

EARLHAM COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2014

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Earlham Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---|---|---------------------|
| Board of Education | | |
| (Before September 2013 Election) | | |
| Teresa Waldron | President | 2013 |
| Kathy Woolcott | Vice President | 2013 |
| Steve Willem | Board Member | 2015 |
| Andrew Arnburg | Board Member | 2015 |
| David Morford | Board Member | 2015 |
| (After September 2013 Election) | | |
| Teresa Waldron | President | 2017 |
| Kathy Woolcott | Vice President | 2017 |
| Steve Willem | Board Member | 2015 |
| Andrew Arnburg | Board Member | 2015 |
| David Morford | Board Member | 2015 |
| School Officials | | |
| Mike Wright | Superintendent | 2014 |
| Jodi Stroud | District Secretary/ Business Manager | 2014 |
| Ahlers & Cooney, P.C. | Attorney | 2014 |

Earlham Community School District

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

INDEPENDENT AUDITOR'S REPORT

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

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, 2014, 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, 2014, 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 15 and 40 through 42 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, 2013 (which are not presented herein) and expressed unmodified 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 23, 2015 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 23, 2015
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Earlham Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,831,611 in fiscal year 2013 to \$6,012,283 in fiscal year 2014, while General Fund expenditures increased from \$6,141,697 in fiscal year 2013 to \$6,616,025 in fiscal year 2014. Expenditures exceeded revenues resulting in a decrease in the District's General Fund balance from \$1,311,303 at June 30, 2013 to \$707,561 at June 30, 2014, a 46.04% decrease from the prior year.
- The increase in General Fund revenues was primarily attributable to an increase in state source revenues during fiscal year 2014. The increase in expenditures was due primarily to increased spending 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-1 shows how the various parts of this annual report are arranged and relate to one another.

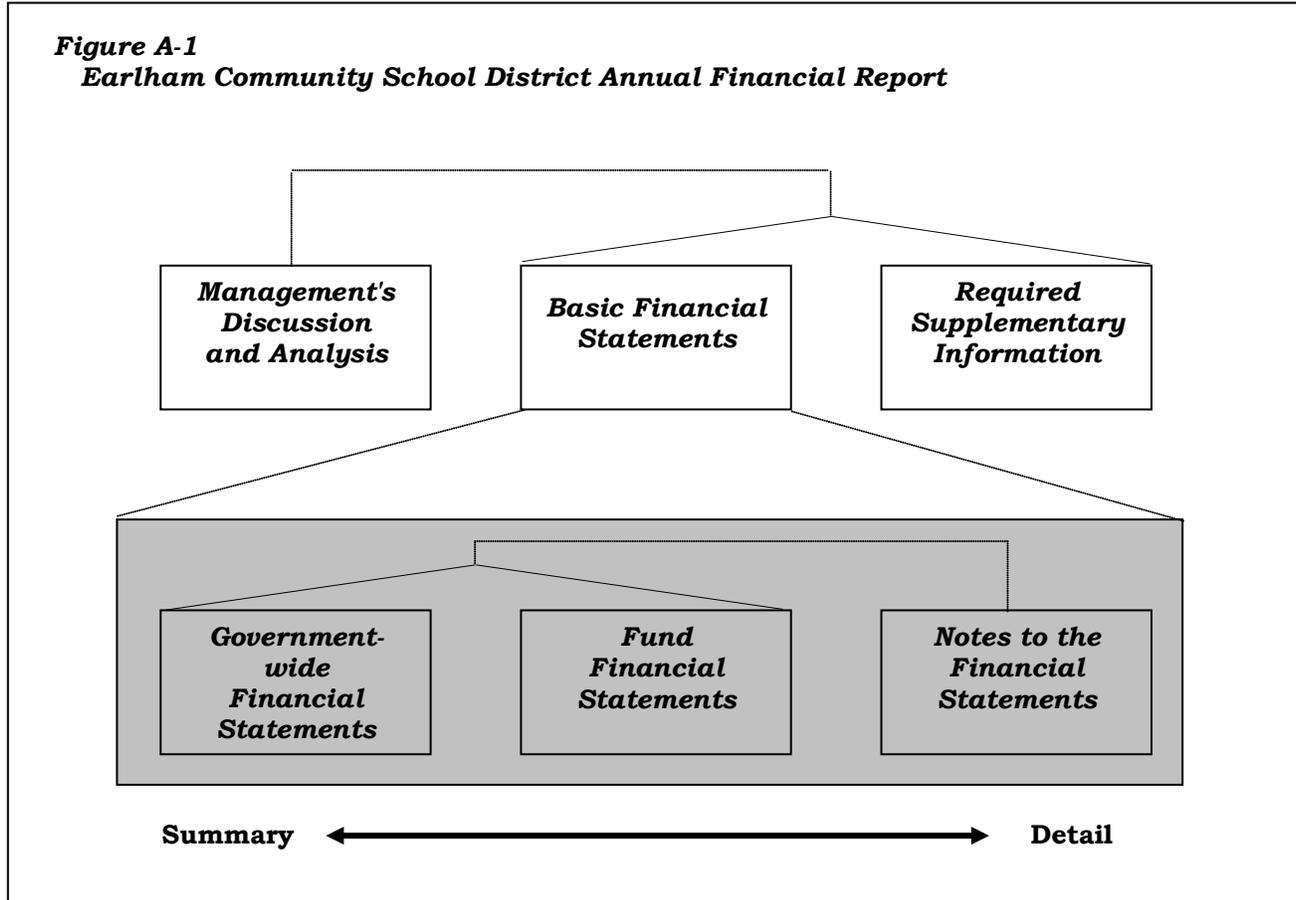


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

| | Government-wide Statements | Fund Statements | | |
|--|--|--|--|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses, e.g., food service | Instances in which the district administers resources on behalf of someone else, such as scholarship programs |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net position • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position |
| 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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District’s net position and how it has changed. Net position is one way to measure the District’s financial health or financial 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 governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net position at June 30, 2014 compared to June 30, 2013.

| 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, |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Current and other assets | \$ 5,450,876 | 6,035,574 | 23,373 | 21,097 | 5,474,249 | 6,056,671 | -9.62% |
| Capital assets | 9,058,713 | 8,976,641 | 45,901 | 61,949 | 9,104,614 | 9,038,590 | 0.73% |
| Total assets | <u>14,509,589</u> | <u>15,012,215</u> | <u>69,274</u> | <u>83,046</u> | <u>14,578,863</u> | <u>15,095,261</u> | <u>-3.42%</u> |
| Long-term liabilities | 4,019,212 | 4,547,689 | 7,722 | 6,593 | 4,026,934 | 4,554,282 | -11.58% |
| Other liabilities | 739,695 | 764,805 | 13,264 | 30,429 | 752,959 | 795,234 | -5.32% |
| Total liabilities | <u>4,758,907</u> | <u>5,312,494</u> | <u>20,986</u> | <u>37,022</u> | <u>4,779,893</u> | <u>5,349,516</u> | <u>-10.65%</u> |
| Deferred inflows of resources | <u>2,597,824</u> | <u>2,559,475</u> | - | - | <u>2,597,824</u> | <u>2,559,475</u> | <u>1.50%</u> |
| Net position: | | | | | | | |
| Net investment in capital assets | 5,218,713 | 4,634,137 | 45,901 | 61,949 | 5,264,614 | 4,696,086 | 12.11% |
| Restricted | 1,422,046 | 1,383,382 | - | - | 1,422,046 | 1,383,382 | 2.79% |
| Unrestricted | 512,099 | 1,122,727 | 2,387 | (15,925) | 514,486 | 1,106,802 | -53.52% |
| Total net position | <u>\$ 7,152,858</u> | <u>7,140,246</u> | <u>48,288</u> | <u>46,024</u> | <u>7,201,146</u> | <u>7,186,270</u> | <u>0.21%</u> |

The District's combined net position increased 0.21% or \$14,876 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 investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents 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 \$38,664 or 2.79% from the prior year. The main reason for the increase in restricted net position was the increase in ending fund balance of the Management Levy Fund.

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 \$592,316 or 53.52%. The primary reason for the decrease in unrestricted net position is the decrease in the General Fund unassigned fund balance.

Figure A-4 shows the changes in net position for the year ended June 30, 2014 as compared to the year ended June 30, 2013.

| Figure A-4 | | | | | | | |
|---|-------------------------|------------------|--------------------------|-----------------|------------------|------------------|-----------------|
| Changes in Net Position | | | | | | | |
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for service | \$ 593,895 | 683,983 | 277,444 | 284,306 | 871,339 | 968,289 | -10.01% |
| Operating grants, contributions and restricted interest | 388,118 | 381,569 | 123,191 | 105,488 | 511,309 | 487,057 | 4.98% |
| General revenues: | | | | | | | |
| Property tax | 2,555,306 | 2,493,375 | - | - | 2,555,306 | 2,493,375 | 2.48% |
| Statewide sales, services and use tax | 553,350 | 520,795 | - | - | 553,350 | 520,795 | 6.25% |
| Unrestricted state grants | 3,247,329 | 3,017,896 | - | - | 3,247,329 | 3,017,896 | 7.60% |
| Unrestricted investment earnings | 2,007 | 8,325 | 5 | 12 | 2,012 | 8,337 | -75.87% |
| Other | 91,414 | 63,871 | 1,190 | - | 92,604 | 63,871 | 44.99% |
| Total revenues | 7,431,419 | 7,169,814 | 401,830 | 389,806 | 7,833,249 | 7,559,620 | 3.62% |
| Program expenses: | | | | | | | |
| Instructional | 4,732,182 | 4,602,578 | 11,902 | 15,129 | 4,744,084 | 4,617,707 | 2.74% |
| Support services | 2,077,415 | 2,062,770 | - | - | 2,077,415 | 2,062,770 | 0.71% |
| Non-instructional programs | - | - | 387,664 | 394,286 | 387,664 | 394,286 | -1.68% |
| Other expenses | 609,210 | 575,104 | - | - | 609,210 | 575,104 | 5.93% |
| Total expenses | 7,418,807 | 7,240,452 | 399,566 | 409,415 | 7,818,373 | 7,649,867 | 2.20% |
| Excess(Deficiency) of revenues over(under) expenditures | 12,612 | (70,638) | 2,264 | (19,609) | 14,876 | (90,247) | 116.48% |
| Transfers | - | 15,000 | - | (15,000) | - | - | 0.00% |
| Change in net position | 12,612 | (55,638) | 2,264 | (34,609) | 14,876 | (90,247) | -116.48% |
| Net position beginning of year | 7,140,246 | 7,195,884 | 46,024 | 80,633 | 7,186,270 | 7,276,517 | -1.24% |
| Net position end of year | \$ 7,152,858 | 7,140,246 | 48,288 | 46,024 | 7,201,146 | 7,186,270 | 0.21% |

In fiscal year 2014, property tax, statewide sales, services and use tax, and unrestricted state grants accounted for 85.53% of the revenue from governmental activities while charges for service and operating grants and contributions account for nearly all of the revenue from business type activities.

The District's total revenues were approximately \$7.83 million, of which approximately \$7.43 million was for governmental activities and approximately \$0.40 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.62% increase in revenues and a 2.20% increase in expenses. Revenues from state sources increased \$229,433 to help fund the increase in expenses. The increase in expenses is primarily related to increased expenditures in the instruction functional area.

Governmental Activities

Revenues for governmental activities were \$7,431,419 and expenses were \$7,418,807. 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, 2014 compared to the year ended June 30, 2013.

Figure A-5
Total and Net Cost of Governmental Activities

| | Total Cost of Services | | | Net Cost of Services | | |
|------------------|------------------------|------------------|-------------------|----------------------|------------------|-------------------|
| | 2014 | 2013 | Change 2013-14 | 2014 | 2013 | Change 2013-14 |
| Instruction | \$ 4,732,182 | 4,602,578 | 2.82% | 4,001,497 | 3,780,283 | 5.85% |
| Support services | 2,077,415 | 2,062,770 | 0.71% | 2,061,076 | 2,043,621 | 0.85% |
| Other expenses | 609,210 | 575,104 | 5.93% | 374,221 | 350,996 | 6.62% |
| Totals | <u>\$ 7,418,807</u> | <u>7,240,452</u> | <u>2.46%</u> | <u>6,436,794</u> | <u>6,174,900</u> | <u>4.24%</u> |

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$593,895.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$388,118.
- The net cost of governmental activities was financed with \$2,555,306 in property tax, \$553,350 in statewide sales, services and use tax, \$3,247,329 in unrestricted state grants, \$2,007 in investment earnings, and \$91,414 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$401,830 and expenses were \$399,566. 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 balances of \$2,072,873, below last year's ending fund balances of \$2,673,364. This decrease in combined fund balances is due primarily to the decrease in the General Fund balance.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in state source revenues resulted in an increase in revenues. However, the increase in revenues were more than offset by the District's increase in General fund expenditures, requiring the District to carryover fund balance to meet its financial obligations. The General Fund balance decreased from \$1,311,303 at June 30, 2013 to \$707,561 at June 30, 2014. The decrease was due primarily to increases in instruction and support services expenses.
- The Capital Projects accounts balance decreased from \$687,133 at June 30, 2013 to \$607,377 at June 30, 2014. Although expenditures outpaced revenues, the District completed the window replacement project during the year.
- The Debt Service Fund balance increased from \$591,901 at June 30, 2013 to \$618,514 at June 30, 2014.

Proprietary Fund Highlights

The School Nutrition Fund net position increased from \$40,324 at June 30, 2013 to \$48,288 at June 30, 2014, representing an increase of 19.75%.

The cash flow and the operating costs of the School Nutrition Fund are monitored closely to make sure the revenues from the hot lunch sales are adequate to cover increased labor, supply and transportation costs.

BUDGETARY HIGHLIGHTS

The District's revenues were \$726,527 less than budgeted revenues, a variance of 8.49%. The District received less revenue from local sources than 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, 2014 the District had invested \$9,104,614 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 \$456,602.

The original cost of the District's capital assets was \$14,234,972. Governmental funds account for \$14,019,592 with the remainder of \$215,380 in the Proprietary, School Nutrition Fund.

The largest dollar change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$152,422 at June 30, 2013, compared to \$4,500 reported at June 30, 2014. This significant decrease resulted from completion of a window replacement project during fiscal year 2014.

| 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, |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Land | \$ 373,930 | 373,930 | - | - | 373,930 | 373,930 | 0.00% |
| Construction in progress | 4,500 | 152,422 | - | - | 4,500 | 152,422 | -97.05% |
| Buildings | 8,061,102 | 7,946,020 | - | - | 8,061,102 | 7,946,020 | 1.45% |
| Improvements other than buildings | 227,121 | 102,559 | - | - | 227,121 | 102,559 | 121.45% |
| Machinery and equipment | 392,060 | 401,710 | 45,901 | 61,949 | 437,961 | 463,659 | -5.54% |
| Total | \$ 9,058,713 | 8,976,641 | 45,901 | 61,949 | 9,104,614 | 9,038,590 | 0.73% |

Long-Term Debt

At June 30, 2014, the District had \$4,026,934 of long-term debt outstanding. This represents a decrease of 11.58% 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, 2014 was \$1,605,000.

The District's outstanding revenue bond indebtedness at June 30, 2014 was \$2,235,000.

The District's outstanding termination benefits payable at June 30, 2014 was \$12,624.

The District had total Net OPEB liability of \$174,310 at June 30, 2014. Governmental activities account for \$166,588 and Business Type activities account for \$7,722.

| Figure A-7 | | | | | | | |
|-----------------------------------|----------------------------|------------------|-----------------------------|--------------|-------------------|------------------|-----------------|
| Outstanding Long-Term Obligations | | | | | | | |
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| General obligation bonds | \$ 1,605,000 | 1,820,000 | - | - | 1,605,000 | 1,820,000 | -11.81% |
| Revenue bonds | 2,235,000 | 2,550,000 | - | - | 2,235,000 | 2,550,000 | -12.35% |
| Computer lease | - | 23,960 | - | - | - | 23,960 | -100.00% |
| Termination benefits | 12,624 | 18,051 | - | - | 12,624 | 18,051 | -30.06% |
| Net OPEB Liability | 166,588 | 135,678 | 7,722 | 6,593 | 174,310 | 142,271 | 22.52% |
| | <u>\$ 4,019,212</u> | <u>4,547,689</u> | <u>7,722</u> | <u>6,593</u> | <u>4,026,934</u> | <u>4,554,282</u> | <u>-11.58%</u> |

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:

- With low and no allowable growth over the last few years, along with increases in wages and benefits, the District has had to use general fund balance to finance the operations of the district resulting in a significant drop in the fund balance.
- Due to the state not setting allowable growth as required for the following year, the District is unable to properly forecast revenues.
- The uncertainty of revenues will most likely mean staff and/or program reductions so the general fund can regain some solvency and fund the District operations without having to borrow money. This will also lead to an increase in property taxes to fund the cash reserve.

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.

Earlham Community School District

BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Cash and pooled investments | \$ 2,490,855 | 33,520 | 2,524,375 |
| Receivables | | | |
| Property tax: | | | |
| Delinquent | 22,971 | - | 22,971 |
| Succeeding year | 2,597,824 | - | 2,597,824 |
| Accounts | 685 | 200 | 885 |
| Due from other funds | 20,000 | (20,000) | - |
| Due from other governments | 318,541 | - | 318,541 |
| Inventories | - | 9,653 | 9,653 |
| Capital assets, net of accumulated depreciation | 9,058,713 | 45,901 | 9,104,614 |
| Total assets | 14,509,589 | 69,274 | 14,578,863 |
| Liabilities | | | |
| Accounts payable | 127,143 | - | 127,143 |
| Salaries and benefits payable | 590,088 | 5,714 | 595,802 |
| Accrued interest payable | 22,464 | - | 22,464 |
| Unearned revenue | - | 7,550 | 7,550 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| General obligation bonds payable | 220,000 | - | 220,000 |
| Revenue bonds payable | 345,000 | - | 345,000 |
| Termination benefits payable | 6,312 | - | 6,312 |
| Portion due after one year: | | | |
| General obligation bonds payable | 1,385,000 | - | 1,385,000 |
| Revenue bonds payable | 1,890,000 | - | 1,890,000 |
| Termination benefits payable | 6,312 | - | 6,312 |
| Net OPEB liability | 166,588 | 7,722 | 174,310 |
| Total liabilities | 4,758,907 | 20,986 | 4,779,893 |
| Deferred Inflows of Resources: | | | |
| Unavailable property tax revenue | 2,597,824 | - | 2,597,824 |
| Net Position | | | |
| Net investment in capital assets | 5,218,713 | 45,901 | 5,264,614 |
| Restricted for: | | | |
| Categorical funding | 85,249 | - | 85,249 |
| Debt service | 596,050 | - | 596,050 |
| Management levy purposes | 93,654 | - | 93,654 |
| Student activities | 39,716 | - | 39,716 |
| School infrastructure | 453,635 | - | 453,635 |
| Physical plant and equipment | 153,742 | - | 153,742 |
| Unrestricted | 512,099 | 2,387 | 514,486 |
| Total net position | \$ 7,152,858 | 48,288 | 7,201,146 |

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---------------------------------------|---------------------|----------------|--|--|--------------------------------|--------------------|
| | Expenses | Charges | Operating Grants, Contributions and Restricted Interest | Govern- mental Activities | Business Type Activities | Total |
| | | for Service | | | | |
| Functions/Programs: | | | | | | |
| Governmental activities: | | | | | | |
| Instruction: | | | | | | |
| Regular | \$ 3,190,611 | 372,353 | 53,300 | (2,764,958) | - | (2,764,958) |
| Special | 745,110 | 10,509 | 37,974 | (696,627) | - | (696,627) |
| Other | 796,461 | 211,033 | 45,516 | (539,912) | - | (539,912) |
| | <u>4,732,182</u> | <u>593,895</u> | <u>136,790</u> | <u>(4,001,497)</u> | <u>-</u> | <u>(4,001,497)</u> |
| Support services: | | | | | | |
| Student | 156,873 | - | - | (156,873) | - | (156,873) |
| Instructional staff | 355,624 | - | 3,383 | (352,241) | - | (352,241) |
| Administration | 688,957 | - | 2,072 | (686,885) | - | (686,885) |
| Operation and maintenance of plant | 670,314 | - | - | (670,314) | - | (670,314) |
| Transportation | 205,647 | - | 10,884 | (194,763) | - | (194,763) |
| | <u>2,077,415</u> | <u>-</u> | <u>16,339</u> | <u>(2,061,076)</u> | <u>-</u> | <u>(2,061,076)</u> |
| Long-term debt interest | 73,131 | - | - | (73,131) | - | (73,131) |
| Other expenses: | | | | | | |
| AEA flowthrough | 234,989 | - | 234,989 | - | - | - |
| Depreciation(unallocated)* | 301,090 | - | - | (301,090) | - | (301,090) |
| | <u>536,079</u> | <u>-</u> | <u>234,989</u> | <u>(301,090)</u> | <u>-</u> | <u>(301,090)</u> |
| Total governmental activities | 7,418,807 | 593,895 | 388,118 | (6,436,794) | - | (6,436,794) |
| Business type activities: | | | | | | |
| Instruction: | | | | | | |
| Other | 11,902 | 6,200 | - | - | (5,702) | (5,702) |
| Support services: | | | | | | |
| Administration | 16 | - | - | - | (16) | (16) |
| Non-instructional programs: | | | | | | |
| Food service operations | 387,648 | 271,244 | 123,191 | - | 6,787 | 6,787 |
| Total business type activities | <u>399,566</u> | <u>277,444</u> | <u>123,191</u> | <u>-</u> | <u>1,069</u> | <u>1,069</u> |
| Total | \$ <u>7,818,373</u> | <u>871,339</u> | <u>511,309</u> | <u>(6,436,794)</u> | <u>1,069</u> | <u>(6,435,725)</u> |
| General Revenues: | | | | | | |
| Property tax levied for: | | | | | | |
| General purposes | | | | \$ 2,078,122 | - | 2,078,122 |
| Debt service | | | | 256,955 | - | 256,955 |
| Capital outlay | | | | 220,229 | - | 220,229 |
| Statewide sales, services and use tax | | | | 553,350 | - | 553,350 |
| Unrestricted state grants | | | | 3,247,329 | - | 3,247,329 |
| Unrestricted investment earnings | | | | 2,007 | 5 | 2,012 |
| Other | | | | 91,414 | 1,190 | 92,604 |
| Total general revenues | | | | <u>6,449,406</u> | <u>1,195</u> | <u>6,450,601</u> |
| Change in net position | | | | 12,612 | 2,264 | 14,876 |
| Net position beginning of year | | | | <u>7,140,246</u> | <u>46,024</u> | <u>7,186,270</u> |
| Net position end of year | | | | <u>\$ 7,152,858</u> | <u>48,288</u> | <u>7,201,146</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, 2014

| | General | Debt Service | Capital Projects | Nonmajor | Total |
|---|---------------------|-----------------|---------------------|----------------|------------------|
| Assets | | | | | |
| Cash and pooled investments | \$ 1,338,037 | 616,205 | 333,459 | 140,206 | 2,427,907 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 17,132 | 2,309 | 1,980 | 1,550 | 22,971 |
| Succeeding year | 1,984,343 | 259,472 | 224,009 | 130,000 | 2,597,824 |
| Accounts | 643 | - | - | 42 | 685 |
| Due from other funds | 20,000 | - | - | - | 20,000 |
| Due from other governments | 46,403 | - | 272,138 | - | 318,541 |
| Total assets | \$ 3,406,558 | 877,986 | 831,586 | 271,798 | 5,387,928 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 124,566 | - | 200 | 2,377 | 127,143 |
| Salaries and benefits payable | 590,088 | - | - | - | 590,088 |
| Total liabilities | 714,654 | - | 200 | 2,377 | 717,231 |
| Deferred inflows of resources: | | | | | |
| Unavailable revenues: | | | | | |
| Succeeding year property tax | 1,984,343 | 259,472 | 224,009 | 130,000 | 2,597,824 |
| Fund balances: | | | | | |
| Restricted for: | | | | | |
| Categorical funding | 85,249 | - | - | - | 85,249 |
| Debt service | - | 618,514 | - | - | 618,514 |
| Management levy purposes | - | - | - | 106,278 | 106,278 |
| Student activities | - | - | - | 39,716 | 39,716 |
| School infrastructure | - | - | 453,635 | - | 453,635 |
| Physical plant and equipment | - | - | 153,742 | - | 153,742 |
| Unassigned: | | | | | |
| General | 622,312 | - | - | - | 622,312 |
| Student activities | - | - | - | (6,573) | (6,573) |
| Total fund balances | 707,561 | 618,514 | 607,377 | 139,421 | 2,072,873 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 3,406,558 | 877,986 | 831,586 | 271,798 | 5,387,928 |

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2014

| | | |
|--|-----------|--------------------------------|
| Total fund balances of governmental funds(page 20) | \$ | 2,072,873 |
| <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 the governmental funds. | | 9,058,713 |
| Blending of the Internal Service Fund to be reflected on an entity-wide basis. | | 62,948 |
| Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds. | | (22,464) |
| Long-term liabilities, including bonds payable, termination benefits payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | <u>(4,019,212)</u> |
| Net position of governmental activities(page 18) | \$ | <u><u>7,152,858</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

| | General | Debt Service | Capital Projects | Nonmajor | Total |
|--|-------------------|-----------------|---------------------|----------------|------------------|
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 1,903,428 | 256,955 | 220,229 | 174,694 | 2,555,306 |
| Tuition | 372,237 | - | - | - | 372,237 |
| Other | 122,184 | 68 | 393 | 213,447 | 336,092 |
| State sources | 3,496,727 | - | 553,350 | - | 4,050,077 |
| Federal sources | 117,707 | - | - | - | 117,707 |
| Total revenues | <u>6,012,283</u> | <u>257,023</u> | <u>773,972</u> | <u>388,141</u> | <u>7,431,419</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 3,137,806 | - | 8,790 | - | 3,146,596 |
| Special | 737,669 | - | - | - | 737,669 |
| Other | 596,239 | - | - | 211,508 | 807,747 |
| | <u>4,471,714</u> | <u>-</u> | <u>8,790</u> | <u>211,508</u> | <u>4,692,012</u> |
| Support services: | | | | | |
| Student | 156,491 | - | - | - | 156,491 |
| Instructional staff | 372,447 | - | - | - | 372,447 |
| Administration | 669,763 | 2,230 | 2,000 | - | 673,993 |
| Operation and maintenance of plant | 538,826 | - | 43,826 | 120,239 | 702,891 |
| Transportation | 171,795 | - | 50,829 | - | 222,624 |
| | <u>1,909,322</u> | <u>2,230</u> | <u>96,655</u> | <u>120,239</u> | <u>2,128,446</u> |
| Capital outlay | - | - | 346,066 | - | 346,066 |
| Long-term debt: | | | | | |
| Principal | - | 553,960 | - | - | 553,960 |
| Interest and fiscal charges | - | 76,437 | - | - | 76,437 |
| | <u>-</u> | <u>630,397</u> | <u>-</u> | <u>-</u> | <u>630,397</u> |
| Other expenditures: | | | | | |
| AEA flowthrough | 234,989 | - | - | - | 234,989 |
| Total expenditures | <u>6,616,025</u> | <u>632,627</u> | <u>451,511</u> | <u>331,747</u> | <u>8,031,910</u> |
| Excess(Deficiency) of revenues over(under) expenditures | (603,742) | (375,604) | 322,461 | 56,394 | (600,491) |
| Other financing sources(uses): | | | | | |
| Transfer in | - | 402,217 | - | - | 402,217 |
| Transfer out | - | - | (402,217) | - | (402,217) |
| Total other financing sources(uses) | <u>-</u> | <u>402,217</u> | <u>(402,217)</u> | <u>-</u> | <u>-</u> |
| Change in fund balances | (603,742) | 26,613 | (79,756) | 56,394 | (600,491) |
| Fund balances beginning of year | <u>1,311,303</u> | <u>591,901</u> | <u>687,133</u> | <u>83,027</u> | <u>2,673,364</u> |
| Fund balances end of year | <u>\$ 707,561</u> | <u>618,514</u> | <u>607,377</u> | <u>139,421</u> | <u>2,072,873</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, 2014

Change in fund balances - total governmental funds(page 22) \$ (600,491)

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 are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

| | | |
|----------------------|------------------|--------|
| Capital outlay | \$ 522,626 | |
| Depreciation expense | <u>(440,554)</u> | 82,072 |

Net change in Internal Service Fund charged back against expenditures made for self-funded insurance on an entity-wide basis (752)

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. 553,960

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 governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 3,306

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 | 5,427 | |
| Other postemployment benefits | <u>(30,910)</u> | <u>(25,483)</u> |

Change in net position of governmental activities(page 19) \$ 12,612

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

| | Business Type Activities: <u>Enterprise Fund</u> School Nutrition | Governmental Activities: Internal Service Fund |
|--|---|--|
| Assets | | |
| Current assets: | | |
| Cash and pooled investments | \$ 33,520 | 62,948 |
| Accounts receivable | 200 | - |
| Inventories | 9,653 | - |
| Total current assets | 43,373 | 62,948 |
| Noncurrent assets: | | |
| Capital assets, net of accumulated depreciation | 45,901 | - |
| Total assets | 89,274 | 62,948 |
| Liabilities | | |
| Current liabilities: | | |
| Salaries and benefits payable | 5,714 | - |
| Due to other funds | 20,000 | - |
| Unearned revenue | 7,550 | - |
| Total current liabilities | 33,264 | - |
| Noncurrent liabilities: | | |
| Net OPEB liability | 7,722 | - |
| Total liabilities | 40,986 | - |
| Net Position | | |
| Net investment in capital assets | 45,901 | - |
| Unrestricted | 2,387 | 62,948 |
| Total net position | \$ 48,288 | 62,948 |

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, 2014

| | Business Type Activities: Enterprise Funds | | | Governmental Activities: Internal Service Fund |
|--------------------------------|--|----------------|------------------|--|
| | School Nutrition | Preschool | Total | |
| | <hr/> | | | |
| Operating revenues: | | | | |
| Local sources: | | | | |
| Charges for service | \$ 271,244 | 6,200 | 277,444 | - |
| Donations | - | - | - | - |
| Miscellaneous | 1,190 | - | 1,190 | 5,799 |
| Total operating revenues | <u>272,434</u> | <u>6,200</u> | <u>278,634</u> | <u>5,799</u> |
| <hr/> | | | | |
| Operating expenses: | | | | |
| Instruction: | | | | |
| Other: | | | | |
| Salaries | - | 9,363 | 9,363 | - |
| Benefits | - | 2,539 | 2,539 | - |
| | <u>-</u> | <u>11,902</u> | <u>11,902</u> | <u>-</u> |
| Support services: | | | | |
| Administration: | | | | |
| Benefits | - | - | - | 6,627 |
| Other | 16 | - | 16 | - |
| | <u>16</u> | <u>-</u> | <u>16</u> | <u>6,627</u> |
| Non-instructional programs: | | | | |
| Food service operations: | | | | |
| Salaries | 98,524 | - | 98,524 | - |
| Benefits | 43,932 | - | 43,932 | - |
| Services | 53 | - | 53 | - |
| Supplies | 229,091 | - | 229,091 | - |
| Depreciation | 16,048 | - | 16,048 | - |
| | <u>387,648</u> | <u>-</u> | <u>387,648</u> | <u>-</u> |
| Total operating expenses | <u>387,664</u> | <u>11,902</u> | <u>399,566</u> | <u>6,627</u> |
| <hr/> | | | | |
| Operating loss | <u>(115,230)</u> | <u>(5,702)</u> | <u>(120,932)</u> | <u>(828)</u> |
| <hr/> | | | | |
| Non-operating revenues: | | | | |
| State sources | 3,002 | - | 3,002 | - |
| Federal sources | 120,189 | - | 120,189 | - |
| Interest on investments | 3 | 2 | 5 | 76 |
| Total non-operating revenues | <u>123,194</u> | <u>2</u> | <u>123,196</u> | <u>76</u> |
| <hr/> | | | | |
| Change in net position | 7,964 | (5,700) | 2,264 | (752) |
| <hr/> | | | | |
| Net position beginning of year | <u>40,324</u> | <u>5,700</u> | <u>46,024</u> | <u>63,700</u> |
| <hr/> | | | | |
| Net position end of year | <u>\$ 48,288</u> | <u>-</u> | <u>48,288</u> | <u>62,948</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

| | Business Type | | | Governmental |
|---|------------------|-----------|-----------|--------------|
| | Activities: | | | Activities: |
| | Enterprise Funds | | | Internal |
| | School | | Total | Service |
| | Nutrition | Preschool | | Fund |
| Cash flows from operating activities: | | | | |
| Cash received from sale of lunches and breakfasts | \$ 271,607 | - | 271,607 | - |
| Cash received from families for preschool tuition | - | 6,200 | 6,200 | - |
| Cash received from donations | 1,190 | - | 1,190 | - |
| Cash received from miscellaneous | - | - | - | 5,799 |
| Cash paid to employees for services | (138,629) | (12,196) | (150,825) | - |
| Cash paid to suppliers for goods or services | (209,233) | - | (209,233) | (6,627) |
| Net cash used in operating activities | (75,065) | (5,996) | (81,061) | (828) |
| Cash flows from non-capital financing activities: | | | | |
| State grants received | 3,002 | - | 3,002 | - |
| Federal grants received | 98,420 | - | 98,420 | - |
| Net cash provided by non-capital financing activities | 101,422 | - | 101,422 | - |
| Cash flows from investing activities: | | | | |
| Interest on investments | 3 | 2 | 5 | 76 |
| Net increase(decrease) in cash and cash equivalents | 26,360 | (5,994) | 20,366 | (752) |
| Cash and cash equivalents beginning of year | 7,160 | 5,994 | 13,154 | 63,700 |
| Cash and cash equivalents end of year | \$ 33,520 | - | 33,520 | 62,948 |
| Reconciliation of operating loss to net cash used in operating activities: | | | | |
| Operating loss | \$ (115,230) | (5,702) | (120,932) | (828) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | | | |
| Commodities used | 21,769 | - | 21,769 | - |
| Depreciation | 16,048 | - | 16,048 | - |
| Increase in inventories | (1,842) | - | (1,842) | - |
| Increase in accounts receivable | (68) | - | (68) | - |
| Increase in salaries and benefits payable | 2,404 | - | 2,404 | - |
| Increase(Decrease) in other postemployment benefits | 1,423 | (294) | 1,129 | - |
| Increase in unearned revenue | 431 | - | 431 | - |
| Net cash used in operating activities | \$ (75,065) | (5,996) | (81,061) | (828) |

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2014, the District received \$21,769 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2014

| | <u>Private Purpose Trust Scholarship</u> |
|--------------------------------|--|
| Additions: | |
| Local sources: | |
| Gifts and contributions | <u>\$ 43,382</u> |
| Deductions: | |
| Instruction: | |
| Regular: | |
| Scholarships awarded | <u> 47,632</u> |
| Change in net position | (4,250) |
| Net position beginning of year | <u> 4,250</u> |
| Net position end of year | <u><u> \$ -</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 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, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets 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. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints 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 partially 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, Deferred Inflows of Resources and Fund Balances

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

Cash, Cash Equivalents and Pooled Investments - 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.

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, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2013.

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 | \$ 2,500 |
| Buildings | 2,500 |
| Improvements other than buildings | 2,500 |
| Intangibles | 25,000 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 2,500 |

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

| Asset Class | Estimated Useful Lives |
|-----------------------------------|------------------------|
| Buildings | 50 years |
| Improvements other than buildings | 20 years |
| Intangibles | 2 or more years |
| Machinery and equipment | 5-12 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 Inflows of Resources - 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 inflows of resources 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 inflows of resources consist of property tax receivables not collected within sixty days after year end.

Deferred inflows of resources in 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 classifications.

E. Budgets and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

The District's deposits at June 30, 2014 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, 2014, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$26,877 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.

Note 3. Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|---|-------------------|
| Debt Service | Capital Projects: Statewide Sales, Services and Use Tax | \$ 376,938 |
| Debt Service | Capital Projects: Physical Plant and Equipment Levy | 25,279 |
| Total | | <u>\$ 402,217</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 principal and interest payments on the District's computer lease.

Note 4. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2014 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.

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-----------------|----------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 373,930 | - | - | 373,930 |
| Construction in progress | 152,422 | 137,215 | 285,137 | 4,500 |
| Total capital assets not being depreciated | <u>526,352</u> | <u>137,215</u> | <u>285,137</u> | <u>378,430</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 11,363,811 | 380,830 | - | 11,744,641 |
| Improvements other than buildings | 310,530 | 159,904 | 91,729 | 378,705 |
| Machinery and equipment | 1,588,115 | 129,814 | 200,113 | 1,517,816 |
| Total capital assets being depreciated | <u>13,262,456</u> | <u>670,548</u> | <u>291,842</u> | <u>13,641,162</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 3,417,791 | 265,748 | - | 3,683,539 |
| Improvements other than buildings | 207,971 | 35,342 | 91,729 | 151,584 |
| Machinery and equipment | 1,186,405 | 139,464 | 200,113 | 1,125,756 |
| Total accumulated depreciation | <u>4,812,167</u> | <u>440,554</u> | <u>291,842</u> | <u>4,960,879</u> |
| Total capital assets being depreciated, net | <u>8,450,289</u> | <u>229,994</u> | <u>-</u> | <u>8,680,283</u> |
| Governmental activities capital assets, net | <u>\$ 8,976,641</u> | <u>367,209</u> | <u>285,137</u> | <u>9,058,713</u> |
| Business type activities: | | | | |
| Machinery and equipment | \$ 215,380 | - | - | 215,380 |
| Less accumulated depreciation | 153,431 | 16,048 | - | 169,479 |
| Business type activities capital assets, net | <u>\$ 61,949</u> | <u>(16,048)</u> | <u>-</u> | <u>45,901</u> |

Depreciation expense was charged by the District as follows:

| | |
|--|-------------------|
| Governmental activities: | |
| Instruction: | |
| Regular | \$ 42,879 |
| Special | 2,022 |
| Other | 11,856 |
| Support services: | |
| Instructional staff | 8,959 |
| Administrative | 10,895 |
| Operation and maintenance of plant | 29,000 |
| Transportation | 33,853 |
| | <u>139,464</u> |
| Unallocated | <u>301,090</u> |
| Total depreciation expense - governmental activities | <u>\$ 440,554</u> |
| Business type activities: | |
| Food service operations | <u>\$ 16,048</u> |

Note 6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2014 are summarized as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|----------------------------------|---------------------------------|---------------|----------------|---------------------------|---------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 1,820,000 | - | 215,000 | 1,605,000 | 220,000 |
| Revenue bonds | 2,550,000 | - | 315,000 | 2,235,000 | 345,000 |
| Computer lease | 23,960 | - | 23,960 | - | - |
| Termination benefits | 18,051 | - | 5,427 | 12,624 | 6,312 |
| Net OPEB liability | 135,678 | 30,910 | - | 166,588 | - |
| Total | <u>\$ 4,547,689</u> | <u>30,910</u> | <u>559,387</u> | <u>4,019,212</u> | <u>571,312</u> |
| Business type activities: | | | | | |
| Net OPEB liability | <u>\$ 6,593</u> | <u>1,129</u> | <u>-</u> | <u>7,722</u> | <u>-</u> |

General Obligation Bonds Payable

Details of the District's June 30, 2014 general obligation bonded indebtedness is as follows:

| Year Ending June 30, | Issue dated January 1, 2011 | | | |
|----------------------------|-----------------------------|---------------------|----------------|------------------|
| | Interest Rates | Principal | Interest | Total |
| 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 | 2.75 | 235,000 | 21,230 | 256,230 |
| 2020-2021 | 3.00-3.15 | 480,000 | 22,485 | 502,485 |
| Total | | <u>\$ 1,605,000</u> | <u>176,365</u> | <u>1,781,365</u> |

Revenue Bonds

Details of the District's June 30, 2014 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 |
| 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 | 1.75 | 385,000 | 11,169 | 396,169 |
| 2020 | 2.00 | 390,000 | 3,900 | 393,900 |
| Total | | <u>\$ 2,235,000</u> | <u>111,744</u> | <u>2,346,744</u> |

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 nearly 67 percent of

the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$2,346,744. For the current year, \$348,513 of principal and interest was paid on the bonds and total statewide sales, services and use tax revenues were \$553,350.

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) The District makes monthly transfers from statewide sales, services and use tax to a revenue account held by the bonding agent.
- 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.

Termination Benefits (Early Retirement)

The District offered a voluntary early retirement plan to its certified employees during fiscal year 2010. Eligible employees had to be at least age fifty-eight and must have completed ten years of continuous service to the District. Employees were required to submit an application for the early retirement program on or before January 30 of the last year of employment and was contingent upon approval by the Board of Education. The early retirement incentive for each eligible certified employee was 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, 2014, the District paid \$5,427 in early retirement benefits.

Note 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 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$321,554, \$300,759, and \$276,287, respectively, equal to the required contributions for each year.

Note 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, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | |
|--|--------------------------|
| Annual required contribution | \$ 37,569 |
| Interest on net OPEB obligation | 3,557 |
| Adjustment to annual required contribution | <u>(6,410)</u> |
| Annual OPEB cost | 34,716 |
| Contributions made | <u>(2,677)</u> |
| Increase in net OPEB obligation | 32,039 |
| Net OPEB obligation beginning of year | <u>142,271</u> |
| Net OPEB obligation end of year | <u><u>\$ 174,310</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, 2014.

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, 2014 are summarized as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------------|---------------------|--|---------------------------|
| 2012 | \$ 39,797 | 0.00% | \$ 110,819 |
| 2013 | 33,513 | 6.15 | 142,271 |
| 2014 | 34,716 | 7.71 | 174,310 |

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$317,488, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$317,488. The covered payroll (annual payroll of active employees covered by the plan) was \$3,300,439 and the ratio of the UAAL to covered payroll was 9.62%. As of June 30, 2014, 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 for the Retiree Health Plan, 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 the July 1, 2012 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions include 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.

Note 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.

Note 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 \$234,989 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 11. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2014 is comprised of the following programs:

| Program | Amount |
|--|------------------|
| Weighted At-Risk Programs | \$ 7,045 |
| Returning Dropouts and Dropout Prevention Programs | 6,125 |
| Beginning Teacher Mentoring and Induction Program | 38 |
| Teacher Salary Supplement | 50,173 |
| Successful Progression for Early Readers | 10,123 |
| Professional Development for Model Core Curriculum | 6,728 |
| Professional Development | 725 |
| Teacher Leadership Grants | 4,292 |
| Total | <u>\$ 85,249</u> |

Note 12. Construction Commitment

The District has entered into contracts totaling \$142,857 for a roof project. As of June 30, 2014, costs of \$4,500 had been incurred against the contracts. The balance of \$138,357 remaining at year end will be paid as work progresses.

Note 13. Operating Lease

The District entered into an operating lease for District copier and printer equipment in October 2013. Details of the contract include a 60 month lease period expiring October 2018 and base charges of \$2,274 per month.

Note 14. Deficit Account Balance

The District had three accounts in the Special Revenue, Student Activity Fund with deficit balances totaling \$6,573 as of June 30, 2014.

Note 15. Reconciliation of Governmental Fund Balances to Net Position

Reconciliation of certain governmental fund balances to net position is as follows:

| | Net Investment in Capital Assets | Debt Service | Management Levy | Unassigned/ Unrestricted |
|--|-------------------------------------|-----------------|--------------------|-----------------------------|
| Fund balance (Exhibit C) | \$ - | 618,514 | 106,278 | 622,312 |
| Capital assets, net of accumulated depreciation | 9,058,713 | - | - | - |
| General obligation bond capitalized indebtedness | (1,605,000) | - | - | - |
| Revenue bond capitalized indebtedness | (2,235,000) | - | - | - |
| Accrued interest payable | - | (22,464) | - | - |
| Termination benefits | - | - | (12,624) | - |
| Unassigned student activities | - | - | - | (6,573) |
| Internal service fund | - | - | - | 62,948 |
| Net OPEB liability | - | - | - | (166,588) |
| Net position (Exhibit A) | <u>\$ 5,218,713</u> | <u>596,050</u> | <u>93,654</u> | <u>512,099</u> |

Note 16. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

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, 2014

| | Governmental | Proprietary | Total | Budgeted Amounts | | Final to Actual Variance |
|---|---------------------|----------------|------------------|-------------------|-------------------|--------------------------------|
| | Funds | Funds | | Original | Final | |
| | Actual | Actual | | | | |
| Revenues: | | | | | | |
| Local sources | \$ 3,263,635 | 278,639 | 3,542,274 | 4,763,412 | 4,763,412 | (1,221,138) |
| State sources | 4,050,077 | 3,002 | 4,053,079 | 3,631,364 | 3,631,364 | 421,715 |
| Federal sources | 117,707 | 120,189 | 237,896 | 165,000 | 165,000 | 72,896 |
| Total revenues | <u>7,431,419</u> | <u>401,830</u> | <u>7,833,249</u> | <u>8,559,776</u> | <u>8,559,776</u> | <u>(726,527)</u> |
| Expenditures/Expenses: | | | | | | |
| Instruction | 4,692,012 | 11,902 | 4,703,914 | 4,770,000 | 4,770,000 | 66,086 |
| Support services | 2,128,446 | 16 | 2,128,462 | 2,950,000 | 2,950,000 | 821,538 |
| Non-instructional programs | - | 387,648 | 387,648 | 550,000 | 550,000 | 162,352 |
| Other expenditures | 1,211,452 | - | 1,211,452 | 1,821,244 | 1,821,244 | 609,792 |
| Total expenditures/expenses | <u>8,031,910</u> | <u>399,566</u> | <u>8,431,476</u> | <u>10,091,244</u> | <u>10,091,244</u> | <u>1,659,768</u> |
| Excess(Deficiency) of revenues over(under) expenditures/expenses | (600,491) | 2,264 | (598,227) | (1,531,468) | (1,531,468) | 933,241 |
| Other financing sources, net | - | - | - | 2,000 | 2,000 | (2,000) |
| Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses | (600,491) | 2,264 | (598,227) | (1,529,468) | (1,529,468) | 931,241 |
| Balances beginning of year | <u>2,673,364</u> | <u>46,024</u> | <u>2,719,388</u> | <u>1,813,246</u> | <u>1,813,246</u> | <u>906,142</u> |
| Balances end of year | <u>\$ 2,072,873</u> | <u>48,288</u> | <u>2,121,161</u> | <u>283,778</u> | <u>283,778</u> | <u>1,837,383</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014

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, 2014

| 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 |
| 2014 | July 1, 2012 | - | 317,488 | 317,488 | 0.00 | 3,300,439 | 9.62 |

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, 2014

| | Special Revenue | | |
|---|--------------------|---------------------|----------------|
| | Management Levy | Student Activity | Total |
| Assets | | | |
| Cash and pooled investments | \$ 104,728 | 35,478 | 140,206 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 1,550 | - | 1,550 |
| Succeeding year | 130,000 | - | 130,000 |
| Accounts | - | 42 | 42 |
| Total assets | \$ 236,278 | 35,520 | 271,798 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | - | 2,377 | 2,377 |
| Deferred inflows of resources: | | | |
| Unavailable revenues: | | | |
| Succeeding year property tax | 130,000 | - | 130,000 |
| Fund balances: | | | |
| Restricted for: | | | |
| Management levy purposes | 106,278 | - | 106,278 |
| Student activities | - | 39,716 | 39,716 |
| Unassigned | - | (6,573) | (6,573) |
| Total fund balances | 106,278 | 33,143 | 139,421 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 236,278 | 35,520 | 271,798 |

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, 2014

| | Special Revenue | | |
|------------------------------------|--------------------|---------------------|---------|
| | Management Levy | Student Activity | Total |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ 174,694 | - | 174,694 |
| Other | 2,414 | 211,033 | 213,447 |
| Total revenues | 177,108 | 211,033 | 388,141 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Other | - | 211,508 | 211,508 |
| Support services: | | | |
| Operation and maintenance of plant | 120,239 | - | 120,239 |
| Total expenditures | 120,239 | 211,508 | 331,747 |
| Change in fund balances | 56,869 | (475) | 56,394 |
| Fund balances beginning of year | 49,409 | 33,618 | 83,027 |
| Fund balances end of year | \$ 106,278 | 33,143 | 139,421 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2014

| | Capital Projects | | |
|---|--|--|----------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| Assets | | | |
| Cash and pooled investments | \$ 181,697 | 151,762 | 333,459 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 1,980 | 1,980 |
| Succeeding year | - | 224,009 | 224,009 |
| Due from other governments | 272,138 | - | 272,138 |
| Total assets | \$ 453,835 | 377,751 | 831,586 |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 200 | - | 200 |
| Deferred inflows of resources: | | | |
| Unavailable revenues: | | | |
| Succeeding year property tax | - | 224,009 | 224,009 |
| Fund balances: | | | |
| Restricted for: | | | |
| School infrastructure | 453,635 | - | 453,635 |
| Physical plant and equipment | - | 153,742 | 153,742 |
| Total fund balances | 453,635 | 153,742 | 607,377 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 453,835 | 377,751 | 831,586 |

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, 2014

| | Capital Projects | | | Total |
|--|--|---------------|--|----------------|
| | Statewide Sales, Services and Use Tax | Construction | Physical Plant and Equipment Levy | |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ - | - | 220,229 | 220,229 |
| Other | 256 | 8 | 129 | 393 |
| State sources | 553,350 | - | - | 553,350 |
| Total revenues | <u>553,606</u> | <u>8</u> | <u>220,358</u> | <u>773,972</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | - | - | 8,790 | 8,790 |
| Support services: | | | | |
| Administration | 2,000 | - | - | 2,000 |
| Operation and maintenance of plant | - | - | 43,826 | 43,826 |
| Transportation | - | - | 50,829 | 50,829 |
| Capital outlay | 154,908 | 27,504 | 163,654 | 346,066 |
| Total expenditures | <u>156,908</u> | <u>27,504</u> | <u>267,099</u> | <u>451,511</u> |
| Excess(Deficiency) of revenues over(under) expenditures | 396,698 | (27,496) | (46,741) | 322,461 |
| Other financing uses: | | | | |
| Transfer out | (376,938) | - | (25,279) | (402,217) |
| Change in fund balances | 19,760 | (27,496) | (72,020) | (79,756) |
| Fund balances beginning of year | 433,875 | 27,496 | 225,762 | 687,133 |
| Fund balances end of year | <u>\$ 453,635</u> | <u>-</u> | <u>153,742</u> | <u>607,377</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2014

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|-------------------------------|---------------------------------|----------|-------------------|---------------------------|
| General Student Activity | \$ 350 | 11 | 76 | 285 |
| Drama | 5,256 | 4,840 | 5,209 | 4,887 |
| Flags | 10 | - | - | 10 |
| High School Music Trip | 6,251 | 3,481 | 4,343 | 5,389 |
| Jack Oatts Festival | 4,717 | 4,669 | 2,961 | 6,425 |
| Athletic | - | 94,418 | 97,815 | (3,397) |
| Cheerleaders | 2,207 | 5,483 | 5,779 | 1,911 |
| Drill Team | 363 | 2,027 | 2,527 | (137) |
| FFA | 7,902 | 70,038 | 60,952 | 16,988 |
| FCCLA | 1,419 | - | 1,419 | - |
| National Honor Society | 87 | 345 | 253 | 179 |
| Annual | - | 2,846 | 5,885 | (3,039) |
| International Trip | 866 | 11,064 | 11,923 | 7 |
| Science Club | 165 | - | - | 165 |
| Art Club | 155 | 301 | - | 456 |
| Spanish Club | 339 | 133 | 144 | 328 |
| High School Student Council | 2,293 | 7,694 | 7,535 | 2,452 |
| Middle School Student Council | 1,238 | 3,683 | 4,687 | 234 |
| Total | \$ 33,618 | 211,033 | 211,508 | 33,143 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

| | Modified Accrual Basis | | | | | | | | | |
|------------------------------------|------------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Years Ended June 30, | | | | | | | | | |
| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| Revenues: | | | | | | | | | | |
| Local sources: | | | | | | | | | | |
| Local tax | \$ 2,555,306 | 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 |
| Tuition | 372,237 | 410,115 | 511,146 | 360,328 | 396,955 | 355,381 | 347,771 | 333,225 | 384,846 | 336,582 |
| Other | 336,092 | 377,113 | 362,959 | 294,577 | 256,445 | 262,524 | 311,747 | 401,244 | 259,814 | 293,339 |
| State sources | 4,050,077 | 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 |
| Federal sources | 117,707 | 118,106 | 94,319 | 273,141 | 414,884 | 192,801 | 142,997 | 128,331 | 111,875 | 132,318 |
| Total | \$ 7,431,419 | 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 |
| Expenditures: | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Instruction: | | | | | | | | | | |
| Regular | \$ 3,146,596 | 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 |
| Special | 737,669 | 596,671 | 529,216 | 543,999 | 689,498 | 591,899 | 539,737 | 540,525 | 425,315 | 534,336 |
| Other | 807,747 | 763,880 | 757,302 | 717,887 | 684,619 | 688,507 | 655,987 | 681,938 | 569,161 | 481,314 |
| Support services: | | | | | | | | | | |
| Student | 156,491 | 101,165 | 136,895 | 91,960 | 91,797 | 76,014 | 71,135 | 82,723 | 78,266 | 71,110 |
| Instructional staff | 372,447 | 381,646 | 332,356 | 90,814 | 123,213 | 112,008 | 109,127 | 114,410 | 117,377 | 113,857 |
| Administration | 673,993 | 662,218 | 678,530 | 654,412 | 570,641 | 586,681 | 625,624 | 564,344 | 550,297 | 516,682 |
| Operation and maintenance of plant | 702,891 | 645,019 | 546,062 | 623,820 | 528,375 | 481,119 | 520,895 | 557,528 | 510,278 | 645,614 |
| Transportation | 222,624 | 180,730 | 267,166 | 196,585 | 144,288 | 254,955 | 192,214 | 160,321 | 141,083 | 152,665 |
| Capital outlay | 346,066 | 1,461,166 | 1,612,814 | 77,863 | 17,999 | 66,849 | 677,155 | 19,452 | 38,921 | 353,456 |
| Long-term debt: | | | | | | | | | | |
| Principal | 553,960 | 232,709 | 2,221,524 | 285,806 | 274,713 | 266,947 | 233,895 | 220,000 | 210,000 | 200,000 |
| Interest and fiscal charges | 76,437 | 69,937 | 156,009 | 135,477 | 131,813 | 140,288 | 150,126 | 167,259 | 177,934 | 177,359 |
| Other expenditures: | | | | | | | | | | |
| AEA flow-through | 234,989 | 224,108 | 226,836 | 243,441 | 240,207 | 223,403 | 207,424 | 188,419 | 170,580 | 149,175 |
| Total | \$ 8,031,910 | 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 |

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, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 23, 2015.

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-14 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Earlham Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2014 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 23, 2015
Newton, Iowa

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-14 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, reconciling, purchase order processing, check preparation, mailing and recording.
- 11) Journal entries - writing, posting, and approving.

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 now have two people who mainly deal with the cash receipts. So we are now able to look at more ways to segregate the duties and have more cross checks of the work being done. We will continue to explore additional alternatives to improve our internal controls.

Conclusion - Response accepted.

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-14 Certified Budget - District disbursements for the year ended June 30, 2014, did not exceed the amounts budgeted.
- II-B-14 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-14 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. However, we noted an instance when the District reimbursed an employee for a meal expense which lacked a detailed invoice to be used as supporting documentation. According to Board policy number 408.13, a detailed receipt must be turned in for every purchase made with the District credit card.

Recommendation - The District should review procedures in place to ensure that all reimbursements are supported by original detailed receipts.

Response - We will follow up with employees to make sure they supply the detailed receipts for any reimbursement.

Conclusion - Response accepted.

- II-D-14 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 | \$2,583 |
| Mike Book, Transportation Director owner, Mike's Auto Body & Paint | Repairs | \$146 |

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

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

- II-E-14 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-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-14 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

II-H-14 Supplementary Weighting - We noted a variance in the supplementary weighting certified to the Iowa Department of Education. The District appears to have overstated their supplementary weighting by 0.44.

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

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

II-I-14 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-14 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-14 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-14 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, 2014, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2014 audit:

| | | | |
|------------------------------------|----|---------|-----------------------|
| Beginning Balance | | \$ | 433,875 |
| Revenues: | | | |
| Sales tax revenues | \$ | 553,350 | |
| Other local revenues | | 256 | 553,606 |
| | | | <u>987,481</u> |
| Expenditures/transfer out: | | | |
| School infrastructure construction | | 154,908 | |
| Other | | 2,000 | |
| Transfer to other funds | | | |
| Debt service fund | | 376,938 | 533,846 |
| | | | <u>533,846</u> |
| Ending Balance | | \$ | <u><u>453,635</u></u> |

For the year ended June 30, 2014, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

II-M-14 Lease Contract - We noted during our audit the Superintendent signed an operating lease contract with Koch Brothers for District copiers. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District to be in compliance with Chapter 291.1 of the Code of Iowa.

Response - When contracts are approved, we will make sure to have them signed by the Board President.

Conclusion - Response accepted.

II-N-14 Financial Condition - The District had three negative accounts within the Student Activity Fund, totaling \$6,573 as of June 30, 2014.

Recommendation - The District should review their procedures with regards to account balances in the Student Activity Fund. The District may want to require additional administrative approval of purchase orders for the accounts that are negative. The District should also distribute a detailed monthly financial report to the sponsor responsible for each club/organization. The sponsor should have a budget for the club/organization and should be accountable for the balance.

Response - We will make sure funds are available in the activity accounts before purchases are made to ensure they remain with a positive balance.

Conclusion - Response accepted.

II-O-14 Non-certified Time Sheets - We noted during our audit that the District does not maintain documentation of hours worked by coaches who are non-certified staff. This creates a situation where calculating wage per hour amounts is not possible.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches. The District should then determine if wages paid comply with minimum wage and overtime requirements.

Response - We are working on developing time sheets and procedures for the non-certified coaching staff.

Conclusion - Response accepted.