenditures increased from \$5,511,245 in fiscal 2011 to \$5,801,800 in fiscal 2012. Revenues still outpaced expenditures resulting in an increase in the District's General Fund balance from \$1,248,075 in fiscal 2011 to a balance of \$1,621,389 in fiscal 2012, a 29.91% increase over the prior year.
- The District's solvency ratio increased from 19.59% in 2011 to 25.75% in 2012.

### **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 custodian 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.

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.

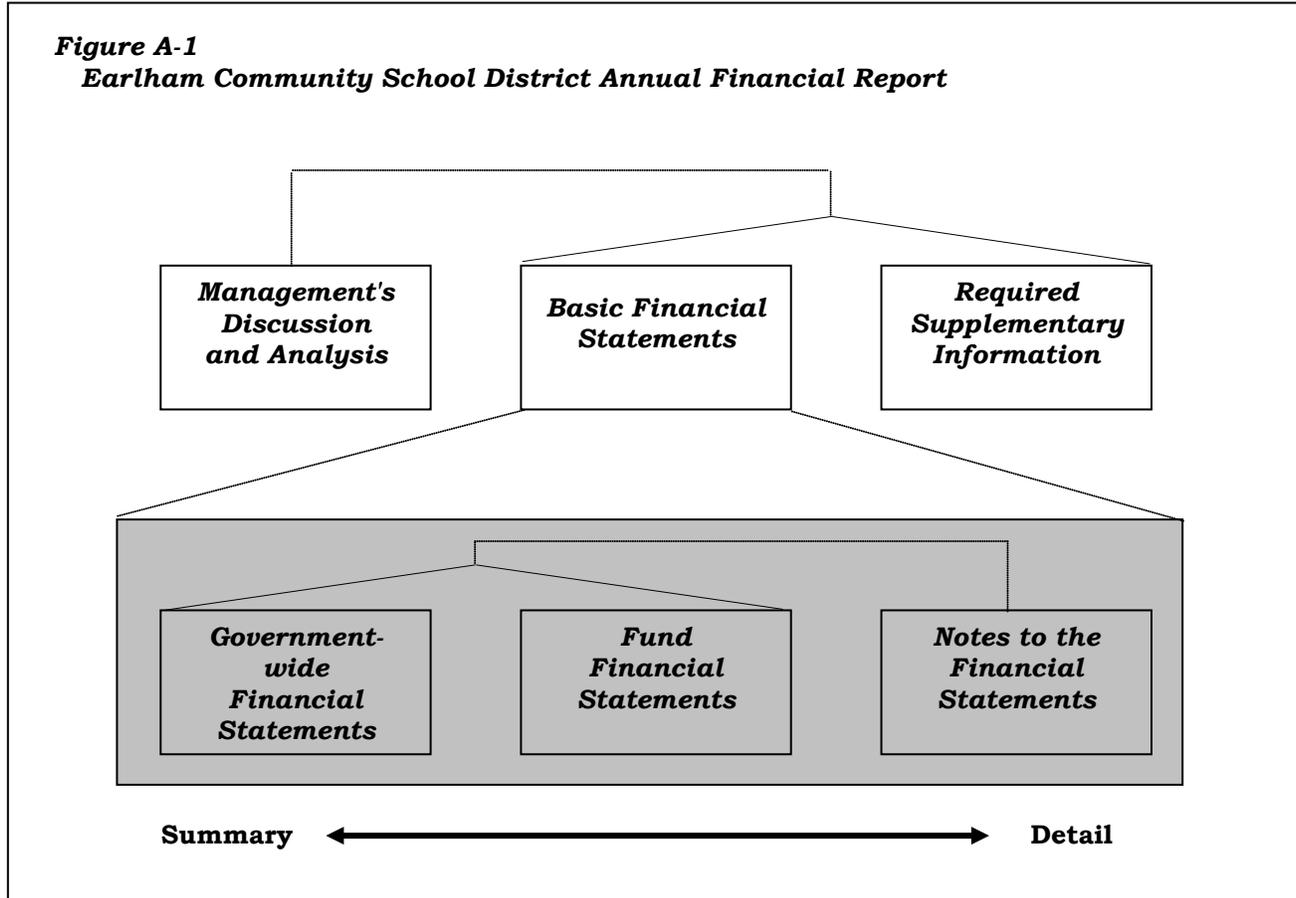


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<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 fund 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 and preschool programs are 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, Preschool 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 Fund 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 Fund.

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, 2012 compared to June 30, 2011.

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,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 7,739,959	7,408,224	15,644	33,075	7,755,603	7,441,299	4.22%
Capital assets	8,068,924	6,597,286	77,998	89,344	8,146,922	6,686,630	21.84%
Total assets	15,808,883	14,005,510	93,642	122,419	15,902,525	14,127,929	12.56%
Long-term obligations	4,754,430	4,392,472	5,220	3,379	4,759,650	4,395,851	8.28%
Other liabilities	3,858,569	3,095,582	7,789	8,891	3,866,358	3,104,473	24.54%
Total liabilities	8,612,999	7,488,054	13,009	12,270	8,626,008	7,500,324	15.01%
Net assets:							
Invested in capital assets, net of related debt	4,932,003	2,367,286	77,998	89,344	5,010,001	2,456,630	103.94%
Restricted	853,063	3,114,482	-	-	853,063	3,114,482	-72.61%
Unrestricted	1,410,818	1,035,688	2,635	20,805	1,413,453	1,056,493	33.79%
Total net assets	\$ 7,195,884	6,517,456	80,633	110,149	7,276,517	6,627,605	9.79%

The District's combined net assets increased 9.79% or \$648,912 over the prior year. The largest 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 decreased approximately \$2,261,419 or 72.61% from the prior year. The main reason for the decrease was decline in the Debt Service Fund balance resulting from the advanced refunding of \$1,935,000 of general obligation bonds issued February 1, 2002.

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 \$356,960 or 33.79%. 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, 2012 as compared to the year ended June 30, 2011.

	Figure A-4						
	Changes of Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 761,555	540,435	258,018	253,088	1,019,573	793,523	28.49%
Operating grants, contributions and restricted interest	334,697	400,128	106,777	106,571	441,474	506,699	-12.87%
Capital grants, contributions and restricted interest	13,231	-	-	-	13,231	-	100.00%
General revenues:							
Property tax	2,471,719	2,357,741	-	-	2,471,719	2,357,741	4.83%
Statewide sales, services and use tax	485,179	458,601	-	-	485,179	458,601	5.80%
Unrestricted state grants	3,146,748	2,853,527	-	-	3,146,748	2,853,527	10.28%
Nonspecific program federal grants	1,801	182,311	-	-	1,801	182,311	-99.01%
Unrestricted investment earnings	18,136	17,387	3	37	18,139	17,424	4.10%
Other	70,460	77,041	1,287	-	71,747	77,041	-6.87%
Transfers	(15,000)	-	15,000	-	-	-	0.00%
Total revenues and transfers	<u>7,288,526</u>	<u>6,887,171</u>	<u>381,085</u>	<u>359,696</u>	<u>7,669,611</u>	<u>7,246,867</u>	<u>5.83%</u>
Program expenses:							
Governmental activities:							
Instructional	4,147,895	4,210,431	8,156	-	4,156,051	4,210,431	-1.29%
Support services	1,890,882	1,620,719	669	-	1,891,551	1,620,719	16.71%
Non-instructional programs	-	-	401,776	381,584	401,776	381,584	5.29%
Other expenses	571,321	601,851	-	-	571,321	601,851	-5.07%
Total expenses	<u>6,610,098</u>	<u>6,433,001</u>	<u>410,601</u>	<u>381,584</u>	<u>7,020,699</u>	<u>6,814,585</u>	<u>3.02%</u>
Change in net assets	678,428	454,170	(29,516)	(21,888)	648,912	432,282	50.11%
Net assets beginning 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>
Net assets at end of year	<u>\$ 7,195,884</u>	<u>6,517,456</u>	<u>80,633</u>	<u>110,149</u>	<u>7,276,517</u>	<u>6,627,605</u>	<u>9.79%</u>

In fiscal 2012, property tax, statewide sales and services tax, and unrestricted state grants accounted for 83.74% of the revenue from governmental activities while charges for services and operating grants and contributions account for 95.73% of the revenue from business type activities.

The District's total revenues were approximately \$7.67 million, of which approximately \$7.29 million was for governmental activities and approximately \$0.38 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.83% increase in revenues and a 3.02% increase in expenses. The increase in expenses is related to increases in negotiated salaries and benefits.

### Governmental Activities

Revenues for governmental activities were \$7,288,526 and expenses were \$6,610,098. 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, 2012 compared to the year ended June 30, 2011.

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 4,147,895	4,210,431	-1.49%	3,282,309	3,518,401	-6.71%
Support services	1,890,882	1,620,719	16.67%	1,873,821	1,615,627	15.98%
Other expenses	571,321	601,851	-5.07%	344,485	358,410	-3.89%
Totals	\$ 6,610,098	6,433,001	2.75%	5,500,615	5,492,438	0.15%

- The cost financed by users of the District's programs was \$761,555.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$347,928.
- The net cost of governmental activities was financed with \$2,471,719 in property tax, \$485,179 in statewide sales, services and use tax, \$3,146,748 in unrestricted state grants, \$1,801 in nonspecific program federal grants, \$18,136 in investment earnings, and \$55,460 in other general revenues net of transfers.

### Business Type Activities

Revenues of the District's business type activities were \$381,085 and expenses were \$410,601. The District's business type activities include the School Nutrition Fund and Preschool Fund. Revenues of these activities were mostly comprised of charges for service and federal and state reimbursements.

## 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 \$3,849,965, below last year's ending fund balances of \$4,317,579. The decrease resulted in part from the District advance refunding a portion general obligation bonds issued February 1, 2002 when they became callable on May 1, 2012.

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## **Governmental Fund Highlights**

- The General Fund balance increased from \$1,248,075 in fiscal 2011 to \$1,621,389 in fiscal 2012. The increase was due primarily to increases in local and state sources of revenue.
- The Capital Projects Fund balance increased from \$972,194 at June 30, 2011 to \$1,875,564 at June 30, 2012. The main reason for the increase was the issuance of \$2,550,000 of revenue bonds to be used to finance the new athletic complex project.
- The Debt Service Fund balance decreased from \$1,977,471 at June 30, 2011 to \$260,999 at June 30, 2012. The decrease was the result of extinguishing the remaining portion of general obligation bonds issued February 1, 2002.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$110,149 at June 30, 2011 to \$80,633 at June 30, 2012, representing a decrease of 26.80%.

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. Despite the District's practice, a \$15,000 transfer from the General Fund was necessary to retain the Nutrition Fund solvency.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Earlham Community School District amended its budget one time to reflect additional revenue and expenditures associated with the athletic complex capital project activity.

The District's revenues were \$555,598 less than budgeted revenues, a variance of 6.75%. The shortfall can be attributed in part to the District receiving less state source revenues than were originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area and in total. The budgeted amounts were exceeded due to the refinancing of the District's general obligation bonds.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2012 the District had invested \$8,146,922, 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 \$335,689.

The original cost of the District's capital assets was \$12,702,166. Governmental funds account for \$12,486,786 with the remainder of \$215,380 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2011, compared to \$1,463,278 reported at June 30, 2012. This significant increase resulted from construction activity financed by the issuance of revenue bonds in fiscal year 2012 for construction of a new athletic complex which was started, but not yet completed.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 373,930	373,930	-	-	373,930	373,930	0.00%
Construction in progress	1,463,278	-	-	-	1,463,278	-	100.00%
Buildings	5,669,043	5,774,173	-	-	5,669,043	5,774,173	-1.82%
Improvements other than buildings	130,459	45,834	-	-	130,459	45,834	184.63%
Machinery and equipment	432,214	403,349	77,998	89,344	510,212	492,693	3.56%
Total	\$ 8,068,924	6,597,286	77,998	89,344	8,146,922	6,686,630	21.84%

### Long-Term Debt

At June 30, 2012, the District had \$4,759,650 in general obligation, and other long-term debt outstanding. This represents an increase of 8.28% 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.

During the year the District advance refunded the remaining portion of the general obligation bonds issued in February 2002. The District's outstanding general bonded indebtedness at June 30, 2012 was \$2,030,000.

In May 2012, the District issued \$2,550,000 of Statewide Sales, Services and Use Tax revenue bonds for the athletic complex project. The entire amount was outstanding at June 30, 2012.

During the year ended June 30, 2012, the District made the final principal and interest payment on the capital loan notes issued February 1, 2002.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
General obligation bonds	\$ 2,030,000	4,130,000	-	-	2,030,000	4,130,000	-50.85%
Revenue bonds	2,550,000	-	-	-	2,550,000	-	100.00%
Capital loan note	-	100,000	-	-	-	100,000	-100.00%
Computer lease	46,669	68,193	-	-	46,669	68,193	-31.56%
Early retirement	22,162	26,636	-	-	22,162	26,636	-16.80%
Net OPEB Liability	105,599	67,643	5,220	3,379	110,819	71,022	56.03%
Total	\$ 4,754,430	4,392,472	5,220	3,379	4,759,650	4,395,851	8.28%

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

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

- 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.
- On July 1, 2012, the IPERS employer contribution increase to 8.67% will increase the Earlham Community School District's employer benefit costs during fiscal 2013. An additional increase to 8.93% is anticipated for fiscal 2014.
- The District has experienced stagnate enrollment growth which adversely affects District funding.

## **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, 2012

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,869,996	8,233	4,878,229
Receivables			
Property tax:			
Delinquent	37,897	-	37,897
Succeeding year	2,494,944	-	2,494,944
Accounts	4,873	218	5,091
Due from other governments	332,249	-	332,249
Inventories	-	7,193	7,193
Capital assets, net of accumulated depreciation	8,068,924	77,998	8,146,922
<b>Total assets</b>	<b>15,808,883</b>	<b>93,642</b>	<b>15,902,525</b>
<b>Liabilities</b>			
Accounts payable	802,305	-	802,305
Salaries and benefits payable	548,143	2,672	550,815
Accrued interest payable	13,177	-	13,177
Deferred revenue:			
Succeeding year property tax	2,494,944	-	2,494,944
Unearned revenue	-	5,117	5,117
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	210,000	-	210,000
Computer lease	22,709	-	22,709
Early retirement	5,540	-	5,540
Portion due after one year:			
General obligation bonds	1,820,000	-	1,820,000
Revenue bonds	2,550,000	-	2,550,000
Computer lease	23,960	-	23,960
Early retirement	16,622	-	16,622
Net OPEB liability	105,599	5,220	110,819
<b>Total liabilities</b>	<b>8,612,999</b>	<b>13,009</b>	<b>8,626,008</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	4,932,003	77,998	5,010,001
Restricted for:			
Categorical funding	89,738	-	89,738
Debt service levy	260,999	-	260,999
Management levy	40,154	-	40,154
Student activities	29,697	-	29,697
School infrastructure	313,456	-	313,456
Physical plant and equipment levy	119,029	-	119,029
Unrestricted	1,410,808	2,635	1,413,443
<b>Total net assets</b>	<b>\$ 7,195,884</b>	<b>80,633</b>	<b>7,276,517</b>

SEE NOTES TO FINANCIAL STATEMENTS

**EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
			Interest	Interest			
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 2,840,557	503,320	38,046	-	(2,299,191)	-	(2,299,191)
Special	543,717	9,726	31,261	-	(502,730)	-	(502,730)
Other	763,621	248,509	34,724	-	(480,388)	-	(480,388)
	<u>4,147,895</u>	<u>761,555</u>	<u>104,031</u>	<u>-</u>	<u>(3,282,309)</u>	<u>-</u>	<u>(3,282,309)</u>
Support services:							
Student	138,381	-	-	-	(138,381)	-	(138,381)
Instructional staff	332,865	-	3,307	-	(329,558)	-	(329,558)
Administration	663,421	-	-	-	(663,421)	-	(663,421)
Operation and maintenance of plant	542,187	-	-	13,231	(528,956)	-	(528,956)
Transportation	214,028	-	523	-	(213,505)	-	(213,505)
	<u>1,890,882</u>	<u>-</u>	<u>3,830</u>	<u>13,231</u>	<u>(1,873,821)</u>	<u>-</u>	<u>(1,873,821)</u>
Other expenses:							
Long-term debt interest	144,103	-	-	-	(144,103)	-	(144,103)
AEA flowthrough	226,836	-	226,836	-	-	-	-
Depreciation(unallocated)*	200,382	-	-	-	(200,382)	-	(200,382)
	<u>571,321</u>	<u>-</u>	<u>226,836</u>	<u>-</u>	<u>(344,485)</u>	<u>-</u>	<u>(344,485)</u>
Total governmental activities	6,610,098	761,555	334,697	13,231	(5,500,615)	-	(5,500,615)
Business type activities:							
Instruction:							
Other	8,156	8,156	-	-	-	-	-
Support services:							
Operation and maintenance of plant	669	-	-	-	-	(669)	(669)
Non-instructional programs:							
Nutrition services	401,776	249,862	106,777	-	-	(45,137)	(45,137)
Total business type activities	410,601	258,018	106,777	-	-	(45,806)	(45,806)
Total	\$ 7,020,699	1,019,573	441,474	13,231	(5,500,615)	(45,806)	(5,546,421)
<b>General Revenues and Transfers:</b>							
General Revenues:							
Property tax levied for:							
General purposes					\$ 2,160,841	-	2,160,841
Debt service					108,556	-	108,556
Capital outlay					202,322	-	202,322
Statewide sales, services and use tax					485,179	-	485,179
Unrestricted state grants					3,146,748	-	3,146,748
Nonspecific program federal grants					1,801	-	1,801
Unrestricted investment earnings					18,136	3	18,139
Other					70,460	1,287	71,747
Transfers					(15,000)	15,000	-
Total general revenues and transfers					<u>6,179,043</u>	<u>16,290</u>	<u>6,195,333</u>
Change in net assets					678,428	(29,516)	648,912
Net assets beginning of year					<u>6,517,456</u>	<u>110,149</u>	<u>6,627,605</u>
Net assets end of year					<u>\$ 7,195,884</u>	<u>80,633</u>	<u>7,276,517</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, 2012

	General	Debt Service	Capital Projects	Nonmajor	Total
<b>Assets</b>					
Cash and pooled investments	\$ 2,078,484	258,766	2,369,613	118,531	4,825,394
Receivables:					
Property tax:					
Delinquent	31,495	2,233	3,132	1,037	37,897
Succeeding year	1,924,608	254,475	211,858	104,003	2,494,944
Accounts	4,873	-	-	-	4,873
Due from other governments	128,754	-	203,495	-	332,249
<b>Total assets</b>	<b>\$ 4,168,214</b>	<b>515,474</b>	<b>2,788,098</b>	<b>223,571</b>	<b>7,695,357</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 74,074	-	700,676	27,555	802,305
Salaries and benefits payable	548,143	-	-	-	548,143
Deferred revenue:					
Succeeding year property tax	1,924,608	254,475	211,858	104,003	2,494,944
<b>Total liabilities</b>	<b>2,546,825</b>	<b>254,475</b>	<b>912,534</b>	<b>131,558</b>	<b>3,845,392</b>
Fund balances:					
Restricted for:					
Categorical funding	89,738	-	-	-	89,738
Debt service	-	260,999	-	-	260,999
Management levy purposes	-	-	-	62,316	62,316
Student activities	-	-	-	29,697	29,697
School infrastructure	-	-	313,456	-	313,456
Construction	-	-	1,443,079	-	1,443,079
Physical plant and equipment	-	-	119,029	-	119,029
Unassigned	1,531,651	-	-	-	1,531,651
<b>Total fund balances</b>	<b>1,621,389</b>	<b>260,999</b>	<b>1,875,564</b>	<b>92,013</b>	<b>3,849,965</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,168,214</b>	<b>515,474</b>	<b>2,788,098</b>	<b>223,571</b>	<b>7,695,357</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, 2012

**Total fund balances of governmental funds(page 20)** \$ 3,849,965

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds. 8,068,924

Blending of the Internal Service Fund to be reflected on an entity-wide basis. 44,602

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. (13,177)

Long-term liabilities, including bonds payable, computer lease payable, other postemployment benefits payable and early retirement payable are not due and payable in the current period and, therefore, are not reported in the governmental funds. (4,754,430)

**Net assets of governmental activities(page 18)** \$ 7,195,884

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 2,105,471	108,556	687,501	55,370	2,956,898
Tuition	511,146	-	-	-	511,146
Other	99,205	6,726	3,817	253,211	362,959
State sources	3,378,204	-	-	-	3,378,204
Federal sources	81,088	-	13,231	-	94,319
Total revenues	6,175,114	115,282	704,549	308,581	7,303,526
Expenditures:					
Current:					
Instruction:					
Regular	2,820,583	-	3,370	-	2,823,953
Special	529,216	-	-	-	529,216
Other	511,594	-	-	245,708	757,302
	3,861,393	-	3,370	245,708	4,110,471
Support services:					
Student	136,895	-	-	-	136,895
Instructional staff	332,356	-	-	-	332,356
Administration	651,341	-	27,189	-	678,530
Operation and maintenance of plant	393,668	-	61,695	90,699	546,062
Transportation	184,311	-	82,855	-	267,166
	1,698,571	-	171,739	90,699	1,961,009
Capital outlay	-	-	1,612,814	-	1,612,814
Long-term debt:					
Principal	-	2,221,524	-	-	2,221,524
Interest and fiscal charges	-	156,009	-	-	156,009
	-	2,377,533	-	-	2,377,533
Other expenditures:					
AEA flowthrough	226,836	-	-	-	226,836
Total expenditures	5,786,800	2,377,533	1,787,923	336,407	10,288,663
Excess(deficiency) of revenues over(under)expenditures	388,314	(2,262,251)	(1,083,374)	(27,826)	(2,985,137)
Other financing sources(uses):					
Transfer in	-	545,779	2,827,523	-	3,373,302
Transfer out	(15,000)	-	(3,373,302)	-	(3,388,302)
Proceeds from issuance of revenue bonds	-	-	2,550,000	-	2,550,000
Premium on issuance of revenue bonds	-	-	2,938	-	2,938
Discount on issuance of revenue bonds	-	-	(20,415)	-	(20,415)
Total other financing sources(uses)	(15,000)	545,779	1,986,744	-	2,517,523
Net change in fund balances	373,314	(1,716,472)	903,370	(27,826)	(467,614)
Fund balances beginning of year	1,248,075	1,977,471	972,194	119,839	4,317,579
Fund balances end of year	\$ 1,621,389	260,999	1,875,564	92,013	3,849,965

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, 2012

Net change in fund balances - total governmental funds(page 22) \$ (467,614)

**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 not reported in the Statement of Net Activities 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	\$ 1,791,207	
Depreciation expense	(319,569)	1,471,638

Net change in Internal Service Fund charged back against expenditures made for self-funded insurance on an entity-wide basis 24,456

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	(2,550,000)	
Repaid	2,221,524	(328,476)

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. 11,906

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	4,474	
Other postemployment benefits	(37,956)	(33,482)

**Changes in net assets of governmental activities(page 19) \$ 678,428**

SEE NOTES TO FINANCIAL STATEMENTS

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

	Business Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
<b>Assets</b>		
Cash and cash equivalents	\$ 8,233	44,602
Accounts receivable	218	-
Inventories	7,193	-
Capital assets, net of accumulated depreciation	77,998	-
<b>Total assets</b>	<b>93,642</b>	<b>44,602</b>
<b>Liabilities</b>		
Salaries and benefits payable	2,672	-
Unearned revenue	5,117	-
Net OPEB liability	5,220	-
<b>Total liabilities</b>	<b>13,009</b>	<b>-</b>
<b>Net Assets</b>		
Invested in capital assets	77,998	-
Unrestricted	2,635	44,602
<b>Total net assets</b>	<b>\$ 80,633</b>	<b>44,602</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, 2012

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School	Preschool	Total	
	Nutrition			
Operating revenues:				
Local sources:				
Charges for services	\$ 249,862	8,156	258,018	-
Miscellaneous	1,287	-	1,287	31,599
Total operating revenues	251,149	8,156	259,305	31,599
Operating expenses:				
Instruction:				
Other	-	8,156	8,156	-
Support services:				
Purchased services	669	-	669	-
Non-instructional programs:				
Salaries	118,623	-	118,623	-
Benefits	41,855	-	41,855	7,287
Purchased services	99	-	99	-
Supplies	225,079	-	225,079	-
Depreciation	16,120	-	16,120	-
Total operating expenses	402,445	8,156	410,601	7,287
Operating income(loss)	(151,296)	-	(151,296)	24,312
Non-operating revenues:				
State sources	3,043	-	3,043	-
Federal sources	103,734	-	103,734	-
Transfer in	15,000	-	15,000	-
Interest on investments	3	-	3	144
Total non-operating revenues	121,780	-	121,780	144
Change in net assets	(29,516)	-	(29,516)	24,456
Net assets beginning of year	110,149	-	110,149	20,146
Net assets end of year	\$ 80,633	-	80,633	44,602

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2012

	Business Type Activities:			Governmental
	Enterprise Funds			Activities:
	School			Internal
	Nutrition	Preschool	Total	Service Fund
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 248,842	-	248,842	-
Cash received from miscellaneous	1,287	8,156	9,443	31,599
Cash paid to employees for services	(158,457)	(8,156)	(166,613)	(7,287)
Cash paid to suppliers for goods or services	(204,221)	-	(204,221)	-
Net cash provided by(used in) operating activities	(112,549)	-	(112,549)	24,312
Cash flows from non-capital financing activities:				
Transfer from the General Fund	15,000	-	15,000	-
State grants received	3,043	-	3,043	-
Federal grants received	81,178	-	81,178	-
Net cash provided by non-capital financing activities	99,221	-	99,221	-
Cash flows used by capital and related financing activities:				
Purchase of capital assets	(4,774)	-	(4,774)	-
Cash flows from investing activities:				
Interest on investments	3		3	144
Net increase(decrease) in cash and cash equivalents	(18,099)	-	(18,099)	24,456
Cash and cash equivalents at beginning of year	26,332	-	26,332	20,146
Cash and cash equivalents at end of year	\$ 8,233	-	8,233	44,602
<b>Reconciliation of operating gain(loss) to net cash provided by(used in) operating activities:</b>				
Operating gain(loss)	\$ (151,296)	-	(151,296)	24,312
Adjustments to reconcile operating gain(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	22,556	-	22,556	-
Depreciation	16,120	-	16,120	-
Increase in inventories	(585)	-	(585)	-
Increase in accounts receivable	(83)	-	(83)	-
Decrease in accounts payable	(345)	-	(345)	-
Increase in salaries and benefits payable	180	-	180	-
Increase in other postemployment benefits	1,841	-	1,841	-
Decrease in unearned revenue	(937)	-	(937)	-
Net cash provided by(used in) operating activities	\$ (112,549)	-	(112,549)	24,312

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

During the year ended June 30, 2012, the District received \$22,556 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2012

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Gifts and contributions	\$ 42,152
	42,152
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	42,402
	42,402
Change in net assets	(250)
Net assets beginning of year	250
Net assets end of year	\$ -

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

(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 service.

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 and other capital assets.

The District's nonmajor proprietary funds are the School Nutrition Fund, the Preschool Fund and the Internal Service Fund. The Nutrition fund is used to account for the food service operations of the District. The Preschool Fund accounts for the preschool services provided by 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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2011.

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 Equity - 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 the preceding classification.

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. During the year ended June 30, 2012, expenditures exceeded the amounts budgeted in the other expenditures functional area.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2012 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, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,728,764 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

**(3) Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 415,000
Debt Service	Capital Projects: Physical Plant and Equipment Levy	130,779
Capital Projects: Construction	Capital Projects: Statewide Sales, Services and Use Tax	2,827,523
Nutrition	General	15,000
		<u>\$ 3,388,302</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was comprised of \$160,000 needed for the principal payment on the District's General Obligation Bond indebtedness and \$255,000 to set up the reserve fund required by the District's revenue bond covenants.

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 computer lease.

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Capital Projects: Construction Fund was needed to move expenditures and revenue bond proceeds to the fund designated to account for expenditures associated with the construction of the District's new athletic complex.

The transfer from the General Fund to the Nutrition Fund was made to cover the deficiency of revenues under expenditures (see comment II-M-12).

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2012 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
Construction in progress	-	1,463,278	-	1,463,278
Total capital assets not being depreciated	373,930	1,463,278	-	1,837,208
Capital assets being depreciated:				
Buildings	8,768,897	82,574	-	8,851,471
Improvements other than buildings	209,667	97,303	-	306,970
Machinery and equipment	1,343,085	148,052	-	1,491,137
Total capital assets being depreciated	10,321,649	327,929	-	10,649,578
Less accumulated depreciation for:				
Buildings	2,994,724	187,704	-	3,182,428
Improvements other than buildings	163,833	12,678	-	176,511
Machinery and equipment	939,736	119,187	-	1,058,923
Total accumulated depreciation	4,098,293	319,569	-	4,417,862
Total capital assets being depreciated, net	6,223,356	8,360	-	6,231,716
Governmental activities capital assets, net	\$ 6,597,286	1,471,638	-	8,068,924
<b>Business type activities:</b>				
Machinery and equipment	\$ 210,606	4,774	-	215,380
Less accumulated depreciation	121,262	16,120	-	137,382
Business type activities capital assets, net	\$ 89,344	(11,346)	-	77,998

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 47,474
Support services:	
Administrative	8,988
Operation and maintenance of plant	32,108
Transportation	30,617
	<u>119,187</u>
Unallocated	<u>200,382</u>
Total depreciation expense - governmental activities	\$ <u>319,569</u>
Business type activities:	
Food service operations	\$ <u>16,120</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 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	\$ 4,130,000	-	2,100,000	2,030,000	210,000
Revenue bonds	-	2,550,000	-	2,550,000	-
Capital loan note	100,000	-	100,000	-	-
Computer lease	68,193	-	21,524	46,669	22,709
Early retirement	26,636	-	4,474	22,162	5,540
Net OPEB liability	67,643	37,956	-	105,599	-
Total	\$ 4,392,472	2,587,956	2,225,998	4,754,430	238,249
<b>Business type activities:</b>					
Net OPEB liability	\$ 3,379	1,841	-	5,220	-

General Obligation Bonds Payable

Details of the District's June 30, 2012 General Obligation bonded indebtedness is as follows:

Year Ending June 30,	Issue dated January 1, 2011			
	Interest Rates	Principal	Interest	Total
2013	1.00	% \$ 210,000	43,975	253,975
2014	1.35	215,000	41,875	256,875
2015	1.60	220,000	38,973	258,973
2016	1.85	215,000	35,452	250,452
2017	2.10	225,000	31,475	256,475
2018-2021	2.40-3.15	945,000	70,465	1,015,465
Total		\$ 2,030,000	262,215	2,292,215

Revenue Bonds

Details of the District's June 30, 2012 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Issue dated May 1, 2012			
	Interest Rates	Principal	Interest	Total
2013	1.00	% \$ -	23,391	23,391
2014	1.00	315,000	33,513	348,513
2015	1.00	345,000	30,212	375,212
2016	1.00	370,000	26,638	396,638
2017	1.25	370,000	22,475	392,475
2018-2020	1.50-2.00	1,150,000	32,419	1,182,419
Total		\$ 2,550,000	168,648	2,718,648

The District has pledged future statewide sales, services and use tax revenues to repay the \$2,550,000 of bonds issued in May 2012. The bonds were issued for the purpose of financing a portion of the costs of a new athletic complex. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2020. The bonds are not a general obligation of the District.

However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 5% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$2,718,648. For the current year, no principal or interest was paid on the bonds and total statewide sales, services and use tax revenues were \$485,179.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$255,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

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, 2012 are as follows:

Year Ending June 30,	Computer Lease				
	Interest Rates		Principal	Interest	Total
2013	5.51	% \$	22,709	2,570	25,279
2014	5.51		23,960	1,319	25,279
Total			\$ 46,669	3,889	50,558

Early Retirement

The District offered a voluntary early retirement plan to its certified employees during fiscal year 2010. 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. During the year ended June 30, 2012, the District paid \$4,474 in early retirement benefits.

**(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 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$276,287, \$233,498, and \$230,309, 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 District's OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 41,239
Interest on net OPEB obligation	1,776
Adjustment to annual required contribution	(3,218)
Annual OPEB cost	<u>39,797</u>
Contributions made	<u>-</u>
Increase in net OPEB obligation	<u>39,797</u>
Net OPEB obligation beginning of year	<u>71,022</u>
Net OPEB obligation end of year	<u>\$ 110,819</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, 2012.

For the year ended June 30, 2012, 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, 2012 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
2012	39,797	0.00%	110,819

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$212,055, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$212,055. The covered payroll (annual payroll of active employees covered by the plan) was \$3,044,230, and the ratio of the UAAL to covered payroll was 6.97%. As of June 30, 2012 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 \$226,836 for the year ended June 30, 2012 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, 2012 is comprised of the following programs:

Program	Amount
Beginning Teacher Mentoring and Induction Program	605
Teacher Salary Supplement	34,828
Professional Development for Model Core Curriculum	23,825
Professional Development	30,480
Total	<u>\$ 89,738</u>

**(11) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2012, District expenditures exceeded budgeted amounts in the other expenditures functional area as well as in total.

**(12) Construction Commitment**

The District has entered into contracts totaling \$2,618,609 for construction of a new athletic complex. As of June 30, 2012, costs of \$1,463,278 had been incurred against the contracts. The balance of \$1,155,331 remaining at year end will be paid as work progresses.

REQUIRED SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Actual
	Actual	Actual				Actual
<b>Revenues:</b>						
Local sources	\$ 3,831,003	259,308	4,090,311	4,151,789	4,151,789	(61,478)
State sources	3,378,204	3,043	3,381,247	3,750,420	3,750,420	(369,173)
Federal sources	94,319	103,734	198,053	323,000	323,000	(124,947)
Total revenues	7,303,526	366,085	7,669,611	8,225,209	8,225,209	(555,598)
<b>Expenditures/Expenses:</b>						
Instruction	4,110,471	8,156	4,118,627	4,560,000	4,560,000	441,373
Support services	1,961,009	669	1,961,678	3,015,000	3,015,000	1,053,322
Non-instructional programs	-	401,776	401,776	500,000	500,000	98,224
Other expenditures	4,217,183	-	4,217,183	1,120,554	2,000,000	(2,217,183)
Total expenditures/expenses	10,288,663	410,601	10,699,264	9,195,554	10,075,000	(624,264)
Deficiency of revenues under expenditures/expenses	(2,985,137)	(44,516)	(3,029,653)	(970,345)	(1,849,791)	(1,179,862)
Other financing sources, net	2,517,523	15,000	2,532,523	2,000	2,000	2,530,523
Deficiency of revenues and other financing sources under expenditures/expenses	(467,614)	(29,516)	(497,130)	(968,345)	(1,847,791)	1,350,661
Balances beginning of year	4,317,579	110,149	4,427,728	1,714,725	1,714,725	2,713,003
Balances end of year	\$ 3,849,965	80,633	3,930,598	746,380	(133,066)	4,063,664

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2012

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. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$879,446.

During the year ended June 30, 2012, expenditures in the other expenditures functional area exceeded the amounts budgeted. The District also exceeded its budget in total.

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2012

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	-	\$ 207,124	207,124	0.00%	\$ 3,114,488	6.65%
2011	July 1, 2009	-	212,402	212,402	0.00%	3,014,064	7.04%
2012	July 1, 2009	-	212,055	212,055	0.00%	3,044,230	6.97%

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.

SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

	Special Revenue		
	Management Levy	Student Activity	Total
<b>Assets</b>			
Cash and pooled investments	\$ 61,279	57,252	118,531
Receivables:			
Property tax:			
Delinquent	1,037	-	1,037
Succeeding year	104,003	-	104,003
<b>Total assets</b>	<b>\$ 166,319</b>	<b>57,252</b>	<b>223,571</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ -	27,555	27,555
Deferred revenue:			
Succeeding year property tax	104,003	-	104,003
<b>Total liabilities</b>	<b>104,003</b>	<b>27,555</b>	<b>131,558</b>
Fund balances:			
Restricted for:			
Management levy purposes	62,316	-	62,316
Student activities	-	29,697	29,697
<b>Total fund balances</b>	<b>62,316</b>	<b>29,697</b>	<b>92,013</b>
<b>Total liabilities and fund balances</b>	<b>\$ 166,319</b>	<b>57,252</b>	<b>223,571</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, 2012

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 55,370	-	55,370
Other	6,332	246,879	253,211
State sources	-	-	-
Total revenues	61,702	246,879	308,581
Expenditures:			
Current:			
Instruction:			
Other	-	245,708	245,708
Support services:			
Operation and maintenance of plant	90,699	-	90,699
Total expenditures	90,699	245,708	336,407
Excess(deficiency) of revenues over(under) expenditures	(28,997)	1,171	(27,826)
Fund balances beginning of year	91,313	28,526	119,839
Fund balances end of year	\$ 62,316	29,697	92,013

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2012

	Capital Projects			
	Statewide Sales, Services and Use Tax	Construction	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 109,961	2,139,821	119,831	2,369,613
Receivables:				
Property tax:				
Delinquent	-	-	3,132	3,132
Succeeding year	-	-	211,858	211,858
Due from other governments	203,495	-	-	203,495
<b>Total assets</b>	<b>\$ 313,456</b>	<b>2,139,821</b>	<b>334,821</b>	<b>2,788,098</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ -	696,742	3,934	700,676
Deferred revenue:				
Succeeding year property tax	-	-	211,858	211,858
Total liabilities	-	696,742	215,792	912,534
Fund balances:				
Restricted for:				
School infrastructure	313,456	-	-	313,456
Construction	-	1,443,079	-	1,443,079
Physical plant and equipment	-	-	119,029	119,029
Total fund balances	313,456	1,443,079	119,029	1,875,564
<b>Total liabilities and fund balances</b>	<b>\$ 313,456</b>	<b>2,139,821</b>	<b>334,821</b>	<b>2,788,098</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, 2012

	Capital Projects			
	Statewide Sales, Services and Use Tax	Construction	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 485,179	-	202,322	687,501
Other	2,723	608	486	3,817
Federal sources	-	-	13,231	13,231
Total revenues	<u>487,902</u>	<u>608</u>	<u>216,039</u>	<u>704,549</u>
Expenditures:				
Current:				
Instruction:				
Regular	-	-	3,370	3,370
Support services:				
Administration	26,189	1,000	-	27,189
Operation and maintenance of plant	47,599	-	14,096	61,695
Transportation	82,855	-	-	82,855
Capital outlay	207,085	1,384,052	21,677	1,612,814
Total expenditures	<u>363,728</u>	<u>1,385,052</u>	<u>39,143</u>	<u>1,787,923</u>
Excess(deficiency) of revenues over(under) expenditures	124,174	(1,384,444)	176,896	(1,083,374)
Other financing sources(uses):				
Transfer in	-	2,827,523	-	2,827,523
Transfer out	(3,242,523)	-	(130,779)	(3,373,302)
Proceeds from issuance of revenue bonds	2,550,000	-	-	2,550,000
Premium on issuance of revenue bonds	2,938	-	-	2,938
Discount on issuance of revenue bonds	(20,415)	-	-	(20,415)
Total other financing sources(uses)	<u>(710,000)</u>	<u>2,827,523</u>	<u>(130,779)</u>	<u>1,986,744</u>
Net change in fund balances	(585,826)	1,443,079	46,117	903,370
Fund balances beginning of year	899,282	-	72,912	972,194
Fund balances end of year	<u>\$ 313,456</u>	<u>1,443,079</u>	<u>119,029</u>	<u>1,875,564</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, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
General Student Activity	\$ 512	32,603	32,638	477
Drama	5,440	5,535	4,564	6,411
Flags	163	959	1,112	10
High School Music Trip	2,387	19,056	14,133	7,310
Jack Oatts Festival	1,665	5,834	5,716	1,783
Athletic	1,194	112,180	113,161	213
Cheerleaders	458	6,011	5,598	871
Drill Team	682	2,663	2,049	1,296
FFA	9,223	34,152	40,205	3,170
FCCLA	1,419	-	-	1,419
National Honor Society	618	556	734	440
Annual	831	8,138	7,778	1,191
International Trip	742	5,798	6,179	361
Science Club	165	-	-	165
Art Club	69	216	-	285
Spanish Club	243	1,128	848	523
High School Student Council	567	8,268	7,309	1,526
Middle School Student Council	2,148	3,782	3,684	2,246
Total	\$ 28,526	246,879	245,708	29,697

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 NINE YEARS

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 2,956,898	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	511,146	360,328	396,955	355,381	347,771	333,225	384,846	336,582	329,086
Other	362,959	294,577	256,445	262,524	311,747	401,244	259,814	293,339	338,103
Intermediate sources						-	-	-	-
State sources	3,378,204	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	94,319	273,141	414,884	192,801	142,997	128,331	111,875	132,318	92,648
Total	\$ 7,303,526	6,887,171	6,482,680	6,675,019	6,342,900	5,924,706	5,430,881	4,838,968	4,539,093
Expenditures:									
Current:									
Instruction:									
Regular	\$ 2,823,953	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	529,216	543,999	689,498	591,899	539,737	540,525	425,315	534,336	473,000
Other	757,302	717,887	684,619	688,507	655,987	681,938	569,161	481,314	447,460
Support services:									
Student	136,895	91,960	91,797	76,014	71,135	82,723	78,266	71,110	68,760
Instructional staff	332,356	90,814	123,213	112,008	109,127	114,410	117,377	113,857	87,247
Administration	678,530	654,412	570,641	586,681	625,624	564,344	550,297	516,682	464,359
Operation and maintenance of plant	546,062	623,820	528,375	481,119	520,895	557,528	510,278	645,614	684,453
Transportation	267,166	196,585	144,288	254,955	192,214	160,321	141,083	152,665	112,968
Central	-	-	-	-	-	-	-	-	52,942
Capital outlay	1,612,814	77,863	17,999	66,849	677,155	19,452	38,921	353,456	2,246,520
Long-term debt:									
Principal	2,221,524	285,806	274,713	266,947	233,895	220,000	210,000	200,000	190,000
Interest and fiscal charges	156,009	135,477	131,813	140,288	150,126	167,259	177,934	177,359	186,309
Other expenditures:									
AEA flow-through	226,836	243,441	240,207	223,403	207,424	188,419	170,580	149,175	146,376
Total	\$ 10,288,663	6,762,262	6,156,290	6,153,218	6,573,061	5,586,574	5,125,930	5,261,689	6,876,751

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

Independent Auditor's Report on 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, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 25, 2013. 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

The management of Earlham Community School District is responsible for establishing and maintaining effective 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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

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 deficiency in internal control described in Part I of the accompanying Schedule of Finding as item I-A-12 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 I of the accompanying Schedule of Finding as item I-B-12 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, 2012 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 25, 2013

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-12 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. Vouchers are processed, disbursements are recorded and checks are prepared by the same person. We also noted that one individual enters pay rates, processes the payroll and generates payroll checks and direct deposits.

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 continue to 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. Payroll is monitored periodically during the year by comparing totals to the line-item budget and individually checking pay rates and deductions.

Conclusion - Response accepted.

I-B-12 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 - Pre-numbered tickets were not used for FY 12, but a procedure for using them will be implemented for all admission events starting in FY 13.

Conclusion - Response accepted.

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

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

II-A-12 Certified Budget - Expenditures for the year ended June 30, 2012 exceeded the amended certified budget amounts in the other expenditures functional area and in total.

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

Response - We will monitor our certified budget to make sure we are in compliance with Iowa Code 24.9 and have amendments done in a timely manner. The budget overage was due to payment for the refinanced bonds from fiscal year 2011.

Conclusion - Response accepted.

II-B-12 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-12 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-12 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 Member	Official	\$407
Mike Book, Transportation Liason owns Mike's Body & Paint	Repairs	\$290

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

In accordance with the Attorney General's opinion dated July2, 1990, the above transactions with the District employee do not appear to represent a conflict of interest.

II-E-12 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-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-12 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

II-H-12 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

- II-I-12 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-12 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-12 Categorical Funding - No instance were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance with the allowable uses of the statewide sales, services and use tax revenue provided in 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, 2012, 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 2012 audit:

Beginning Balance		\$ 899,282
Revenues:		
Sales tax revenues	\$ 485,179	
Other local revenues	2,723	
Sale of long-term debt	2,550,000	
Other	2,938	3,040,840
		<u>3,940,122</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 89,852	
Equipment	130,454	
Other	163,837	
Transferred to other funds		
Debt service fund	415,000	
Capital Projects: Construction	2,827,523	3,626,666
		<u>3,626,666</u>
Ending Balance		<u>\$ 313,456</u>

For the year ended June 30, 2012, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	<u>Rate of Levy Reduction Per \$1000 of Taxable Valuation</u>	<u>Property Tax Dollars Reduced</u>
Debt service levy	\$ 1.05536	\$ 160,000

II-M-12 Transfer to Enterprise Fund - We noted a permanent transfer of \$15,000 from the General Fund to the School Nutrition Fund to cover cash shortages at year end. Districts cannot transfer money from the General Fund to the School Nutrition Fund without permission from the School Budget Review Committee.

Recommendation - The District should contact the School Budget Review Committee and the Iowa Department of Education to resolve the matter.

Response - The money transferred to the hot lunch fund will be repaid to the general fund. If there continues to be solvency issues for the hot lunch fund, any transfers will be set up as loans as required by Iowa Code.

Conclusion - Response accepted.