

EARLHAM COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2015

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		4-6
Management's Discussion and Analysis		7-16
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Position	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Funds Financial Statements:		
Statement of Net Position	G	24
Statement of Revenues, Expenditures and Changes in Fund Net Position	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statements:		
Statement of Changes in Fiduciary Net Position	J	27
Notes to Financial Statements		28-42
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		44
Notes to Required Supplementary Information - Budgetary Reporting		45
Schedule of the District's Proportionate Share of the Net Pension Liability		46
Schedule of District Contributions		47
Notes to Required Supplementary Information - Pension Liability		48-49
Schedule of Funding Progress for the Retiree Health Plan		50
Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	52
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	53
Capital Project Accounts:		
Combining Balance Sheet	3	54
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4	55
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	56
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	6	57
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 <u>Government Auditing Standards</u>		58-59
Schedule of Findings		60-63

## Earlham Community School District

### Officials

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

**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, 2015, 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.

**Members American Institute & Iowa Society of Certified Public Accountants**

## **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, 2015, 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.

## **Emphasis of Matter**

As discussed in Note 14 to the financial statements, Earlham Community School District adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No.27. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management’s Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District’s Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 50 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.

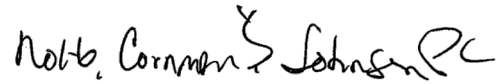
### *Supplementary Information*

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, 2014 (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 March 15, 2016 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.

Handwritten signature in black ink, reading "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

March 15, 2016  
Newton, Iowa

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Earlham Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2015 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,012,283 in fiscal year 2014 to \$6,698,971 in fiscal year 2015, while General Fund expenditures decreased from \$6,616,025 in fiscal year 2014 to \$6,569,787 in fiscal year 2015. Revenues exceeding expenditures resulting in an increase in the District's General Fund balance from \$707,561 at June 30, 2014 to \$836,745 at June 30, 2015, an 18.26% increase from the prior year.
- The increase in General Fund revenues was primarily attributable to an increase in state source revenues during fiscal year 2015. The decrease in expenditures was due primarily to decrease 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.

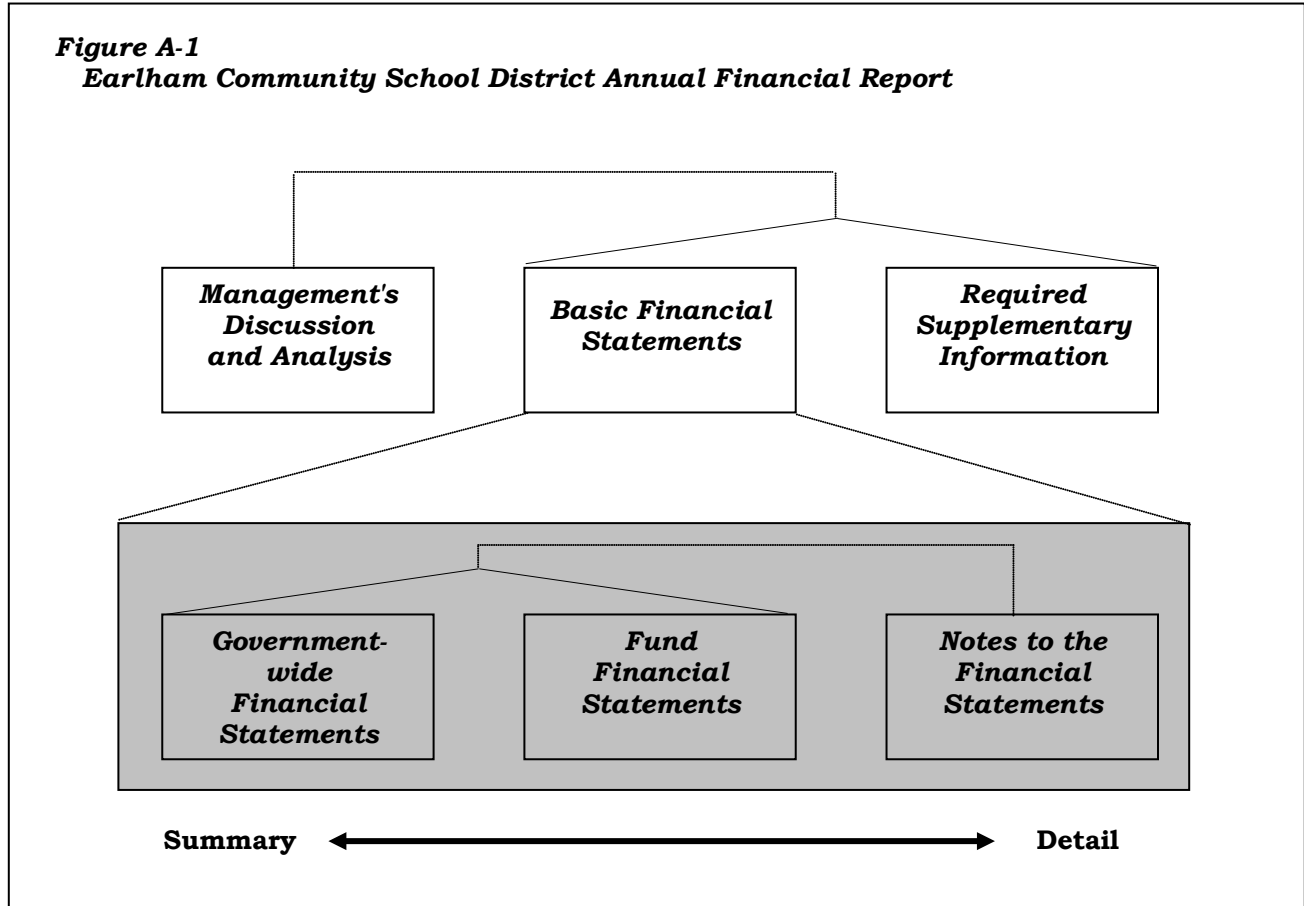




Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2</b>				
<b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	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: 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"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of deferred outflow / inflow information	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of fund balance that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period.
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

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## 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, 2015 compared to June 30, 2014.

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,	
	2015	2014 (Not restated)	2015	2014 (Not restated)	2015	2014 (Not restated)	2014-2015
Current and other assets	\$ 6,128,552	5,450,876	28,849	23,373	6,157,401	5,474,249	12.48%
Capital assets	8,774,312	9,058,713	30,016	45,901	8,804,328	9,104,614	-3.30%
Total assets	14,902,864	14,509,589	58,865	69,274	14,961,729	14,578,863	2.63%
Deferred outflows of resources	451,119	-	12,782	-	463,901	-	100.00%
Long-term liabilities	5,602,910	4,019,212	66,108	7,722	5,669,018	4,026,934	40.78%
Other liabilities	753,135	739,695	14,663	13,264	767,798	752,959	1.97%
Total liabilities	6,356,045	4,758,907	80,771	20,986	6,436,816	4,779,893	34.66%
Deferred inflows of resources	3,676,988	2,597,824	21,672	-	3,698,660	2,597,824	42.38%
Net position:							
Net investment in capital assets	5,499,312	5,218,713	30,016	45,901	5,529,328	5,264,614	5.03%
Restricted	1,717,142	1,422,046	-	-	1,717,142	1,422,046	20.75%
Unrestricted	(1,895,504)	512,099	(60,812)	2,387	(1,956,316)	514,486	-480.25%
Total net position	\$ 5,320,950	7,152,858	(30,796)	48,288	5,290,154	7,201,146	-26.54%

The District's combined net position decreased 26.54% or \$1,910,992 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 \$295,096 or 20.75% 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 \$2,470,802 or - 480.25%. The primary reason for the decrease in unrestricted net position is the District's net pension liability net pension expense recorded in the current year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business type activities were restated by \$2,645,159 and \$79,262, respectively, to retroactively report the net pension liability as of June 30, 2014 and deferred outflows of resources related to contributions made after June 30, 2015 but prior to July 1, July 1, 2015. Fiscal year 2014 and 2015 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Figure A-4 shows the changes in net position for the year ended June 30, 2015 as compared to the year ended June 30, 2014.

	Figure A-4 Changes in Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2015	2014	2015	2014	2015	2014	2014-2015
Revenues:							
Program revenues:							
Charges for service	\$ 648,544	593,895	260,091	277,444	908,635	871,339	4.28%
Operating grants, contributions and restricted interest	491,226	388,118	131,379	123,191	622,605	511,309	21.77%
General revenues:							
Property tax	2,597,506	2,555,306	-	-	2,597,506	2,555,306	1.65%
Statewide sales, services and use tax	602,837	553,350	-	-	602,837	553,350	8.94%
Unrestricted state grants	3,720,025	3,247,329	-	-	3,720,025	3,247,329	14.56%
Unrestricted investment earnings	3,202	2,007	28	5	3,230	2,012	60.54%
Other	117,057	91,414	1,648	1,190	118,705	92,604	28.19%
Total revenues	<u>8,180,397</u>	<u>7,431,419</u>	<u>393,146</u>	<u>401,830</u>	<u>8,573,543</u>	<u>7,833,249</u>	<u>9.45%</u>
Program expenses:							
Instructional	4,632,321	4,732,182	-	11,902	4,632,321	4,744,084	-2.36%
Support services	2,102,113	2,077,415	20	-	2,102,133	2,077,415	1.19%
Non-instructional programs	-	-	401,321	387,664	401,321	387,664	3.52%
Other expenses	632,712	609,210	-	-	632,712	609,210	3.86%
Total expenses	<u>7,367,146</u>	<u>7,418,807</u>	<u>401,341</u>	<u>399,566</u>	<u>7,768,487</u>	<u>7,818,373</u>	<u>-0.64%</u>
Change in net position	813,251	12,612	(8,195)	2,264	805,056	14,876	5311.78%
Net position beginning of year	<u>4,507,699</u>	<u>7,140,246</u>	<u>(22,601)</u>	<u>46,024</u>	<u>4,485,098</u>	<u>7,186,270</u>	<u>-37.59%</u>
Net position end of year	<u>\$ 5,320,950</u>	<u>7,152,858</u>	<u>(30,796)</u>	<u>48,288</u>	<u>5,290,154</u>	<u>7,201,146</u>	<u>-26.54%</u>

In fiscal year 2015, property tax, statewide sales, services and use tax, and unrestricted state grants accounted for 84.60% 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 \$8.57 million, of which approximately \$8.18 million was for governmental activities and approximately \$0.39 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 9.45% increase in revenues and a .64% decrease in expenses. Revenues from state sources increased \$472,696 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 \$8,180,397 and expenses were \$7,367,146. 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, 2015 compared to the year ended June 30, 2014.

	Total Cost of Services			Net Cost of Services		
	2015	2014 (Not Restated)	Change 2014-2015	2015	2014 (Not Restated)	Change 2014-2015
Instruction	\$ 4,632,321	4,732,182	-2.11%	3,811,091	4,001,497	-4.76%
Support services	2,102,113	2,077,415	1.19%	2,042,807	2,061,076	-0.89%
Other expenses	632,712	609,210	3.86%	373,478	374,221	-0.20%
Totals	<u>\$ 7,367,146</u>	<u>7,418,807</u>	<u>-0.70%</u>	<u>6,227,376</u>	<u>6,436,794</u>	<u>-3.25%</u>

For the year ended June 30, 2015:

- The cost financed by users of the District's programs was \$648,544.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$491,226.
- The net cost of governmental activities was financed with \$2,597,506 in property tax, \$602,837 in statewide sales, services and use tax, \$3,720,025 in unrestricted state grants, \$3,202 in investment earnings, and \$117,057 in other general revenues.

### Business Type Activities

Revenues of the District's business type activities were \$393,146 and expenses were \$401,341. The District's business type activities include the School Nutrition 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 \$2,474,731, above last year's ending fund balances of \$2,072,873. This increase in combined fund balances is due primarily to the increase in the Capital project Fund.

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## **Governmental Fund Highlights**

- The District's increasing General Fund financial position is the result of many factors. Revenues and expenses both increased compared to the prior year. The increase in revenues was greater than the increase in expenses and total revenues still outpaced total expenses leading to an increase in fund balance from \$707,561 at June 30, 2014 to \$836,745 at June 30, 2015.
- The Capital Projects accounts balance improved from \$607,377 at June 30, 2014 to \$829,637 at June 30, 2015. The Statewide Sales, Services and Use Tax Fund balance increased from \$453,635 at June 30, 2014 to \$626,188 at June 30, 2015 due to decrease in capital outlays. The Physical Plant and Equipment Levy Fund balance increased from \$153,742 at June 30, 2014 to \$203,449 at June 30, 2015 primarily due to an decrease in transportation expenses.
- The Debt Service Fund balance increased from \$618,514 at June 30, 2014 to \$642,938 at June 30, 2015.

## **Proprietary Fund Highlights**

The School Nutrition Fund net position decreased from a deficit of \$22,601 at June 30, 2014 to a deficit of \$30,796 at June 30, 2015, representing an decrease of 36.26%.

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 \$725,888 less than budgeted revenues, a variance of 7.81%. 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, 2015 the District had invested \$8,804,328 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$472,964.

The original cost of the District's capital assets was \$14,400,814. Governmental funds account for \$14,185,434 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 machinery and equipment. The District's machinery and equipment totaled \$437,961 at June 30, 2014, compared to \$289,673 reported at June 30, 2015. This significant decrease resulted from disposal of equipment.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014	2015	2014	2015	2014	2014-2015
Land	\$ 373,930	373,930	-	-	373,930	373,930	0.00%
Construction in progress	-	4,500	-	-	-	4,500	-100.00%
Buildings	7,937,605	8,061,102	-	-	7,937,605	8,061,102	-1.53%
Improvements other than buildings	203,120	227,121	-	-	203,120	227,121	-10.57%
Machinery and equipment	259,657	392,060	30,016	45,901	289,673	437,961	-33.86%
Total	\$ 8,774,312	9,058,713	30,016	45,901	8,804,328	9,104,614	-3.30%

### Long-Term Debt

At June 30, 2015, the District had \$5,669,018 of long-term debt outstanding. This represents a decrease of 19.75% 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, 2015 was \$1,385,000.

The District's outstanding revenue bond indebtedness at June 30, 2015 was \$1,890,000.

The District's outstanding termination benefits payable at June 30, 2015 was \$7,252.

The District had total net OPEB liability of \$209,531 at June 30, 2015. Governmental activities account for \$200,249 and Business Type activities account for \$9,282.

The District had total net pension liability of \$2,177,235 at June 30, 2015. Governmental activities account for \$2,120,409 and Business Type activities account for \$56,826.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014	2015	2014	2015	2014	2014-2015
General obligation bonds	\$ 1,385,000	1,605,000	-	-	1,385,000	1,605,000	-13.71%
Revenue bonds	1,890,000	2,235,000	-	-	1,890,000	2,235,000	-15.44%
Termination benefits	7,252	12,624	-	-	7,252	12,624	-42.55%
Net OPEB liability	200,249	166,588	9,282	7,722	209,531	174,310	20.21%
Net Pension liability	2,120,409	-	56,826	-	2,177,235	-	100.00%
Total	\$ 5,602,910	4,019,212	66,108	7,722	5,669,018	4,026,934	40.78%

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

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

The biggest challenge currently to the district is flat to decreasing enrollment and high open enrollments out, and has the district evaluating staffing levels in all areas of the building. Categorical funds are being utilized to the fullest extent and expenses are being monitored to keep as much of the resources going to classroom needs. Along with that, some other items have an impact:

- 1) Decrease in valuation of commercial property from 100% to 95%
- 2) No new houses built and no new housing developments started
- 3) No business expansion. There was a proposal to increase the Co-op capacity, but litigation by a resident opposed to the project has held up the project indefinitely.
- 4) Increasing cost of health insurance continues to impact district expenditures.

## **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, District Secretary/Business Manager, Earlham Community School District, P.O. Box 430, Earlham, Iowa, 50072.



BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 3,044,667	15,649	3,060,316
Receivables			
Property tax:			
Delinquent	33,349	-	33,349
Succeeding year	2,868,325	-	2,868,325
Accounts	3,885	838	4,723
Due from other funds	94,830	-	94,830
Due from other governments	83,496	-	83,496
Inventories	-	12,362	12,362
Capital assets, net of accumulated depreciation	8,774,312	30,016	8,804,328
<b>Total assets</b>	<b>14,902,864</b>	<b>58,865</b>	<b>14,961,729</b>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	451,119	12,782	463,901
<b>Liabilities</b>			
Accounts payable	106,800	40	106,840
Salaries and benefits payable	622,844	5,803	628,647
Accrued interest payable	20,153	-	20,153
Advances of Federal Grans	3,338	-	3,338
Unearned revenue	-	8,820	8,820
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	215,000	-	215,000
Revenue bonds payable	370,000	-	370,000
Termination benefits payable	7,252	-	7,252
Portion due after one year:			
General obligation bonds payable	1,170,000	-	1,170,000
Revenue bonds payable	1,520,000	-	1,520,000
Net pension liability	2,120,409	56,826	2,177,235
Net OPEB liability	200,249	9,282	209,531
<b>Total liabilities</b>	<b>6,356,045</b>	<b>80,771</b>	<b>6,436,816</b>
<b>Deferred Inflows of Resources:</b>			
Unavailable property tax revenue	2,868,325	-	2,868,325
Pension related deferred inflows	808,663	21,672	830,335
<b>Total Deferred Outflows of Resources</b>	<b>3,676,988</b>	<b>21,672</b>	<b>3,698,660</b>
<b>Net Position</b>			
Net investment in capital assets	5,499,312	30,016	5,529,328
Restricted for:			
Categorical funding	106,562	-	106,562
Debt service	622,785	-	622,785
Management levy purposes	104,190	-	104,190
Student activities	53,968	-	53,968
School infrastructure	626,188	-	626,188
Physical plant and equipment	203,449	-	203,449
Unrestricted	(1,895,504)	(60,812)	(1,956,316)
<b>Total net position</b>	<b>\$ 5,320,950</b>	<b>(30,796)</b>	<b>5,290,154</b>

SEE NOTES TO FINANCIAL STATEMENTS.

**EARLHAM COMMUNITY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2015**

Functions/Programs:	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges	Contributions	Govern- mental Activities	Business Type Activities	Total
		for Service	and Restricted Interest			
<b>Governmental activities:</b>						
Instruction:						
Regular	\$ 3,211,012	347,782	39,583	(2,823,647)	-	(2,823,647)
Special	657,541	43,669	61,040	(552,832)	-	(552,832)
Other	763,768	257,093	72,063	(434,612)	-	(434,612)
	<u>4,632,321</u>	<u>648,544</u>	<u>172,686</u>	<u>(3,811,091)</u>	<u>-</u>	<u>(3,811,091)</u>
Support services:						
Student	154,728	-	-	(154,728)	-	(154,728)
Instructional staff	452,394	-	3,195	(449,199)	-	(449,199)
Administration	685,358	-	44,935	(640,423)	-	(640,423)
Operation and maintenance of plant	581,454	-	-	(581,454)	-	(581,454)
Transportation	228,179	-	11,176	(217,003)	-	(217,003)
	<u>2,102,113</u>	<u>-</u>	<u>59,306</u>	<u>(2,042,807)</u>	<u>-</u>	<u>(2,042,807)</u>
Long-term debt interest	66,874	-	-	(66,874)	-	(66,874)
Other expenses:						
AEA flowthrough	259,234	-	259,234	-	-	-
Depreciation(unallocated)*	306,604	-	-	(306,604)	-	(306,604)
	<u>565,838</u>	<u>-</u>	<u>259,234</u>	<u>(306,604)</u>	<u>-</u>	<u>(306,604)</u>
Total governmental activities	7,367,146	648,544	491,226	(6,227,376)	-	(6,227,376)
<b>Business type activities:</b>						
Support services:						
Administration	20	-	-	-	(20)	(20)
Non-instructional programs:						
Food service operations	401,321	260,091	131,379	-	(9,851)	(9,851)
Total business type activities	<u>401,341</u>	<u>260,091</u>	<u>131,379</u>	<u>-</u>	<u>(9,871)</u>	<u>(9,871)</u>
Total	\$ <u>7,768,487</u>	<u>908,635</u>	<u>622,605</u>	<u>(6,227,376)</u>	<u>(9,871)</u>	<u>(6,237,247)</u>
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$ 2,114,083	-	2,114,083
Debt service				259,440	-	259,440
Capital outlay				223,983	-	223,983
Statewide sales, services and use tax				602,837	-	602,837
Unrestricted state grants				3,720,025	-	3,720,025
Unrestricted investment earnings				3,202	28	3,230
Other				117,057	1,648	118,705
Total general revenues				<u>7,040,627</u>	<u>1,676</u>	<u>7,042,303</u>
Change in net position				813,251	(8,195)	805,056
Net position beginning of year, as restated				<u>4,507,699</u>	<u>(22,601)</u>	<u>4,485,098</u>
Net position end of year				<u>\$ 5,320,950</u>	<u>(30,796)</u>	<u>5,290,154</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, 2015

	General	Debt Service	Capital Projects	Nonmajor	Total
<b>Assets</b>					
Cash and pooled investments	\$ 1,450,135	639,607	733,345	169,066	2,992,153
Receivables:					
Property tax:					
Delinquent	25,473	3,331	2,876	1,669	33,349
Succeeding year	2,360,383	150,953	231,988	125,001	2,868,325
Accounts	-	-	-	3,885	3,885
Due from other funds	-	-	94,830	-	94,830
Due from other governments	83,496	-	-	-	83,496
<b>Total assets</b>	<b>\$ 3,919,487</b>	<b>793,891</b>	<b>1,063,039</b>	<b>299,621</b>	<b>6,076,038</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 96,177	-	1,414	9,209	106,800
Salaries and benefits payable	622,844	-	-	-	622,844
Advances of Federal Grants	3,338	-	-	-	3,338
Total liabilities	722,359	-	1,414	9,209	732,982
<b>Deferred inflows of resources:</b>					
Unavailable revenues:					
Succeeding year property tax	2,360,383	150,953	231,988	125,001	2,868,325
Fund balances:					
Restricted for:					
Categorical funding	106,562	-	-	-	106,562
Debt service	-	642,938	-	-	642,938
Management levy purposes	-	-	-	111,442	111,442
Student activities	-	-	-	53,969	53,969
School infrastructure	-	-	626,188	-	626,188
Physical plant and equipment	-	-	203,449	-	203,449
Unassigned:					
General	730,183	-	-	-	730,183
Total fund balances	836,745	642,938	829,637	165,411	2,474,731
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 3,919,487</b>	<b>793,891</b>	<b>1,063,039</b>	<b>299,621</b>	<b>6,076,038</b>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2015

<b>Total fund balances of governmental funds(page 20)</b>	\$	2,474,731
 <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.		8,774,312
Blending of the Internal Service Fund to be reflected on an entity-wide basis.		52,514
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.		(20,153)
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:.		
Deferred outflows of resources	\$ 451,119	
Deferred inflows of resources	<u>(808,663)</u>	(357,544)
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>(5,602,910)</u>
<b>Net position of governmental activities(page 18)</b>	<b>\$</b>	<b><u><u>5,320,950</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2015

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 1,984,099	259,440	223,983	129,984	2,597,506
Tuition	381,451	-	-	-	381,451
Other	141,292	168	946	261,672	404,078
State sources	4,019,661	1,013	603,712	508	4,624,894
Federal sources	172,468	-	-	-	172,468
Total revenues	<u>6,698,971</u>	<u>260,621</u>	<u>828,641</u>	<u>392,164</u>	<u>8,180,397</u>
Expenditures:					
Current:					
Instruction:					
Regular	3,204,401	-	10,247	-	3,214,648
Special	666,595	-	-	-	666,595
Other	556,727	-	-	236,267	792,994
	<u>4,427,723</u>	<u>-</u>	<u>10,247</u>	<u>236,267</u>	<u>4,674,237</u>
Support services:					
Student	159,867	-	-	-	159,867
Instructional staff	436,552	-	-	-	436,552
Administration	700,053	2,000	-	1,000	703,053
Operation and maintenance of plant	416,976	-	-	128,907	545,883
Transportation	169,382	-	27,288	-	196,670
	<u>1,882,830</u>	<u>2,000</u>	<u>27,288</u>	<u>129,907</u>	<u>2,042,025</u>
Capital outlay	-	-	168,858	-	168,858
Long-term debt:					
Principal	-	565,000	-	-	565,000
Interest and fiscal charges	-	69,185	-	-	69,185
	<u>-</u>	<u>634,185</u>	<u>-</u>	<u>-</u>	<u>634,185</u>
Other expenditures:					
AEA flowthrough	259,234	-	-	-	259,234
Total expenditures	<u>6,569,787</u>	<u>636,185</u>	<u>206,393</u>	<u>366,174</u>	<u>7,778,539</u>
Excess(Deficiency) of revenues over(under) expenditures	129,184	(375,564)	622,248	25,990	401,858
Other financing sources(uses):					
Transfer in	-	399,988	-	-	399,988
Transfer out	-	-	(399,988)	-	(399,988)
Total other financing sources(uses)	<u>-</u>	<u>399,988</u>	<u>(399,988)</u>	<u>-</u>	<u>-</u>
Change in fund balances	129,184	24,424	222,260	25,990	401,858
Fund balances beginning of year	<u>707,561</u>	<u>618,514</u>	<u>607,377</u>	<u>139,421</u>	<u>2,072,873</u>
Fund balances end of year	<u>\$ 836,745</u>	<u>642,938</u>	<u>829,637</u>	<u>165,411</u>	<u>2,474,731</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, 2015

**Change in fund balances - total governmental funds(page 22)** \$ 401,858

*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	\$ 165,842	
Depreciation expense	<u>(450,243)</u>	(284,401)

Net change in Internal Service Fund charged back against expenditures made for self-funded insurance on an entity-wide basis. (10,434)

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. 565,000

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. 2,311

The current year District employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position. 327,539

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	5,372	
Pension expense	(160,333)	
Other postemployment benefits	<u>(33,661)</u>	<u>(188,622)</u>

**Change in net position of governmental activities(page 19)** \$ 813,251

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2015

	Business Type Activities: <u>Enterprise Fund</u> School Nutrition	Governmental Activities: Internal Service Fund
<b>Assets</b>		
Current assets:		
Cash and pooled investments	\$ 15,649	52,514
Accounts receivable	838	-
Inventories	12,362	-
<b>Total current assets</b>	<u>28,849</u>	<u>52,514</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	30,016	-
<b>Total assets</b>	<u>58,865</u>	<u>52,514</u>
<b>Deferred Outflows of Resources</b>		
Pension related deferred outflows	12,782	-
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	40	-
Salaries and benefits payable	5,803	-
Unearned revenue	8,820	-
<b>Total current liabilities</b>	<u>14,663</u>	<u>-</u>
Noncurrent liabilities:		
Net Pension Liability	56,826	-
Net OPEB liability	9,282	-
<b>Total noncurrent liabilities</b>	<u>66,108</u>	<u>-</u>
<b>Total liabilities</b>	<u>80,771</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>		
Pension related deferred inflows	21,672	-
<b>Net Position</b>		
Net investment in capital assets	30,016	-
Unrestricted	(60,812)	52,514
<b>Total net position</b>	<u>\$ (30,796)</u>	<u>52,514</u>

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, 2015

	Business Type Activities: <u>Enterprise Funds</u> School Nutrition	Governmental Activities: Internal Service Fund
Operating revenues:		
Local sources:		
Charges for service	\$ 260,091	-
Miscellaneous	1,648	5,561
Total operating revenues	<u>261,739</u>	<u>5,561</u>
Support services:		
Administration:		
Benefits	-	16,084
Other	20	-
	<u>20</u>	<u>16,084</u>
Non-instructional programs:		
Food service operations:		
Salaries	109,523	-
Benefits	39,761	-
Services	119	-
Supplies	236,033	-
Depreciation	15,885	-
	<u>401,321</u>	<u>-</u>
Total operating expenses	<u>401,341</u>	<u>16,084</u>
Operating loss	<u>(139,602)</u>	<u>(10,523)</u>
Non-operating revenues:		
State sources	2,752	-
Federal sources	128,627	-
Interest on investments	28	89
Total non-operating revenues	<u>131,407</u>	<u>89</u>
Change in net position	(8,195)	(10,434)
Net position beginning of year, as restated	<u>(22,601)</u>	<u>62,948</u>
Net position end of year	<u>\$ (30,796)</u>	<u>52,514</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2015

	Business Type Activities: <u>Enterprise Funds</u> School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 261,471	-
Cash received from miscellaneous	1,648	5,561
Cash paid to employees for services	(152,808)	-
Cash paid to suppliers for goods or services	(206,160)	(16,084)
Net cash used in operating activities	<u>(95,849)</u>	<u>(10,523)</u>
Cash flows from non-capital financing activities:		
Repayment to General Fund	(20,000)	-
State grants received	2,752	-
Federal grants received	95,946	-
Net cash provided by non-capital financing activities	<u>78,698</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	28	89
Net increase(decrease) in cash and pooled investments	(17,123)	(10,434)
Cash and pooled investments beginning of year	<u>33,520</u>	<u>62,948</u>
Cash and pooled investments end of year	<u>\$ 16,397</u>	<u>52,514</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (139,602)	(10,523)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities used	32,681	-
Depreciation	15,885	-
Increase in inventories	(2,709)	-
Decrease in accounts receivable	110	-
Increase in accounts payable	40	-
Increase in salaries and benefits payable	89	-
Increase(Decrease) in other postemployment benefits	1,560	-
Increase(Decrease) in deferred outflows of resources	(4,409)	-
Increase(Decrease) in deferred inflows of resources	21,672	-
Increase(Decrease) in net pension liability	(22,436)	-
Increase in unearned revenue	1,270	-
Net cash used in operating activities	<u>\$ (95,849)</u>	<u>(10,523)</u>

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

During the year ended June 30, 2015, the District received \$32,681 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, 2015

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	<u>\$          43,795</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>                  43,795</u>
Change in net position	-
Net position beginning of year	<u>-</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, 2015

**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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity**

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, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2014.

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

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense / expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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.

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.

Pensions - For purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employee's Retirement System (IPERS) and additions to/deductions from

IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. 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 and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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

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

Unassigned - All amounts not included in the preceding 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, 2015 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, 2015, 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, 2015 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>\$ 399,988</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.

**Note 4. Capital Assets**

Capital assets activity for the year ended June 30, 2015 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 373,930	-	-	373,930
Construction in progress	4,500	137,807	142,307	-
Total capital assets not being depreciated	<u>378,430</u>	<u>137,807</u>	<u>142,307</u>	<u>373,930</u>
Capital assets being depreciated:				
Buildings	11,744,641	149,671	-	11,894,312
Improvements other than buildings	378,705	9,435	-	388,140
Machinery and equipment	1,517,816	24,736	13,500	1,529,052
Total capital assets being depreciated	<u>13,641,162</u>	<u>183,842</u>	<u>13,500</u>	<u>13,811,504</u>
Less accumulated depreciation for:				
Buildings	3,683,539	273,168	-	3,956,707
Improvements other than buildings	151,584	33,436	-	185,020
Machinery and equipment	1,125,756	150,475	6,836	1,269,395
Total accumulated depreciation	<u>4,960,879</u>	<u>457,079</u>	<u>6,836</u>	<u>5,411,122</u>
Total capital assets being depreciated, net	<u>8,680,283</u>	<u>(273,237)</u>	<u>6,664</u>	<u>8,400,382</u>
Governmental activities capital assets, net	<u>\$ 9,058,713</u>	<u>(135,430)</u>	<u>148,971</u>	<u>8,774,312</u>
<b>Business type activities:</b>				
Machinery and equipment	\$ 215,380	-	-	215,380
Less accumulated depreciation	169,479	15,885	-	185,364
Business type activities capital assets, net	<u>\$ 45,901</u>	<u>(15,885)</u>	<u>-</u>	<u>30,016</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 52,744
Special	-
Other	15,623
Support services:	
Instructional staff	3,563
Administrative	474
Operation and maintenance of plant	42,949
Transportation	35,122
	<u>150,475</u>
Unallocated	<u>306,604</u>
Total depreciation expense - governmental activities	<u>\$ 457,079</u>
Business type activities:	
Food service operations	<u>\$ 15,885</u>

**Note 5. Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2015 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 1,605,000	-	220,000	1,385,000	215,000
Revenue bonds	2,235,000	-	345,000	1,890,000	370,000
Termination benefits	12,624	-	5,372	7,252	7,252
Net OPEB liability	166,588	33,661	-	200,249	-
Net pension liability	2,957,582	-	837,173	2,120,409	-
Total	\$ 6,976,794	33,661	1,407,545	5,602,910	-
<b>Business type activities:</b>					
Net OPEB liability	\$ 7,722	1,560	-	9,282	-
Net pension liability	79,262	-	22,436	56,826	-
Total	\$ 86,984	1,560	22,436	66,108	-

**General Obligation Bonds Payable**

Details of the District's June 30, 2015 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Issue dated January 1, 2011			
	Interest Rates	Principal	Interest	Total
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	3.00	235,000	14,768	249,768
2021	3.15	245,000	7,718	252,718
Total		\$ 1,385,000	137,393	1,522,393

**Revenue Bonds**

Details of the District's June 30, 2015 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
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		\$ 1,890,000	81,532	1,971,532

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 \$1,971,532. For the current year, \$376,713 of principal and interest was paid on the bonds and total statewide sales, services and use tax revenues were \$602,837.

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, 2015, the District paid \$5,372 in early retirement benefits.

#### **Note 6. Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent.

The District's contributions to IPERS for the year ended June 30, 2015 were \$337,009.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the District reported a liability of \$2,177,235 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the District's collective proportion was 0.053798 percent, which was an increase of 0.000162 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2015, the District recognized pension expense of \$164,630. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,662	\$ -
Changes of assumptions	96,086	-
Net difference between projected and actual earnings on pension plan investments	-	830,335
Changes in proportion and differences between District contributions and proportionate share of contributions	7,144	-
District contributions subsequent to the measurement date	<u>337,009</u>	-
Total	<u>\$ 463,901</u>	<u>\$ 830,335</u>

\$337,009 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (177,936)
2017	(177,936)
2018	(177,936)
2019	(177,936)
2020	8,301
	<u>\$ (703,443)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentagepoint higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 4,113,824	\$ 2,177,235	\$ 542,553

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan - At June 30, 2015, the District reported payables to the defined benefit pension plan of \$13,457 for legally required employer contributions and \$27,701 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**Note 7. 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 District's OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 41,015
Interest on net OPEB obligation	4,358
Adjustment to annual required contribution	<u>(6,776)</u>
Annual OPEB cost	38,597
Contributions made	<u>(3,376)</u>
Increase in net OPEB obligation	35,221
Net OPEB obligation beginning of year	<u>174,310</u>
Net OPEB obligation end of year	<u><u>\$ 209,531</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, 2015.

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, 2015 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 33,513	6.15	\$ 142,271
2014	34,716	7.71	174,310
2015	38,597	8.75	209,531

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$299,747, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$299,747. The covered payroll (annual payroll of active employees covered by the plan) was \$3,485,482 and the ratio of the UAAL to covered payroll was 6.01%. As of June 30, 2015, 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 8. Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$259,234 for the year ended June 30, 2015 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 10. Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2015 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Weighted At-Risk Programs	\$ 5,281
Dropouts and Dropout Prevention Programs	15,098
Teacher Salary Supplement	46,820
Successful Progression for Early Readers	9,089
Professional Development for Model Core Curriculum	16,376
Professional Development	6,285
Teacher Leadership Grants	7,613
Total	<u>\$ 106,562</u>



**Note 11. 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 12. Deficit Balances**

The District had deficit unrestricted net positions in the Governmental funds of \$1,895,504 and in the Enterprise, School Nutrition fund of \$60,812 and a total deficit net position of \$30,796 at June 30, 2015. The primary reason for the deficit net position is due to the implementation of GASB Statement No. 68 and No. 71 during the year.

**Note 13. Reconciliation of Governmental Fund Balances to Net Position**

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

	<u>Net Investment in</u> <u>Capital Assets</u>	<u>Debt</u> <u>Service</u>	<u>Management</u> <u>Levy</u>	<u>Unassigned/</u> <u>Unrestricted</u>
Fund balance (Exhibit C)	\$ -	642,938	111,442	727,786
Capital assets, net of accumulated depreciation	8,774,312	-	-	-
General obligation bond capitalized indebtedness	(1,385,000)	-	-	-
Revenue bond capitalized indebtedness	(1,890,000)	-	-	-
Accrued interest payable	-	(20,153)	-	-
Termination benefits	-	-	(7,252)	-
Internal service fund	-	-	-	52,514
Pension related deferred outflows	-	-	-	451,119
Pension related deferred inflows	-	-	-	(808,663)
Net pension liability	-	-	-	(2,120,409)
Net OPEB liability	-	-	-	(200,249)
Net position (Exhibit A)	<u>\$ 5,499,312</u>	<u>622,785</u>	<u>104,190</u>	<u>(1,897,901)</u>

**Note 14. Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 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, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Net position June 30, 2014, as previously reported	\$ 7,152,858	\$ 48,288
Net pension liability at June 30, 2014	(2,957,582)	(79,262)
Deferred outflows of resources related to the contributions made after the June 30, 2013 measurement date	312,423	8,373
Net position July 1, 2014, as restated	<u>\$ 4,507,699</u>	<u>\$ (22,601)</u>

REQUIRED SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2015

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 3,383,035	261,767	3,644,802	4,857,928	4,857,928	(1,213,126)
State sources	4,624,894	2,752	4,627,646	4,256,503	4,256,503	371,143
Federal sources	172,468	128,627	301,095	185,000	185,000	116,095
Total revenues	8,180,397	393,146	8,573,543	9,299,431	9,299,431	(725,888)
Expenditures/Expenses:						
Instruction	4,674,237	-	4,674,237	4,900,000	4,900,000	225,763
Support services	2,042,025	20	2,042,045	3,290,000	3,290,000	1,247,955
Non-instructional programs	-	401,321	401,321	575,000	575,000	173,679
Other expenditures	1,062,277	-	1,062,277	1,334,137	1,334,137	271,860
Total expenditures/expenses	7,778,539	401,341	8,179,880	10,099,137	10,099,137	1,919,257
Excess(Deficiency) of revenues over(under) expenditures/expenses	401,858	(8,195)	393,663	(799,706)	(799,706)	1,193,369
Other financing sources, net	-	-	-	1,500	1,500	(1,500)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	401,858	(8,195)	393,663	(798,206)	(798,206)	1,191,869
Balances beginning of year, as restated	2,072,873	(22,601)	2,050,272	1,843,128	1,843,128	207,144
Balances end of year	\$ 2,474,731	(30,796)	2,443,935	1,044,922	1,044,922	1,399,013

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2015

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 THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST FISCAL YEAR\*

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>
District's proportion of the net pension liability	0.053798%
District's proportionate share of the net pension liability	\$ 2,177,235
District's covered-employee payroll	\$ 3,773,897
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	57.69%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amount presented for each fiscal year were determined as of June 30.

**Note:** Only the current fiscal year is being presented using a June 30, 2014 measurement date because 10-year data is not yet available.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

EARLHAM COMMUNITY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS

REQUIRED SUPPLEMENTARY INFORMATION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 337,009	321,554	300,759	276,287	233,498	230,309	220,233	195,403	173,168	140,503
Contributions in relation to the statutorily required contribution	<u>(337,009)</u>	<u>(321,554)</u>	<u>(300,759)</u>	<u>(276,287)</u>	<u>(233,498)</u>	<u>(230,309)</u>	<u>(220,233)</u>	<u>(195,403)</u>	<u>(173,168)</u>	<u>(140,503)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 3,773,897	3,600,829	3,468,962	3,423,631	3,359,683	3,313,799	3,468,236	3,229,802	3,011,617	2,443,530
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%	5.75%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY

YEAR ENDED JUNE 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.



EARLHAM COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY

YEAR ENDED JUNE 30, 2015

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2015

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
2015	July 1, 2012	-	299,747	209,531	0.00	3,485,482	8.60

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2015

	Special Revenue		
	Management Levy	Student Activity	Total
<b>Assets</b>			
Cash and pooled investments	\$ 109,925	59,141	169,066
Receivables:			
Property tax:			
Delinquent	1,669	-	1,669
Succeeding year	125,001	-	125,001
Accounts	-	3,885	3,885
<b>Total Assets</b>	<b>\$ 236,595</b>	<b>63,026</b>	<b>299,621</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 152	9,057	9,209
Deferred Inflows of Resources:			
Unavailable revenues:			
Succeeding year property tax	125,001	-	125,001
Fund balances:			
Restricted for:			
Management levy purposes	111,442	-	111,442
Student activities	-	53,969	53,969
Total fund balances	111,442	53,969	165,411
<b>Total liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 236,595</b>	<b>63,026</b>	<b>299,621</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2015

	Special Revenue		
	Management Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 129,984	-	129,984
Other	4,579	257,093	261,672
State sources	508	-	508
Total revenues	<u>135,071</u>	<u>257,093</u>	<u>392,164</u>
Expenditures:			
Current:			
Instruction:			
Other	-	236,267	236,267
Support services:			
Administration	1,000	-	1,000
Operation and maintenance of plant	128,907	-	128,907
Total expenditures	<u>129,907</u>	<u>236,267</u>	<u>366,174</u>
Change in fund balances	5,164	20,826	25,990
Fund balances beginning of year	<u>106,278</u>	<u>33,143</u>	<u>139,421</u>
Fund balances end of year	<u>\$ 111,442</u>	<u>53,969</u>	<u>165,411</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 532,772	200,573	733,345
Receivables:			
Property tax:			
Delinquent	-	2,876	2,876
Succeeding year	-	231,988	231,988
Due from other governments	94,830	-	94,830
<b>Total assets</b>	<b>\$ 627,602</b>	<b>435,437</b>	<b>1,063,039</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 1,414	-	1,414
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	231,988	231,988
Fund balances:			
Restricted for:			
School infrastructure	626,188	-	626,188
Physical plant and equipment	-	203,449	203,449
Total fund balances	626,188	203,449	829,637
<b>Total liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 627,602</b>	<b>435,437</b>	<b>1,063,039</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENSES  
 AND CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	223,983	223,983
Other	755	191	946
State sources	602,837	875	603,712
Total revenues	<u>603,592</u>	<u>225,049</u>	<u>828,641</u>
Expenditures:			
Current:			
Instruction:			
Regular	-	10,247	10,247
Support services:			
Operation and maintenance of plant	-	27,288	27,288
Other expenditures:			
Capital outlay	31,051	137,807	168,858
Total expenditures	<u>31,051</u>	<u>175,342</u>	<u>206,393</u>
Excess(Deficiency) of revenues over(under) expenditures	572,541	49,707	622,248
Other financing uses:			
Transfer out	(399,988)	-	(399,988)
Change in fund balances	172,553	49,707	222,260
Fund balances beginning of year	453,635	153,742	607,377
Fund balances end of year	<u>\$ 626,188</u>	<u>203,449</u>	<u>829,637</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, 2015

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
General Student Activity	\$ 285	548	551	282
Drama	4,887	10,212	6,034	9,065
Flags	10	-	10	-
High School Music Trip	5,389	21,977	20,242	7,124
Jack Oatts Festival	6,425	7,417	5,604	8,238
Athletic	(3,397)	130,134	125,044	1,693
Cheerleaders	1,911	6,579	7,880	610
Drill Team	(137)	1,948	1,214	597
FFA	16,988	53,142	53,390	16,740
National Honor Society	179	2,585	2,234	530
Annual	(3,039)	2,300	(2,436)	1,697
International Trip	7	4,352	3,626	733
Science Club	165	-	-	165
Art Club	456	954	25	1,385
Spanish Club	328	318	388	258
High School Student Council	2,452	10,852	8,697	4,607
Middle School Student Council	234	3,775	3,764	245
Total	\$ 33,143	257,093	236,267	53,969

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,										
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:											
Local sources:											
Local tax	\$ 2,597,506	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	381,451	372,237	410,115	511,146	360,328	396,955	355,381	347,771	333,225	384,846	336,582
Other	404,078	336,092	377,113	362,959	294,577	256,445	262,524	311,747	401,244	259,814	293,339
State sources	4,624,894	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	172,468	117,707	118,106	94,319	273,141	414,884	192,801	142,997	128,331	111,875	132,318
<b>Total</b>	<b>\$ 8,180,397</b>	<b>7,431,419</b>	<b>7,169,814</b>	<b>7,303,526</b>	<b>6,887,171</b>	<b>6,482,680</b>	<b>6,675,019</b>	<b>6,342,900</b>	<b>5,924,706</b>	<b>5,430,881</b>	<b>4,838,968</b>
Expenditures:											
Current:											
Instruction:											
Regular	\$ 3,214,648	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	666,595	737,669	596,671	529,216	543,999	689,498	591,899	539,737	540,525	425,315	534,336
Other	792,994	807,747	763,880	757,302	717,887	684,619	688,507	655,987	681,938	569,161	481,314
Support services:											
Student	159,867	156,491	101,165	136,895	91,960	91,797	76,014	71,135	82,723	78,266	71,110
Instructional staff	436,552	372,447	381,646	332,356	90,814	123,213	112,008	109,127	114,410	117,377	113,857
Administration	703,053	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	545,883	702,891	645,019	546,062	623,820	528,375	481,119	520,895	557,528	510,278	645,614
Transportation	196,670	222,624	180,730	267,166	196,585	144,288	254,955	192,214	160,321	141,083	152,665
Capital outlay	168,858	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	565,000	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	69,185	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	259,234	234,989	224,108	226,836	243,441	240,207	223,403	207,424	188,419	170,580	149,175
<b>Total</b>	<b>\$ 7,778,539</b>	<b>8,031,910</b>	<b>8,373,631</b>	<b>10,288,663</b>	<b>6,762,262</b>	<b>6,156,290</b>	<b>6,153,218</b>	<b>6,573,061</b>	<b>5,586,574</b>	<b>5,125,930</b>	<b>5,261,689</b>

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, 2015, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 15, 2016.

**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-15 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, 2015 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.

March 15, 2016  
Newton, Iowa

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2015

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-15 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 are integrating as many people as possible into the cash related processes. The staff is also being more accountable by being more detailed with their fundraising and cash receiving.

Conclusion - Response Accepted.

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

II-A-15 Certified Budget - District disbursements for the year ended June 30, 2015, did not exceed the amounts budgeted.

II-B-15 Questionable Disbursements - We noted disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

**Gift Cards** Noted the District purchased gift cards from the Student Activity Fund. Giving gift certificates/cards does not allow the board to “audit and allow” final purchases in accordance with Iowa Code Section 279.29 and does not appear to meet public purpose as defined in the Attorney General’s opinion dated April 25, 1979.

**Recommendation** - Gift cards and cash incentives are not an appropriate District purchase since Iowa Code Section 279.29 requires districts to “audit and allow” all bills. The gift cards do not provide the board with the ability to perform the required function of approval of the final purchase. The District should refrain from purchasing gift cards for any purpose, to be in accordance with the Attorney General’s opinion dated April 25, 1979.

**Response** – The administration has told the staff going forward that no gift cards can be purchased for distribution to staff or students

**Conclusion** - Response Accepted.

II-C-15 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-15 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	\$ 2,499

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.

II-E-15 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-15 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board, however, we did note an instance where certain minutes which were not published within two weeks of the meeting as required by Chapter 279.35 by the Code of Iowa.

**Recommendation** - The board secretary should furnish a copy of the Board proceedings to be published within two weeks of each meeting to be in compliance with Chapter 279.35 of the Code of Iowa.

Response - Board Secretary will make sure to send board minutes timely and note the dates that local paper is not going to be published.

Conclusion - Response Accepted.

- II-G-15 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- II-H-15 Supplementary Weighting - We noted no variance in the supplementary weighting certified to the Iowa Department of Education.
- II-I-15 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-15 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-15 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-15 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, 2015, 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 2015 audit:

Beginning Balance		\$ 453,635
Revenues:		
Sales tax revenues	\$ 602,837	
Other local revenues	755	603,592
		<u>1,057,227</u>
Expenditures/transfer out:		
School infrastructure construction	31,051	
Transfer to other funds		
Debt service fund	399,988	431,039
		<u>431,039</u>
Ending Balance		<u>\$ 626,188</u>

For the year ended June 30, 2015, 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-15 Financial Condition – The District had deficit unrestricted net positions in its Governmental fund of \$1,895,504. The Nutrition fund had a deficit unrestricted net position of \$60,812 and a total deficit net position of \$30,796 at June 30, 2015. The primary reason for the deficit net position is due to the implementation of GASB Statement No. 68 and No. 71 during the year.

Recommendation – The District should take steps to ensure the District's administration and Board of Education understand this accounting change/ restatement and how GASB

Statements No. 68 and No. 71 will affect the District's financials moving forward

Response – The deficit in the Governmental and Nutrition Fund is due to the booking of net pension liability. The District will take steps to further the District's administration and Board of Education understanding of the accounting change and how GASB Statements No. 68 and 71 will affect the District's financials in the future

Conclusion – Response Accepted.

II-N-15 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 - The district has implemented time sheets for those coaches who are non-certified staff.

Conclusion – Response Accepted.