

EARLHAM COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2013

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Earlham Community School District

Officials

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

# Earlham Community School District

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**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 as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

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 44 through 46 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 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

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 third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 4, 2014 on our consideration of Earlham Community School District's internal control over financial reporting and on 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 in considering Earlham Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

February 4, 2014  
Newton, Iowa

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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, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2013 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$6,175,114 in fiscal 2012 to \$5,831,611 in fiscal 2013, while General Fund expenditures increased from \$5,801,800 in fiscal 2012 to \$6,141,697 in fiscal 2013. Expenditures outpaced revenues resulting in a decrease in the District's General Fund balance from \$1,621,389 in fiscal 2012 to a balance of \$1,311,303 in fiscal 2013, a 19.12% decrease over the prior year.
- The decrease in General Fund revenues was primarily attributable to decreases in local and state sources revenues in fiscal 2013. The increase in expenditures was due primarily to the increase in the instruction functional area.

### **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 Position 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-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 position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</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 Position 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 position and how they have changed. Net position – 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 position is 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 Position, a Statement of Revenues, Expenses and Changes in Fund Net Position 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 Position and a Statement of Changes in Fiduciary Net Position.

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 position at June 30, 2013 compared to June 30, 2012.

Figure A-3 Condensed Statement of Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2013-12
Current and other assets	\$ 6,035,574	7,739,959	21,097	15,644	6,056,671	7,755,603	-21.91%
Capital assets	8,976,641	8,068,924	61,949	77,998	9,038,590	8,146,922	10.94%
Total assets	15,012,215	15,808,883	83,046	93,642	15,095,261	15,902,525	-5.08%
Long-term obligations	4,547,689	4,754,430	6,593	5,220	4,554,282	4,759,650	-4.31%
Other liabilities	3,324,280	3,858,569	30,429	7,789	3,354,709	3,866,358	-13.23%
Total liabilities	7,871,969	8,612,999	37,022	13,009	7,908,991	8,626,008	-8.31%
Net position:							
Invested in capital assets, net of related debt	4,634,137	4,932,003	61,949	77,998	4,696,086	5,010,001	-6.27%
Restricted	1,383,382	853,063	-	-	1,383,382	853,063	62.17%
Unrestricted	1,122,727	1,410,818	(15,925)	2,635	1,106,802	1,413,453	-21.70%
Total net position	\$ 7,140,246	7,195,884	46,024	80,633	7,186,270	7,276,517	-1.24%

The District’s combined net position decreased 1.24% or \$90,247 over the prior year. The largest portion of the District’s net position 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 position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net position increased \$530,319 or 62.17% from the prior year. The main reason for the increase was the increase in the Debt Service Fund balance.

Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements decreased \$306,651 or 21.70%. This is largely a result of the decrease in the General Fund unassigned fund balance.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 as compared to the year ended June 30, 2012.

	Figure A-4						
	Changes of Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
2013	2012	2013	2012	2013	2012	2013-12	
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 683,983	761,555	284,306	258,018	968,289	1,019,573	-5.03%
Operating grants, contributions and restricted interest	381,569	334,697	105,488	106,777	487,057	441,474	10.33%
Capital grants, contributions and restricted interest	-	13,231	-	-	-	13,231	-100.00%
General revenues:							
Property tax	2,493,375	2,471,719	-	-	2,493,375	2,471,719	0.88%
Statewide sales, services and use tax	520,795	485,179	-	-	520,795	485,179	7.34%
Unrestricted state grants	3,017,896	3,146,748	-	-	3,017,896	3,146,748	-4.09%
Nonspecific program federal grants	-	1,801	-	-	-	1,801	-100.00%
Unrestricted investment earnings	8,325	18,136	12	3	8,337	18,139	-54.04%
Other	63,871	70,460	-	1,287	63,871	71,747	-10.98%
Transfers	15,000	(15,000)	(15,000)	15,000	-	-	0.00%
Total revenues and transfers	<u>7,184,814</u>	<u>7,288,526</u>	<u>374,806</u>	<u>381,085</u>	<u>7,559,620</u>	<u>7,669,611</u>	<u>-1.43%</u>
Program expenses:							
Governmental activities:							
Instructional	4,602,578	4,147,895	15,129	8,156	4,617,707	4,156,051	11.11%
Support services	2,062,770	1,890,882	-	669	2,062,770	1,891,551	9.05%
Non-instructional programs	-	-	394,286	401,776	394,286	401,776	-1.86%
Other expenses	575,104	571,321	-	-	575,104	571,321	0.66%
Total expenses	<u>7,240,452</u>	<u>6,610,098</u>	<u>409,415</u>	<u>410,601</u>	<u>7,649,867</u>	<u>7,020,699</u>	<u>8.96%</u>
Increase(Decrease) in net position	(55,638)	678,428	(34,609)	(29,516)	(90,247)	648,912	-113.91%
Net position beginning 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>
Net position end of year	<u>\$ 7,140,246</u>	<u>7,195,884</u>	<u>46,024</u>	<u>80,633</u>	<u>7,186,270</u>	<u>7,276,517</u>	<u>-1.24%</u>

In fiscal 2013, property tax, statewide sales and services tax, and unrestricted state grants accounted for 83.96% of the revenue from governmental activities while charges for services and operating grants and contributions account for approximately all of the revenue from business type activities.

The District's total revenues were approximately \$7.56 million, of which approximately \$7.18 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 1.43% decrease in revenues and a 8.96% increase in expenses. The increase in expenses is related to increases in negotiated salaries and benefits.

### Governmental Activities

Revenues for governmental activities were \$7,184,814 and expenses were \$7,240,452. 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, 2013 compared to the year ended June 30, 2012.

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2013-12	2013	2012	Change 2013-12
Instruction	\$ 4,602,578	4,147,895	10.96%	3,780,283	3,282,309	15.17%
Support services	2,062,770	1,890,882	9.09%	2,043,621	1,873,821	9.06%
Other expenses	575,104	571,321	0.66%	350,996	344,485	1.89%
Totals	<u>\$ 7,240,452</u>	<u>6,610,098</u>	<u>9.54%</u>	<u>6,174,900</u>	<u>5,500,615</u>	<u>12.26%</u>

- The cost financed by users of the District's programs was \$683,983.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$381,569.
- The net cost of governmental activities was financed with \$2,493,375 in property tax, \$520,795 in statewide sales, services and use tax, \$3,017,896 in unrestricted state grants, \$8,325 in investment earnings, and \$78,871 in other general revenues and transfers.

### Business Type Activities

Revenues of the District's business type activities were \$374,806 and expenses were \$409,415. 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 \$2,673,364, below last year's ending fund balances of \$3,849,965. The decrease is due to the completion of various construction projects throughout the year.

### Governmental Fund Highlights

- The General Fund balance decreased from \$1,621,389 in fiscal 2012 to \$1,311,303 in fiscal 2013. The decrease was due primarily to decreases in local and state sources of revenue.

- 
- The Capital Projects accounts balance decreased from \$1,875,564 at June 30, 2012 to \$687,133 at June 30, 2013. The main reason for the decrease was due to the completion of various construction projects throughout the year.
  - The Debt Service Fund balance increased from \$260,999 at June 30, 2012 to \$591,901 at June 30, 2013. The increase was due to the funding of a debt sinking fund and payments will be made in fiscal year 2014.

### **Proprietary Fund Highlights**

School Nutrition Fund net position decreased from \$80,633 at June 30, 2012 to \$40,324 at June 30, 2013, representing a decrease of 50.00%. The Preschool Fund had a net position balance of \$5,700 at June 30, 2013.

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 Nutrition Fund to the General Fund was to repay the prior year transfer from the General Fund.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Earlham Community School District did not amend its fiscal year 2013 budget.

The District's revenues were \$504,441 less than budgeted revenues, a variance of 6.26%. The shortfall can be attributed in part to the District receiving less local and 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.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2013 the District had invested \$9,038,590, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$410,354.

The original cost of the District's capital assets was \$14,004,188. Governmental funds account for \$13,788,808 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 \$1,463,278 at June 30, 2012, compared to \$152,422 reported at June 30, 2013. This significant decrease resulted from completion of athletic complex during fiscal year 2013.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2013-12
Land	\$ 373,930	373,930	-	-	373,930	373,930	0.00%
Construction in progress	152,422	1,463,278	-	-	152,422	1,463,278	-89.58%
Buildings	7,946,020	5,669,043	-	-	7,946,020	5,669,043	40.17%
Improvements other than buildings	102,559	130,459	-	-	102,559	130,459	-21.39%
Machinery and equipment	401,710	432,214	61,949	77,998	463,659	510,212	-9.12%
Total	\$ 8,976,641	8,068,924	61,949	77,998	9,038,590	8,146,922	10.94%

### Long-Term Debt

At June 30, 2013, the District had \$4,554,282 in general obligation, and other long-term debt outstanding. This represents a decrease of 4.32% from the prior year. (See figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District's outstanding general bonded indebtedness at June 30, 2013 was \$1,820,000.

The District's outstanding revenue bond indebtedness at June 30, 2013 was \$2,550,000.

The District's outstanding Apple computer lease at June 30, 2013 was \$23,960.

The District's outstanding early retirement payable at June 30, 2013 was \$18,051.

The District had total Net OPEB liability of \$142,271 at June 30, 2013. Governmental activities account for \$135,678 and Business Type activities account for \$6,593.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2013-12
General obligation bonds	\$ 1,820,000	2,030,000	-	-	1,820,000	2,030,000	-10.34%
Revenue bonds	2,550,000	2,550,000	-	-	2,550,000	2,550,000	100.00%
Computer lease	23,960	46,669	-	-	23,960	46,669	-48.66%
Early retirement	18,051	22,162	-	-	18,051	22,162	-18.55%
Net OPEB Liability	135,678	105,599	6,593	5,220	142,271	110,819	28.38%
	\$ 4,547,689	4,754,430	6,593	5,220	4,554,282	4,759,650	-4.31%

### 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 is working on a construction proposal for new classrooms and a renovation of the practice gym.

- 
- The District had low new money for 2013 so a good portion of staff pay and benefit increases were paid with the existing general fund balance. Enrollment projections are up and allowable growth is set so there should be sufficient new money to stabilize the general fund balance.
  - The District has worked to upgrade the physical plant by replacing the windows in the 3-story building and resurfacing the parking lot.
  - Due to increased student participation, the District added a second full time band instructor for upper elementary and middle school.

### **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 POSITION  
JUNE 30, 2013

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 3,103,602	13,154	3,116,756
Receivables			
Property tax:			
Delinquent	36,742	-	36,742
Succeeding year	2,559,475	-	2,559,475
Due from other funds	20,000	-	20,000
Accounts	85,762	132	85,894
Due from other governments	229,993	-	229,993
Inventories	-	7,811	7,811
Capital assets, net of accumulated depreciation	8,976,641	61,949	9,038,590
<b>Total assets</b>	<b>15,012,215</b>	<b>83,046</b>	<b>15,095,261</b>
<b>Liabilities</b>			
Due to other funds	-	20,000	20,000
Accounts payable	172,069	-	172,069
Salaries and benefits payable	566,966	3,310	570,276
Accrued interest payable	25,770	-	25,770
Deferred revenue:			
Succeeding year property tax	2,559,475	-	2,559,475
Unearned revenue	-	7,119	7,119
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	215,000	-	215,000
Revenue bonds payable	315,000	-	315,000
Computer lease payable	23,960	-	23,960
Termination benefits payable	6,017	-	6,017
Portion due after one year:			
General obligation bonds payable	1,605,000	-	1,605,000
Revenue bonds payable	2,235,000	-	2,235,000
Termination benefits payable	12,034	-	12,034
Net OPEB liability	135,678	6,593	142,271
<b>Total liabilities</b>	<b>7,871,969</b>	<b>37,022</b>	<b>7,908,991</b>
<b>Net Position</b>			
Invested in capital assets, net of related debt	4,634,137	61,949	4,696,086
Restricted for:			
Categorical funding	92,638	-	92,638
Debt service levy	566,131	-	566,131
Management levy purposes	31,358	-	31,358
Student activities	33,618	-	33,618
School infrastructure	433,875	-	433,875
Physical plant and equipment levy	225,762	-	225,762
Unrestricted	1,122,727	(15,925)	1,106,802
<b>Total net position</b>	<b>\$ 7,140,246</b>	<b>46,024</b>	<b>7,186,270</b>

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 3,206,592	393,534	49,050	(2,764,008)	-	(2,764,008)
Special	617,536	25,331	35,719	(556,486)	-	(556,486)
Other	778,450	265,118	53,543	(459,789)	-	(459,789)
	<u>4,602,578</u>	<u>683,983</u>	<u>138,312</u>	<u>(3,780,283)</u>	<u>-</u>	<u>(3,780,283)</u>
Support services:						
Student	101,716	-	-	(101,716)	-	(101,716)
Instructional staff	377,660	-	4,864	(372,796)	-	(372,796)
Administration	692,944	-	12,870	(680,074)	-	(680,074)
Operation and maintenance of plant	672,863	-	-	(672,863)	-	(672,863)
Transportation	217,587	-	1,415	(216,172)	-	(216,172)
	<u>2,062,770</u>	<u>-</u>	<u>19,149</u>	<u>(2,043,621)</u>	<u>-</u>	<u>(2,043,621)</u>
Long-term debt interest	82,530	-	-	(82,530)	-	(82,530)
Other expenses:						
AEA flowthrough	268,466	-	224,108	(44,358)	-	(44,358)
Depreciation(unallocated)*	224,108	-	-	(224,108)	-	(224,108)
	<u>492,574</u>	<u>-</u>	<u>224,108</u>	<u>(268,466)</u>	<u>-</u>	<u>(268,466)</u>
Total governmental activities	7,240,452	683,983	381,569	(6,174,900)	-	(6,174,900)
Business type activities:						
Instruction:						
Regular	15,129	20,819	-	-	5,690	5,690
Non-instructional programs:						
Nutrition services	394,286	263,487	105,488	-	(25,311)	(25,311)
Total business type activities	<u>409,415</u>	<u>284,306</u>	<u>105,488</u>	<u>-</u>	<u>(19,621)</u>	<u>(19,621)</u>
Total	\$ 7,649,867	968,289	487,057	(6,174,900)	(19,621)	(6,194,521)
<b>General Revenues and Transfers:</b>						
General Revenues:						
Property tax levied for:						
General purposes				\$ 2,027,336	-	2,027,336
Debt service				254,304	-	254,304
Capital outlay				211,735	-	211,735
Statewide sales, services and use tax				520,795	-	520,795
Unrestricted state grants				3,017,896	-	3,017,896
Unrestricted investment earnings				8,325	12	8,337
Other				63,871	-	63,871
Transfers				15,000	(15,000)	-
Total general revenues and transfers				<u>6,119,262</u>	<u>(14,988)</u>	<u>6,104,274</u>
Change in net position				(55,638)	(34,609)	(90,247)
Net position beginning of year				<u>7,195,884</u>	<u>80,633</u>	<u>7,276,517</u>
Net position end of year				<u>\$ 7,140,246</u>	<u>46,024</u>	<u>7,186,270</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, 2013

	General	Debt Service	Capital Projects	Nonmajor	Total
<b>Assets</b>					
Cash and pooled investments	\$ 1,887,650	588,164	482,516	81,572	3,039,902
Receivables:					
Property tax:					
Delinquent	28,148	3,737	3,129	1,728	36,742
Succeeding year	1,906,513	257,375	220,588	174,999	2,559,475
Due from other funds	20,000	-	-	-	20,000
Accounts	115	-	-	4,817	4,932
Due from other governments	80,830	-	229,993	-	310,823
<b>Total assets</b>	<b>\$ 3,923,256</b>	<b>849,276</b>	<b>936,226</b>	<b>263,116</b>	<b>5,971,874</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 138,474	-	28,505	5,090	172,069
Salaries and benefits payable	566,966	-	-	-	566,966
Deferred revenue:					
Succeeding year property tax	1,906,513	257,375	220,588	174,999	2,559,475
<b>Total liabilities</b>	<b>2,611,953</b>	<b>257,375</b>	<b>249,093</b>	<b>180,089</b>	<b>3,298,510</b>
Fund balances:					
Restricted for:					
Categorical funding	92,638	-	-	-	92,638
Debt service	-	591,901	-	-	591,901
Management levy purposes	-	-	-	49,409	49,409
Student activities	-	-	-	33,618	33,618
School infrastructure	-	-	461,371	-	461,371
Physical plant and equipment	-	-	225,762	-	225,762
Unassigned	1,218,665	-	-	-	1,218,665
<b>Total fund balances</b>	<b>1,311,303</b>	<b>591,901</b>	<b>687,133</b>	<b>83,027</b>	<b>2,673,364</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,923,256</b>	<b>849,276</b>	<b>936,226</b>	<b>263,116</b>	<b>5,971,874</b>

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2013

<b>Total fund balances of governmental funds(page 20)</b>	\$	2,673,364
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		8,976,641
Blending of the Internal Service Fund to be reflected on an entity-wide basis.		63,700
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(25,770)
Long-term liabilities, including bonds payable, computer lease payable, other postemployment benefits payable and termination benefits payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(4,547,689)</u>
<b>Net position of governmental activities(page 18)</b>	<b>\$</b>	<b><u><u>7,140,246</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2013

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 1,923,202	254,304	551,974	104,134	2,833,614
Tuition	410,115	-	-	-	410,115
Other	102,662	280	2,931	271,240	377,113
State sources	3,250,310	-	180,556	-	3,430,866
Federal sources	118,106	-	-	-	118,106
Total revenues	<u>5,804,395</u>	<u>254,584</u>	<u>735,461</u>	<u>375,374</u>	<u>7,169,814</u>
Expenditures:					
Current:					
Instruction:					
Regular	3,023,271	-	31,111	-	3,054,382
Special	596,671	-	-	-	596,671
Other	502,682	-	-	261,198	763,880
	<u>4,122,624</u>	<u>-</u>	<u>31,111</u>	<u>261,198</u>	<u>4,414,933</u>
Support services:					
Student	101,165	-	-	-	101,165
Instructional staff	381,646	-	-	-	381,646
Administration	658,540	3,000	678	-	662,218
Operation and maintenance of plant	472,884	-	48,973	123,162	645,019
Transportation	180,730	-	-	-	180,730
	<u>1,794,965</u>	<u>3,000</u>	<u>49,651</u>	<u>123,162</u>	<u>1,970,778</u>
Capital outlay	-	-	1,461,166	-	1,461,166
Long-term debt:					
Principal	-	232,709	-	-	232,709
Interest and fiscal charges	-	69,937	-	-	69,937
	<u>-</u>	<u>302,646</u>	<u>-</u>	<u>-</u>	<u>302,646</u>
Other expenditures:					
AEA flowthrough	224,108	-	-	-	224,108
Total expenditures	<u>6,141,697</u>	<u>305,646</u>	<u>1,541,928</u>	<u>384,360</u>	<u>8,373,631</u>
Deficiency of revenues under expenditures	(337,302)	(51,062)	(806,467)	(8,986)	(1,203,817)
Other financing sources(uses):					
Transfer in	15,000	381,964	-	-	396,964
Transfer out	-	-	(381,964)	-	(381,964)
Insurance proceeds	11,016	-	-	-	11,016
Sale of equipment	1,200	-	-	-	1,200
Total other financing sources(uses)	<u>27,216</u>	<u>381,964</u>	<u>(381,964)</u>	<u>-</u>	<u>27,216</u>
Change in fund balances	(310,086)	330,902	(1,188,431)	(8,986)	(1,176,601)
Fund balances beginning of year	1,621,389	260,999	1,875,564	92,013	3,849,965
Fund balances end of year	<u>\$ 1,311,303</u>	<u>591,901</u>	<u>687,133</u>	<u>83,027</u>	<u>2,673,364</u>

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2013

Change in fund balances - total governmental funds(page 22) \$ (1,176,601)

**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 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 current year are as follows:

Capital outlays	\$ 1,302,022	
Depreciation expense	<u>(394,305)</u>	907,717

Net change in Internal Service Fund charged back against expenditures made for self-funded insurance on an entity-wide basis 19,098

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.  
 Repaid 232,709

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. (12,593)

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:

Termination benefits	4,111	
Other postemployment benefits	<u>(30,079)</u>	<u>(25,968)</u>

Change in net position of governmental activities(page 19) \$ (55,638)

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2013

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Preschool	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 7,160	5,994	13,154	63,700
Accounts receivable	132	-	132	-
Inventories	7,811	-	7,811	-
Capital assets, net of accumulated depreciation	61,949	-	61,949	-
<b>Total assets</b>	<b>77,052</b>	<b>5,994</b>	<b>83,046</b>	<b>63,700</b>
<b>Liabilities</b>				
Due to other funds	20,000	-	20,000	-
Salaries and benefits payable	3,310	-	3,310	-
Unearned revenue	7,119	-	7,119	-
Net OPEB liability	6,299	294	6,593	-
<b>Total liabilities</b>	<b>36,728</b>	<b>294</b>	<b>37,022</b>	<b>-</b>
<b>Net Position</b>				
Invested in capital assets	61,949	-	61,949	-
Unrestricted	(21,625)	5,700	(15,925)	63,700
<b>Total net position</b>	<b>\$ 40,324</b>	<b>5,700</b>	<b>46,024</b>	<b>63,700</b>

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2013

	Business Type Activities:			Governmental
	Enterprise Funds			Activities:
	School		Total	Internal Service Fund
	Nutrition	Preschool		
Operating revenues:				
Local sources:				
Charges for services	\$ 263,487	20,819	284,306	-
Donations	29	-	29	-
Miscellaneous	-	-	-	21,654
Total operating revenues	<u>263,516</u>	<u>20,819</u>	<u>284,335</u>	<u>21,654</u>
Operating expenses:				
Instruction:				
Regular:				
Salaries	-	11,394	11,394	-
Benefits	-	3,735	3,735	-
Total instruction	<u>-</u>	<u>15,129</u>	<u>15,129</u>	<u>-</u>
Non-instructional programs:				
Salaries	106,262	-	106,262	-
Benefits	39,849	-	39,849	2,701
Purchased services	35	-	35	-
Supplies	232,091	-	232,091	-
Depreciation	16,049	-	16,049	-
Total non-instructional programs	<u>394,286</u>	<u>-</u>	<u>394,286</u>	<u>2,701</u>
Total operating expenses	<u>394,286</u>	<u>15,129</u>	<u>409,415</u>	<u>2,701</u>
Operating income(loss)	<u>(130,770)</u>	<u>5,690</u>	<u>(125,080)</u>	<u>18,953</u>
Non-operating revenues:				
State sources	2,798	-	2,798	-
Federal sources	102,661	-	102,661	-
Interest on investments	2	10	12	145
Total non-operating revenues	<u>105,461</u>	<u>10</u>	<u>105,471</u>	<u>145</u>
Excess(Deficiency) of revenues over(under) expenditures	<u>(25,309)</u>	<u>5,700</u>	<u>(19,609)</u>	<u>19,098</u>
Other financing uses:				
Transfer out	<u>(15,000)</u>	<u>-</u>	<u>(15,000)</u>	<u>-</u>
Change in fund balances	<u>(40,309)</u>	<u>5,700</u>	<u>(34,609)</u>	<u>19,098</u>
Net position beginning of year	<u>80,633</u>	<u>-</u>	<u>80,633</u>	<u>44,602</u>
Net position end of year	<u>\$ 40,324</u>	<u>5,700</u>	<u>46,024</u>	<u>63,700</u>

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2013

	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	\$ 265,575	-	265,575	-
Cash received from families for preschool tuition	-	20,819	20,819	-
Cash received from donations	29	-	29	-
Cash received from miscellaneous	-	-	-	21,654
Cash paid to employees for services	(144,394)	(14,835)	(159,229)	(2,701)
Cash paid to suppliers for goods or services	(209,273)	-	(209,273)	-
Net cash provided by(used in) operating activities	(88,063)	5,984	(82,079)	18,953
Cash flows from non-capital financing activities:				
Borrowings from General Fund	20,000	-	20,000	-
Transfer to the General Fund	(15,000)	-	(15,000)	-
State grants received	2,798	-	2,798	-
Federal grants received	79,190	-	79,190	-
Net cash provided by non-capital financing activities	86,988	-	86,988	-
Cash flows from investing activities:				
Interest on investments	2	10	12	145
Net increase(decrease) in cash and cash equivalents	(1,073)	5,994	4,921	19,098
Cash and cash equivalents at beginning of year	8,233	-	8,233	44,602
Cash and cash equivalents at end of year	\$ 7,160	5,994	13,154	63,700
<b>Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:</b>				
Operating income(loss)	\$ (130,770)	5,690	(125,080)	18,953
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities used	23,471	-	23,471	-
Depreciation	16,049	-	16,049	-
Increase in inventories	(618)	-	(618)	-
Decrease in accounts receivable	86	-	86	-
Increase in salaries and benefits payable	638	-	638	-
Increase in other postemployment benefits	1,079	294	1,373	-
Increase in unearned revenue	2,002	-	2,002	-
Net cash provided by(used in) operating activities	\$ (88,063)	5,984	(82,079)	18,953

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

During the year ended June 30, 2013, the District received \$23,471 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2013

	Private Purpose Trust
	Scholarship
<b>Assets</b>	
Cash and pooled investments	\$ 4,250
<b>Liabilities</b>	
	-
<b>Net Position</b>	
Reserved for scholarships	\$ 4,250

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2013

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Gifts and contributions	\$ 41,905
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	37,655
Change in net position	4,250
Net position beginning of year	-
Net position end of year	\$ 4,250

SEE NOTES TO FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

(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 Position 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 Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is 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 position* results when constraints placed on net position use is either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has 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 Position and the Statement of Activities.

The District also reports fiduciary funds which focus on net position and changes in net position. 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 position 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.

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, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2012.

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 Position. 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 Position 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 Position 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 Position.

Fund Balances - In the governmental fund financial statements, fund balances are classified as follows:

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

Unassigned - All amounts not included in the preceding classification.

Restricted Net Position - In the government-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgets and Budgetary Accounting

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

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

The District's deposits at June 30, 2013 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, 2013, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$26,876 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, 2013 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 356,685
Debt Service	Capital Projects: Physical Plant and Equipment Levy	25,279
General	Nutrition	15,000
		<u>\$ 396,964</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for the principal and interest payments on the District's revenue bond indebtedness.

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

The transfer from the Nutrition Fund to the General Fund was made to repay the transfer that was not allowable in the prior year.

**(4) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	<u>\$ 20,000</u>

The Nutrition Fund is repaying the General Fund for salaries and benefits not repaid at year end.

(5) **Capital Assets**

Capital assets activity for the year ended June 30, 2013 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	1,173,014	2,483,870	152,422
Total capital assets not being depreciated	1,837,208	1,173,014	2,483,870	526,352
Capital assets being depreciated:				
Buildings	8,851,471	2,512,340	-	11,363,811
Improvements other than buildings	306,970	3,560	-	310,530
Machinery and equipment	1,491,137	96,978	-	1,588,115
Total capital assets being depreciated	10,649,578	2,612,878	-	13,262,456
Less accumulated depreciation for:				
Buildings	3,182,428	235,363	-	3,417,791
Improvements other than buildings	176,511	31,460	-	207,971
Machinery and equipment	1,058,923	127,482	-	1,186,405
Total accumulated depreciation	4,417,862	394,305	-	4,812,167
Total capital assets being depreciated, net	6,231,716	2,218,573	-	8,450,289
Governmental activities capital assets, net	\$ 8,068,924	3,391,587	2,483,870	8,976,641
<b>Business type activities:</b>				
Machinery and equipment	\$ 215,380	-	-	215,380
Less accumulated depreciation	137,382	16,049	-	153,431
Business type activities capital assets, net	\$ 77,998	(16,049)	-	61,949

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 40,758
Special	2,628
Other	10,840
Support services:	
Instructional staff	3,212
Administrative	12,645
Operation and maintenance of plant	26,483
Transportation	29,273
	125,839
Unallocated	268,466
Total depreciation expense - governmental activities	\$ 394,305
Business type activities:	
Food service operations	\$ 16,049

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2013 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 2,030,000	-	210,000	1,820,000	215,000
Revenue bonds	2,550,000	-	-	2,550,000	315,000
Computer lease	46,669	-	22,709	23,960	23,960
Termination benefits	22,162	-	4,111	18,051	6,017
Net OPEB liability	105,599	30,079	-	135,678	-
Total	\$ 4,754,430	30,079	236,820	4,547,689	559,977
<b>Business type activities:</b>					
Net OPEB liability	\$ 5,220	1,373	-	6,593	-

General Obligation Bonds Payable

Details of the District's June 30, 2013 General Obligation bonded indebtedness is as follows:

Year Ending June 30,	Issue dated January 1, 2011			
	Interest Rates	Principal	Interest	Total
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	2.40	230,000	26,750	256,750
2019-2021	2.75-3.15	715,000	43,715	758,715
Total		\$ 1,820,000	218,240	2,038,240

Revenue Bonds

Details of the District's June 30, 2013 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
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	1.50	375,000	17,350	392,350
2019-2020	1.75-2.00	775,000	15,069	790,069
Total		\$ 2,550,000	145,257	2,695,257

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 all of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$2,695,257. For the current year, \$23,391 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$340,239.

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, 2013 are as follows:

Year Ending June 30,	Computer Lease			
	Interest Rates	Principal	Interest	Total
2014	5.51 %	\$ 23,960	1,319	25,279

Termination Benefits(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, 2013, the District paid \$4,111 in early retirement benefits.

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$300,759, \$276,287, and \$233,498, respectively, equal to the required contributions for each year.

**(8) Other Post-employment Benefits (OPEB)**

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 75 active and 3 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 Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit rate subsidy and an OPEB liability.

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

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

The following table shows the components of the Districts OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 34,606
Interest on net OPEB obligation	2,770
Adjustment to annual required contribution	(3,863)
Annual OPEB cost	<u>33,513</u>
Contributions made	<u>(2,061)</u>
Increase in net OPEB obligation	31,452
Net OPEB obligation beginning of year	<u>110,819</u>
 Net OPEB obligation end of year	 <u><u>\$ 142,271</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District contributed \$2,061 to the medical plan. Plan members eligible for benefits contributed \$77,054, or 97.39% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 36,071	0.00%	\$ 71,022
2012	39,797	0.00%	110,819
2013	33,513	6.15%	142,271

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$339,006, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$339,006. The covered payroll (annual payroll of active employees covered by the plan) was \$3,129,855, and the ratio of the UAAL to covered payroll was 10.83%. As of June 30, 2013 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, 2012 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.

**(9) 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.

**(10) 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 \$224,108 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2013 is comprised of the following programs:

Program	Amount
Teacher Salary Supplement	44,707
Professional Development for Model Core Curriculum	25,169
Professional Development	22,762
Total	<u>\$ 92,638</u>

**(12) Construction Commitment**

The District has entered into contracts totaling \$275,208 for a window replacement project. As of June 30, 2013, costs of \$152,422 had been incurred against the contracts. The balance of \$122,786 remaining at year end will be paid as work progresses.

**(13) Deficit Fund Balances**

The School Nutrition Fund had a deficit unrestricted fund balance of \$21,625 at June 30, 2013. The District's Business Type Activities had a combined deficit unrestricted net position of \$15,925.

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, 2013

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 3,620,842	284,347	3,905,189	4,303,444	4,303,444	(398,255)
State sources	3,430,866	2,798	3,433,664	3,621,617	3,621,617	(187,953)
Federal sources	118,106	102,661	220,767	139,000	139,000	81,767
Total revenues	7,169,814	389,806	7,559,620	8,064,061	8,064,061	(504,441)
Expenditures/Expenses:						
Instruction	4,414,933	15,129	4,430,062	4,695,000	4,695,000	264,938
Support services	1,970,778	-	1,970,778	2,960,000	2,960,000	989,222
Non-instructional programs	-	394,286	394,286	600,000	600,000	205,714
Other expenditures	1,987,920	-	1,987,920	2,363,877	2,363,877	375,957
Total expenditures/expenses	8,373,631	409,415	8,783,046	10,618,877	10,618,877	1,835,831
Excess(Deficiency) of revenues over(under) expenditures/expenses	(1,203,817)	(19,609)	(1,223,426)	(2,554,816)	(2,554,816)	1,331,390
Other financing sources, net	27,216	(15,000)	12,216	20,000	20,000	(7,784)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(1,176,601)	(34,609)	(1,211,210)	(2,534,816)	(2,534,816)	1,323,606
Balances beginning of year	3,849,965	80,633	3,930,598	3,739,268	3,739,268	191,330
Balances end of year	\$ 2,673,364	46,024	2,719,388	1,204,452	1,204,452	1,514,936

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2013

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2013

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%
2013	July 1, 2012	-	339,006	339,006	0.00%	3,129,855	10.83%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost, Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2013

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
<b>Assets</b>			
Cash and pooled investments	\$ 48,826	32,746	81,572
Receivables:			
Property tax:			
Delinquent	1,728	-	1,728
Succeeding year	174,999	-	174,999
Accounts	-	4,817	4,817
<b>Total assets</b>	<b>\$ 225,553</b>	<b>37,563</b>	<b>263,116</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 1,145	3,945	5,090
Deferred revenue:			
Succeeding year property tax	174,999	-	174,999
<b>Total liabilities</b>	<b>176,144</b>	<b>3,945</b>	<b>180,089</b>
Fund balances:			
Restricted for:			
Management levy purposes	49,409	-	49,409
Student activities	-	33,618	33,618
<b>Total fund balances</b>	<b>49,409</b>	<b>33,618</b>	<b>83,027</b>
<b>Total liabilities and fund balances</b>	<b>\$ 225,553</b>	<b>37,563</b>	<b>263,116</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, 2013

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 104,134	-	104,134
Other	6,121	265,119	271,240
State sources	-	-	-
Total revenues	110,255	265,119	375,374
Expenditures:			
Current:			
Instruction:			
Other	-	261,198	261,198
Support services:			
Operation and maintenance of plant	123,162	-	123,162
Total expenditures	123,162	261,198	384,360
Change in fund balances	(12,907)	3,921	(8,986)
Fund balances beginning of year	62,316	29,697	92,013
Fund balances end of year	\$ 49,409	33,618	83,027

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2013

	Capital Projects			
	Statewide Sales, Services and Use Tax	Construction	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 217,203	42,680	222,633	482,516
Receivables:				
Property tax:				
Delinquent	-	-	3,129	3,129
Succeeding year	-	-	220,588	220,588
Due from other governments	229,993	-	-	229,993
<b>Total assets</b>	<b>\$ 447,196</b>	<b>42,680</b>	<b>446,350</b>	<b>936,226</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 13,321	15,184	-	28,505
Deferred revenue:				
Succeeding year property tax	-	-	220,588	220,588
<b>Total liabilities</b>	<b>13,321</b>	<b>15,184</b>	<b>220,588</b>	<b>249,093</b>
Fund balances:				
Restricted for:				
School infrastructure	433,875	27,496	-	461,371
Physical plant and equipment	-	-	225,762	225,762
<b>Total fund balances</b>	<b>433,875</b>	<b>27,496</b>	<b>225,762</b>	<b>687,133</b>
<b>Total liabilities and fund balances</b>	<b>\$ 447,196</b>	<b>42,680</b>	<b>446,350</b>	<b>936,226</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, 2013

	Capital Projects			
	Statewide Sales, Services and Use Tax	Construction	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 340,239	-	211,735	551,974
Other	667	1,903	361	2,931
State sources	180,556	-	-	180,556
Total revenues	521,462	1,903	212,096	735,461
Expenditures:				
Current:				
Instruction:				
Regular	-	-	31,111	31,111
Support services:				
Administration	678	-	-	678
Operation and maintenance of plant	-	-	48,973	48,973
Capital outlay	43,680	1,417,486	-	1,461,166
Total expenditures	44,358	1,417,486	80,084	1,541,928
Excess(Deficiency) of revenues over(under) expenditures	477,104	(1,415,583)	132,012	(806,467)
Other financing uses:				
Transfer out	(356,685)	-	(25,279)	(381,964)
Change in fund balances	120,419	(1,415,583)	106,733	(1,188,431)
Fund balances beginning of year	313,456	1,443,079	119,029	1,875,564
Fund balances end of year	\$ 433,875	27,496	225,762	687,133

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
General Student Activity	\$ 477	122	249	350
Drama	6,411	2,098	3,253	5,256
Flags	10	-	-	10
High School Music Trip	7,310	37,936	38,995	6,251
Jack Oatts Festival	1,783	6,170	3,236	4,717
Athletic	213	108,464	108,677	-
Cheerleaders	871	7,611	6,275	2,207
Drill Team	1,296	2,510	3,443	363
FFA	3,170	76,568	71,836	7,902
FCCLA	1,419	-	-	1,419
National Honor Society	440	224	577	87
Annual	1,191	6,637	7,828	-
International Trip	361	3,924	3,419	866
Science Club	165	-	-	165
Art Club	285	-	130	155
Spanish Club	523	532	716	339
High School Student Council	1,526	9,577	8,810	2,293
Middle School Student Council	2,246	2,746	3,754	1,238
Total	\$ 29,697	265,119	261,198	33,618

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 TEN YEARS

	Modified Accrual Basis									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 2,833,614	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	410,115	511,146	360,328	396,955	355,381	347,771	333,225	384,846	336,582	329,086
Other	377,113	362,959	294,577	256,445	262,524	311,747	401,244	259,814	293,339	338,103
State sources	3,430,866	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	118,106	94,319	273,141	414,884	192,801	142,997	128,331	111,875	132,318	92,648
Total	\$ 7,169,814	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	\$ 3,054,382	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	596,671	529,216	543,999	689,498	591,899	539,737	540,525	425,315	534,336	473,000
Other	763,880	757,302	717,887	684,619	688,507	655,987	681,938	569,161	481,314	447,460
Support services:										
Student	101,165	136,895	91,960	91,797	76,014	71,135	82,723	78,266	71,110	68,760
Instructional staff	381,646	332,356	90,814	123,213	112,008	109,127	114,410	117,377	113,857	87,247
Administration	662,218	678,530	654,412	570,641	586,681	625,624	564,344	550,297	516,682	464,359
Operation and maintenance of plant	645,019	546,062	623,820	528,375	481,119	520,895	557,528	510,278	645,614	684,453
Transportation	180,730	267,166	196,585	144,288	254,955	192,214	160,321	141,083	152,665	112,968
Central	-	-	-	-	-	-	-	-	-	52,942
Capital outlay	1,461,166	1,612,814	77,863	17,999	66,849	677,155	19,452	38,921	353,456	2,246,520
Long-term debt:										
Principal	232,709	2,221,524	285,806	274,713	266,947	233,895	220,000	210,000	200,000	190,000
Interest and fiscal charges	69,937	156,009	135,477	131,813	140,288	150,126	167,259	177,934	177,359	186,309
Other expenditures:										
AEA flow-through	224,108	226,836	243,441	240,207	223,403	207,424	188,419	170,580	149,175	146,376
Total	\$ 8,373,631	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 the Earlham Community School District:**

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the 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, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 4, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Earlham Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Earlham Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be material weaknesses.

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 and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

**Compliance and Other Matters**

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 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**

Earlham Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Earlham Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 4, 2014  
Newton, Iowa

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2013

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual may perform two or more functions in each of the following areas of the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing and recording.
- 5) Inventories - ordering, receiving, issuing and storing.
- 6) Wire transfers - processing and approving.
- 7) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 8) Transfers - preparing and approving.
- 9) Computer systems - performing all general accounting functions and controlling all data input and output.
- 10) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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 utilizing current personnel, including elected officials.

Response - We had two part time people and one full time person last year. One part time person became a full time person to help further segregation of duties. We continue to look for other ways to segregate duties. We continue to work with staff on proper procedures for purchasing, payroll and cash receipts.

Conclusion - Response acknowledged.

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2013

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

- II-A-13 Certified Budget - District disbursements for the year ended June 30, 2013, did not exceed the amounts budgeted.
- II-B-13 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-13 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-13 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Andrew Arnburg, Board Member father owns Earlham Building Center	Supplies	\$4,148

In accordance with an Attorney General's opinion dated November 7, 1976, the above transactions with the Board Member do not appear to represent a conflict of interest.

- II-E-13 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-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-13 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were reported as resident students was understated by 1.0 student.  
  
Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.  
  
Response - The District's auditor will contact the Iowa Department of Education and Department of Management to resolve this matter.  
  
Conclusion - Response accepted.
- II-H-13 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-13 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-13 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-13 Categorical Funding - No instance were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-13 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, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$	313,456
Revenues:			
Sales tax revenues	\$	340,239	
Other local revenues		667	
School infrastructure supplemental		180,556	
			<u>521,462</u>
Expenditures/transfer out:			<u>834,918</u>
Other	\$	44,358	
Transfer to other funds			
Debt service fund		356,685	
			<u>401,043</u>
Ending Balance		\$	<u><u>433,875</u></u>

For the year ended June 30, 2013, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.