

EARLHAM COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2016

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
Schedule of Funding Progress for the Retiree Health Plan		49
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 Projects Fund 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>
Board of Education		
(Before September 2015 Election)		
David Morford	President	2015
Steve Willem	Vice President	2015
Teresa Waldron	Board Member	2017
Andrew Arnburg	Board Member	2015
Kathy Woolcott	Board Member	2017
(After September 2015 Election)		
Teresa Waldron	President	2017
Kathy Woolcott	Vice President	2017
Jan Fletcher	Board Member	2019
Jess Tiemeyer	Board Member	2019
Julene Mutchler-McNeal	Board Member	2019
School Officials		
Mike Wright	Superintendent	2016
Jodi Stroud	District Secretary/ Business Manager	2016
Ahlers & Cooney, P.C.	Attorney	2016

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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 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, 2016, and the related Notes to 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, 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 49 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, 2015 (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 22, 2017 on our consideration of Earlham Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Earlham Community School District's internal control over financial reporting and compliance.


NOLTE, CORNMAN & JOHNSON, P.C.

March 22, 2017
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Earlham Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,698,971 in fiscal year 2015 to \$7,136,683 in fiscal year 2016, while General Fund expenditures increased from \$6,569,787 in fiscal year 2015 to \$6,689,780 in fiscal year 2016. Revenues exceeded expenditures resulting in an increase in the District's General Fund balance from \$836,745 at June 30, 2015 to \$1,283,648 at June 30, 2016, a 53.41% increase from the prior year.
- The increase in General Fund revenues was attributable to the increase in local tax source revenues received during fiscal year 2016. The increase in expenditures was due increased spending in the instruction and support services functional areas.

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 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, the District's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

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

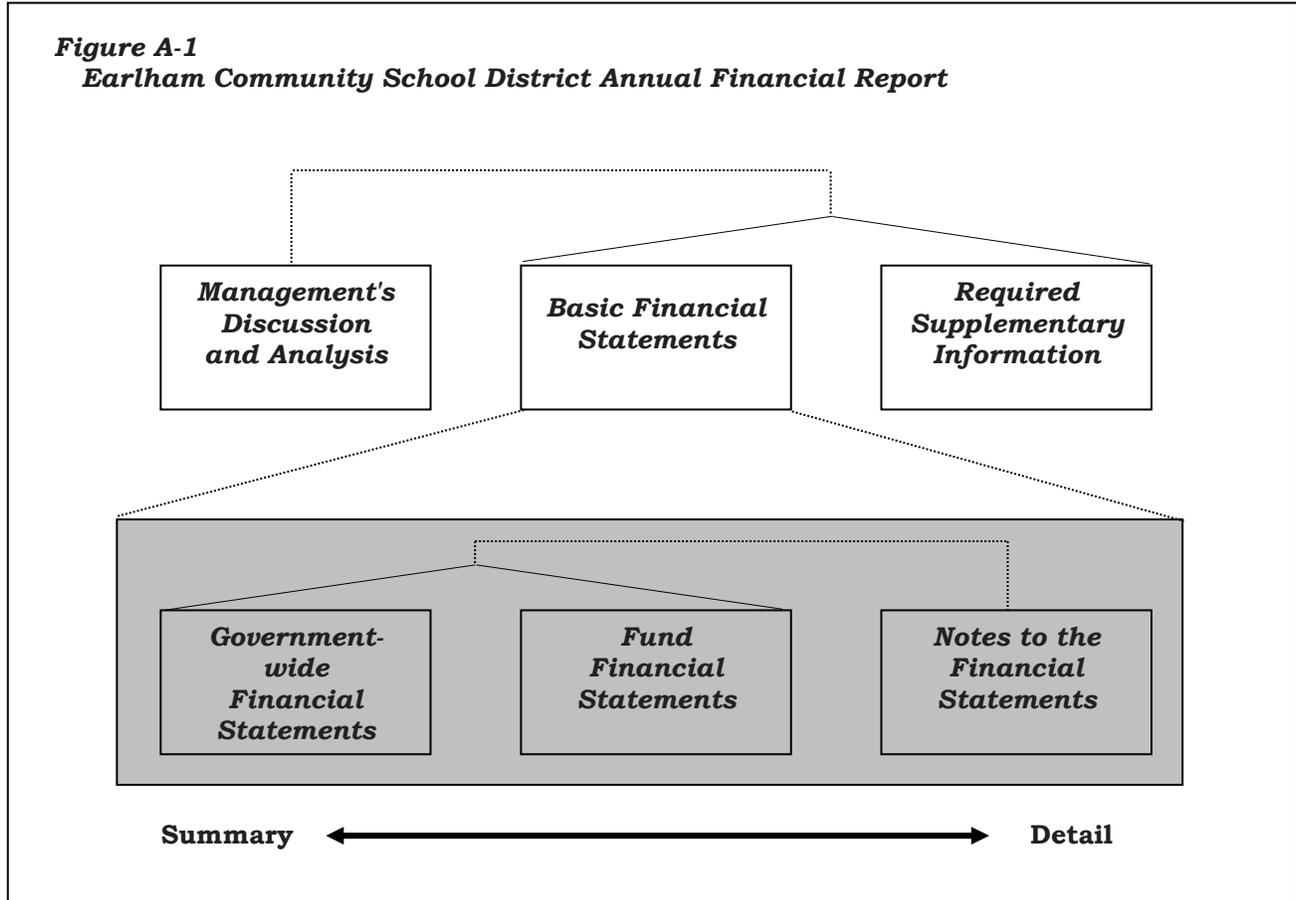


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2				
Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of 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

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, the Debt Service Fund and the 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 fund, one type of proprietary fund, is the same as its business type activities, but provides more detail and additional information, such as cash flows. The District currently has one Enterprise fund, the School Nutrition Fund. The District's Internal Service Fund, another type of proprietary fund, is the same as the governmental activities, but provides more detail and additional information, such as cash flows. The District currently has one Internal Service Fund accounting for the partially self-funded insurance plan.

The required financial statements for 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, 2016 compared to June 30, 2015.

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		2015		2015		2015-2016
	2016	(Not restated)	2016	(Not restated)	2016	(Not restated)	
Current and other assets	\$ 6,649,721	6,128,552	27,111	28,849	6,676,832	6,157,401	8.44%
Capital assets	8,526,355	8,774,312	14,197	30,016	8,540,552	8,804,328	-3.00%
Total assets	15,176,076	14,902,864	41,308	58,865	15,217,384	14,961,729	1.71%
Deferred outflows of resources	489,748	451,119	14,039	12,782	503,787	463,901	8.60%
Long-term liabilities	5,514,492	5,602,910	78,320	66,108	5,592,812	5,669,018	-1.34%
Other liabilities	733,240	753,135	12,968	14,663	746,208	767,798	-2.81%
Total liabilities	6,247,732	6,356,045	91,288	80,771	6,339,020	6,436,816	-1.52%
Deferred inflows of resources	3,094,665	3,676,988	4,704	21,672	3,099,369	3,698,660	-16.20%
Net position:							
Net investment in capital assets	5,836,355	5,499,312	14,197	30,016	5,850,552	5,529,328	5.81%
Restricted	1,870,045	1,717,142	-	-	1,870,045	1,717,142	8.90%
Unrestricted	(1,382,973)	(1,895,504)	(54,842)	(60,812)	(1,437,815)	(1,956,316)	26.50%
Total net position	\$ 6,323,427	5,320,950	(40,645)	(30,796)	6,282,782	5,290,154	18.76%

The District's total net position increased 18.76% or \$992,628 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 \$152,903 or 8.90% from the prior year. The main reason for the increase in restricted net position was the increase in amounts restricted for physical plant and equipment and categorical funding.

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 - increased \$518,501 or - 26.50%. The primary reason for the increase in unrestricted net position was the increase in the unassigned General Fund balance.

Figure A-4 shows the changes in net position for the year ended June 30, 2016 as compared to the year ended June 30, 2015.

Figure A-4 Changes in Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2015		2015		2015		
	2016	(Not restated)	2016	(Not restated)	2016	(Not restated)	2015-2016
Revenues:							
Program revenues:							
Charges for service	\$ 613,100	648,544	253,333	260,091	866,433	908,635	-4.64%
Operating grants, contributions and restricted interest	520,214	491,226	128,225	131,379	648,439	622,605	4.15%
General revenues:							
Property tax	2,866,923	2,597,506	-	-	2,866,923	2,597,506	10.37%
Statewide sales, services and use tax	614,121	602,837	-	-	614,121	602,837	1.87%
Unrestricted state grants	3,660,315	3,720,025	-	-	3,660,315	3,720,025	-1.61%
Unrestricted investment earnings	4,578	3,202	32	28	4,610	3,230	42.72%
Other	167,553	117,057	954	1,648	168,507	118,705	41.95%
Total revenues	<u>8,446,804</u>	<u>8,180,397</u>	<u>382,544</u>	<u>393,146</u>	<u>8,829,348</u>	<u>8,573,543</u>	<u>2.98%</u>
Program expenses:							
Instruction	4,668,426	4,632,321	-	-	4,668,426	4,632,321	0.78%
Support services	2,176,897	2,102,113	-	20	2,176,897	2,102,133	3.56%
Non-instructional programs	-	-	395,908	401,321	395,908	401,321	-1.35%
Other expenses	636,406	632,712	-	-	636,406	632,712	0.58%
Total expenses	<u>7,481,729</u>	<u>7,367,146</u>	<u>395,908</u>	<u>401,341</u>	<u>7,877,637</u>	<u>7,768,487</u>	<u>1.41%</u>
Change in net position	965,075	813,251	(13,364)	(8,195)	951,711	805,056	18.22%
Net position beginning of year, as restated	<u>5,358,352</u>	<u>4,507,699</u>	<u>(27,281)</u>	<u>(22,601)</u>	<u>5,331,071</u>	<u>4,485,098</u>	<u>18.86%</u>
Net position end of year	<u>\$ 6,323,427</u>	<u>5,320,950</u>	<u>(40,645)</u>	<u>(30,796)</u>	<u>6,282,782</u>	<u>5,290,154</u>	<u>18.76%</u>

In fiscal year 2016, property tax, statewide sales, services and use tax, and unrestricted state grants accounted for 84.55% of the revenue from governmental activities while charges for service and operating grants and contributions accounted for nearly all of the revenue from business type activities.

The District's total revenues were approximately \$8.83 million, of which approximately \$8.45 million was for governmental activities and approximately \$0.38 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.98% increase in revenues and a 1.41% increase in expenses. Revenues from property tax increased \$269,417 to help fund the increase in expenses. The increase in expenses is primarily related to increased expenditures in the support services functional area.

Governmental Activities

Revenues for governmental activities were \$8,446,804 and expenses were \$7,481,729. 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, 2016 compared to those expenses for the year ended June 30, 2015.

	Total Cost of Services			Net Cost of Services		
	2016	2015 (Not Restated)	Change 2015-2016	2016	2015 (Not Restated)	Change 2015-2016
Instruction	\$ 4,668,426	4,632,321	0.78%	3,845,825	3,811,091	0.91%
Support services	2,176,897	2,102,113	3.56%	2,126,247	2,042,807	4.08%
Other expenses	636,406	632,712	0.58%	376,343	373,478	0.77%
Totals	<u>\$ 7,481,729</u>	<u>7,367,146</u>	<u>1.56%</u>	<u>6,348,415</u>	<u>6,227,376</u>	<u>1.94%</u>

For the year ended June 30, 2016:

- The cost financed by users of the District’s programs was \$613,100.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$520,214.
- The net cost of governmental activities was financed with \$2,866,923 in property tax, \$614,121 in statewide sales, services and use tax, \$3,660,315 in unrestricted state grants, \$4,578 in investment earnings, and \$167,553 in other general revenues.

Business Type Activities

Revenues of the District’s business type activities were \$382,544 and expenses were \$395,908. 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 \$3,004,093, above last year’s ending fund balances of \$2,474,731. This increase in combined fund balances is due primarily to the increases in the General and Capital Projects Funds.

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 \$836,745 at June 30, 2015 to \$1,283,648 at June 30, 2016.

- The Capital Projects Fund balance improved from \$829,637 at June 30, 2015 to \$933,707 at June 30, 2016. The Statewide Sales, Services and Use Tax Fund balance increased from \$626,188 at June 30, 2015 to \$651,579 at June 30, 2016. The Physical Plant and Equipment Levy Fund balance increased from \$203,449 at June 30, 2015 to \$282,128 at June 30, 2016 primarily due to decrease in capital outlay.
- The Debt Service Fund balance decreased from \$642,938 at June 30, 2015 to \$640,947 at June 30, 2016.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from deficit \$27,281, restated as of July 1, 2015, to deficit \$40,645 at June 30, 2016, representing a decrease of 48.99%.

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 \$886,691 less than budgeted revenues, a variance of 9.13%. The most significant variance resulted from the District receiving less revenue from local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. 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, 2016, the District had invested \$8,540,552 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 \$457,110.

The original cost of the District's capital assets was \$14,578,565. Governmental funds accounted for \$14,363,185 with the remainder of \$215,380 in the Proprietary, School Nutrition Fund.

The largest dollar change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$7,759,086 at June 30, 2016, compared to \$7,937,605 reported at June 30, 2015. This decrease resulted from annual depreciation expense applied during the year.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	2015-2016
Land	\$ 373,930	373,930	-	-	373,930	373,930	0.00%
Buildings	7,759,086	7,937,605	-	-	7,759,086	7,937,605	-2.25%
Improvements other than buildings	220,873	203,120	-	-	220,873	203,120	8.74%
Machinery and equipment	172,466	259,657	14,197	30,016	186,663	289,673	-35.56%
Total	\$ 8,526,355	8,774,312	14,197	30,016	8,540,552	8,804,328	-3.00%

Long-Term Debt

At June 30, 2016, the District had \$5,592,812 of long-term debt outstanding. This represents a decrease of 1.34% from the prior year. (See figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The District's outstanding general bonded indebtedness at June 30, 2016 was \$1,170,000.

The District's outstanding revenue bond indebtedness at June 30, 2016 was \$1,520,000.

The District had total net OPEB liability of \$181,295 at June 30, 2016. Governmental activities account for \$175,095 and business type activities account for \$6,200.

The District had total net pension liability of \$2,721,517 at June 30, 2016. Governmental activities account for \$2,649,397 and business type activities account for \$72,120.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2015		June 30, 2015		June 30, 2015		June 30, 2015-2016
	2016	(Not restated)	2016	(Not restated)	2016	(Not restated)	2015-2016
General obligation bonds	\$ 1,170,000	1,385,000	-	-	1,170,000	1,385,000	-15.52%
Revenue bonds	1,520,000	1,890,000	-	-	1,520,000	1,890,000	-19.58%
Termination benefits	-	7,252	-	-	-	7,252	-100.00%
Net OPEB liability	175,095	200,249	6,200	9,282	181,295	209,531	-13.48%
Net pension liability	2,649,397	2,120,409	72,120	56,826	2,721,517	2,177,235	25.00%
\$	5,514,492	5,602,910	78,320	66,108	5,592,812	5,669,018	-1.34%

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) Decreasing enrollment and high open enrollment out.
- 2) Continued low state supplemental aid keeps the district on the budget guarantee.
- 3) Decrease in valuation of commercial property from 95% to 90%.
- 4) Very tight housing market in community and surrounding area with very little new development.
- 5) Very slow business expansion.
- 6) Increasing cost of employee health insurance.

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, 2016

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 3,575,305	22,423	3,597,728
Receivables			
Property tax:			
Delinquent	26,612	-	26,612
Succeeding year	2,872,868	-	2,872,868
Accounts	1,550	280	1,830
Due from other governments	173,386	-	173,386
Inventories	-	4,408	4,408
Capital assets, net of accumulated depreciation	8,526,355	14,197	8,540,552
Total assets	15,176,076	41,308	15,217,384
Deferred Outflows of Resources			
Pension related deferred outflows	489,748	14,039	503,787
Liabilities			
Accounts payable	166,821	-	166,821
Salaries and benefits payable	548,779	4,488	553,267
Accrued interest payable	17,640	-	17,640
Unearned revenue	-	8,480	8,480
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	225,000	-	225,000
Revenue bonds payable	370,000	-	370,000
Portion due after one year:			
General obligation bonds payable	945,000	-	945,000
Revenue bonds payable	1,150,000	-	1,150,000
Net pension liability	2,649,397	72,120	2,721,517
Net OPEB liability	175,095	6,200	181,295
Total liabilities	6,247,732	91,288	6,339,020
Deferred Inflows of Resources:			
Unavailable property tax revenue	2,872,868	-	2,872,868
Pension related deferred inflows	221,797	4,704	226,501
Total deferred outflows of resources	3,094,665	4,704	3,099,369
Net Position			
Net investment in capital assets	5,836,355	14,197	5,850,552
Restricted for:			
Categorical funding	157,278	-	157,278
Debt service	623,307	-	623,307
Management levy purposes	107,874	-	107,874
Student activities	47,879	-	47,879
School infrastructure	651,579	-	651,579
Physical plant and equipment	282,128	-	282,128
Unrestricted	(1,382,973)	(54,842)	(1,437,815)
Total net position	\$ 6,323,427	(40,645)	6,282,782

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 3,193,797	397,439	33,311	(2,763,047)	-	(2,763,047)
Special	682,411	35,717	33,027	(613,667)	-	(613,667)
Other	792,218	179,944	143,163	(469,111)	-	(469,111)
	<u>4,668,426</u>	<u>613,100</u>	<u>209,501</u>	<u>(3,845,825)</u>	<u>-</u>	<u>(3,845,825)</u>
Support services:						
Student	163,074	-	-	(163,074)	-	(163,074)
Instructional staff	475,672	-	2,504	(473,168)	-	(473,168)
Administration	688,566	-	38,055	(650,511)	-	(650,511)
Operation and maintenance of plant	679,480	-	-	(679,480)	-	(679,480)
Transportation	170,105	-	10,091	(160,014)	-	(160,014)
	<u>2,176,897</u>	<u>-</u>	<u>50,650</u>	<u>(2,126,247)</u>	<u>-</u>	<u>(2,126,247)</u>
Long-term debt interest	59,577	-	-	(59,577)	-	(59,577)
Other expenses:						
AEA flowthrough	260,063	-	260,063	-	-	-
Depreciation(unallocated)*	316,766	-	-	(316,766)	-	(316,766)
	<u>576,829</u>	<u>-</u>	<u>260,063</u>	<u>(316,766)</u>	<u>-</u>	<u>(316,766)</u>
Total governmental activities	<u>7,481,729</u>	<u>613,100</u>	<u>520,214</u>	<u>(6,348,415)</u>	<u>-</u>	<u>(6,348,415)</u>
Business type activities:						
Non-instructional programs:						
Food service operations	395,908	253,333	128,225	-	(14,350)	(14,350)
Total	<u>\$ 7,877,637</u>	<u>866,433</u>	<u>648,439</u>	<u>(6,348,415)</u>	<u>(14,350)</u>	<u>(6,362,765)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 2,484,169	-	2,484,169
Debt service				150,879	-	150,879
Capital outlay				231,875	-	231,875
Statewide sales, services and use tax				614,121	-	614,121
Unrestricted state grants				3,660,315	-	3,660,315
Unrestricted investment earnings				4,578	32	4,610
Other				167,553	954	168,507
Total general revenues				<u>7,313,490</u>	<u>986</u>	<u>7,314,476</u>
Change in net position				965,075	(13,364)	951,711
Net position beginning of year, as restated				<u>5,358,352</u>	<u>(27,281)</u>	<u>5,331,071</u>
Net position end of year				<u>\$ 6,323,427</u>	<u>(40,645)</u>	<u>6,282,782</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, 2016

	General	Debt Service	Capital Projects	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 1,901,936	639,503	831,785	144,921	3,518,145
Receivables:					
Property tax:					
Delinquent	21,800	1,444	2,220	1,148	26,612
Succeeding year	2,283,986	256,975	231,907	100,000	2,872,868
Accounts	-	-	-	1,550	1,550
Due from other governments	72,584	-	100,802	-	173,386
Total assets	\$ 4,280,306	897,922	1,166,714	247,619	6,592,561
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable	\$ 163,893	-	1,100	1,828	166,821
Salaries and benefits payable	548,779	-	-	-	548,779
Total liabilities	712,672	-	1,100	1,828	715,600
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	2,283,986	256,975	231,907	100,000	2,872,868
Fund balances:					
Restricted for:					
Categorical funding	157,278	-	-	-	157,278
Debt service	-	640,947	-	-	640,947
Management levy purposes	-	-	-	107,874	107,874
Student activities	-	-	-	47,879	47,879
School infrastructure	-	-	651,579	-	651,579
Physical plant and equipment	-	-	282,128	-	282,128
Unassigned:					
General	1,126,370	-	-	-	1,126,370
Student activities	-	-	-	(9,962)	(9,962)
Total fund balances	1,283,648	640,947	933,707	145,791	3,004,093
Total liabilities, deferred inflows of resources and fund balances	\$ 4,280,306	897,922	1,166,714	247,619	6,592,561

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2016

Total fund balances of governmental funds(page 20)	\$	3,004,093
 <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.		8,526,355
Blending of the Internal Service Fund to be reflected on an entity-wide basis.		57,160
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.		(17,640)
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	\$ 489,748	
Deferred inflows of resources	<u>(221,797)</u>	267,951
Long-term liabilities, including bonds payable, other postemployment benefits payable and net pension liability, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(5,514,492)</u>
Net position of governmental activities(page 18)	\$	<u><u>6,323,427</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 2,359,230	150,879	231,875	124,939	2,866,923
Tuition	424,814	-	-	-	424,814
Other	192,337	716	1,417	183,128	377,598
State sources	4,009,304	1,213	615,986	1,030	4,627,533
Federal sources	149,936	-	-	-	149,936
Total revenues	<u>7,135,621</u>	<u>152,808</u>	<u>849,278</u>	<u>309,097</u>	<u>8,446,804</u>
Expenditures:					
Current:					
Instruction:					
Regular	3,196,960	-	12,075	-	3,209,035
Special	700,326	-	-	-	700,326
Other	607,708	-	-	192,813	800,521
	<u>4,504,994</u>	<u>-</u>	<u>12,075</u>	<u>192,813</u>	<u>4,709,882</u>
Support services:					
Student	167,832	-	-	-	167,832
Instructional staff	431,082	-	-	-	431,082
Administration	690,877	2,497	20,314	-	713,688
Operation and maintenance of plant	488,848	-	60,389	135,904	685,141
Transportation	146,084	-	8,067	-	154,151
	<u>1,924,723</u>	<u>2,497</u>	<u>88,770</u>	<u>135,904</u>	<u>2,151,894</u>
Capital outlay	-	-	149,575	-	149,575
Long-term debt:					
Principal	-	585,000	-	-	585,000
Interest and fiscal charges	-	62,090	-	-	62,090
	<u>-</u>	<u>647,090</u>	<u>-</u>	<u>-</u>	<u>647,090</u>
Other expenditures:					
AEA flowthrough	260,063	-	-	-	260,063
Total expenditures	<u>6,689,780</u>	<u>649,587</u>	<u>250,420</u>	<u>328,717</u>	<u>7,918,504</u>
Excess(Deficiency) of revenues over(under) expenditures	445,841	(496,779)	598,858	(19,620)	528,300
Other financing sources(uses):					
Transfer in	-	494,788	-	-	494,788
Transfer out	-	-	(494,788)	-	(494,788)
Sale of equipment	1,062	-	-	-	1,062
Total other financing sources(uses)	<u>1,062</u>	<u>494,788</u>	<u>(494,788)</u>	<u>-</u>	<u>1,062</u>
Change in fund balances	446,903	(1,991)	104,070	(19,620)	529,362
Fund balances beginning of year	<u>836,745</u>	<u>642,938</u>	<u>829,637</u>	<u>165,411</u>	<u>2,474,731</u>
Fund balances end of year	<u>\$ 1,283,648</u>	<u>640,947</u>	<u>933,707</u>	<u>145,791</u>	<u>3,004,093</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, 2016

Change in fund balances - total governmental funds (page 22)		\$ 529,362
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
<p>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. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:</p>		
Capital outlay	\$ 193,334	
Depreciation expense	<u>(441,291)</u>	(247,957)
Net change in Internal Service Fund charged back against expenditures made for self-funded insurance on an entity-wide basis.		4,646
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.		585,000
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.		2,513
The current year District IPERS contributions are reported as expenditures in the governmental funds, but are reported as deferred outflows of resources in the Statement of Net Position.		330,734
<p>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:</p>		
Termination benefits	7,252	
Pension expense	(234,227)	
Other postemployment benefits	<u>(12,248)</u>	<u>(239,223)</u>
Change in net position of governmental activities (page 19)		<u>\$ 965,075</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	
Assets		
Current assets:		
Cash and pooled investments	\$ 22,423	57,160
Accounts receivable	280	-
Inventories	4,408	-
Total current assets	<u>27,111</u>	<u>57,160</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	14,197	-
Total assets	<u>41,308</u>	<u>57,160</u>
Deferred Outflows of Resources		
Pension related deferred outflows	14,039	-
Liabilities		
Current liabilities:		
Salaries and benefits payable	4,488	-
Unearned revenue	8,480	-
Total current liabilities	<u>12,968</u>	<u>-</u>
Noncurrent liabilities:		
Net pension liability	72,120	-
Net OPEB liability	6,200	-
Total noncurrent liabilities	<u>78,320</u>	<u>-</u>
Total liabilities	<u>91,288</u>	<u>-</u>
Deferred Inflows of Resources		
Pension related deferred inflows	4,704	-
Net Position		
Net investment in capital assets	14,197	-
Unrestricted	(54,842)	57,160
Total net position	<u>\$ (40,645)</u>	<u>57,160</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, 2016

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
Operating revenues:		
Local sources:		
Charges for service	\$ 253,333	-
Miscellaneous	954	6,420
Total operating revenues	<u>254,287</u>	<u>6,420</u>
Support services:		
Administration:		
Benefits	-	1,876
Non-instructional programs:		
Food service operations:		
Salaries	109,675	-
Benefits	37,516	-
Services	45	-
Supplies	232,853	-
Depreciation	15,819	-
	<u>395,908</u>	<u>-</u>
Total operating expenses	<u>395,908</u>	<u>1,876</u>
Operating income (loss)	<u>(141,621)</u>	<u>4,544</u>
Non-operating revenues:		
State sources	2,548	-
Federal sources	125,677	-
Interest on investments	32	102
Total non-operating revenues	<u>128,257</u>	<u>102</u>
Change in net position	(13,364)	4,646
Net position beginning of year, as restated	<u>(27,281)</u>	<u>52,514</u>
Net position end of year	<u>\$ (40,645)</u>	<u>57,160</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Business Type Activities: <u>Enterprise Fund</u> School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 253,551	-
Cash received from miscellaneous	954	6,420
Cash paid to employees for services	(151,004)	(1,876)
Cash paid to suppliers for goods or services	(196,563)	-
Net cash provided by (used in) operating activities	<u>(93,062)</u>	<u>4,544</u>
Cash flows from non-capital financing activities:		
State grants received	2,548	-
Federal grants received	97,256	-
Net cash provided by non-capital financing activities	<u>99,804</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	32	102
Net increase in cash and pooled investments	6,774	4,646
Cash and pooled investments beginning of year	15,649	52,514
Cash and pooled investments end of year	<u>\$ 22,423</u>	<u>57,160</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (141,621)	4,544
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Commodities used	28,421	-
Depreciation	15,819	-
Decrease in inventories	7,954	-
Decrease in accounts receivable	558	-
Decrease in accounts payable	(40)	-
Decrease in salaries and benefits payable	(1,315)	-
Increase in other postemployment benefits	433	-
Increase in deferred outflows of resources	(1,257)	-
Decrease in deferred inflows of resources	(16,968)	-
Increase in net pension liability	15,294	-
Decrease in unearned revenue	(340)	-
Net cash provided by (used in) operating activities	<u>\$ (93,062)</u>	<u>4,544</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2016, the District received \$28,421 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, 2016

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Gifts and contributions	\$ 42,177
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	42,177
Change in net position	-
Net position beginning of year	-
Net position end of year	\$ -

SEE NOTES TO FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1. Summary of Significant Accounting Policies

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 Projects 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 and the Internal Service Fund. The Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the partially self-funded insurance plan of the District. The Internal Service Fund is charged back to the governmental activities 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 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, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2015.

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 applicable to a future year(s) which 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 District'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 applicable to a future year(s) which 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. 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 consist 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, 2016 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, 2016, the District had investments in the Iowa Schools Joint Investment Trust (ISJIT) Direct Government Obligations Portfolio which are valued at an amortized cost of \$5,002 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals of the ISJIT investments. The investments in the ISJIT were rated AAAM by Standard & Poor’s Financial Services.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Note 3. Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>\$ 494,788</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 and general obligation bond debt relief.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 373,930	-	-	373,930
Total capital assets not being depreciated	<u>373,930</u>	<u>-</u>	<u>-</u>	<u>373,930</u>
Capital assets being depreciated:				
Buildings	11,894,312	91,391	-	11,985,703
Improvements other than buildings	388,140	64,609	6,445	446,304
Machinery and equipment	1,529,052	37,334	9,138	1,557,248
Total capital assets being depreciated	<u>13,811,504</u>	<u>193,334</u>	<u>15,583</u>	<u>13,989,255</u>
Less accumulated depreciation for:				
Buildings	3,956,707	269,910	-	4,226,617
Improvements other than buildings	185,020	46,856	6,445	225,431
Machinery and equipment	1,269,395	124,525	9,138	1,384,782
Total accumulated depreciation	<u>5,411,122</u>	<u>441,291</u>	<u>15,583</u>	<u>5,836,830</u>
Total capital assets being depreciated, net	<u>8,400,382</u>	<u>(247,957)</u>	<u>-</u>	<u>8,152,425</u>
Governmental activities capital assets, net	<u>\$ 8,774,312</u>	<u>(247,957)</u>	<u>-</u>	<u>8,526,355</u>
Business type activities:				
Machinery and equipment	\$ 215,380	-	-	215,380
Less accumulated depreciation	185,364	15,819	-	201,183
Business type activities capital assets, net	<u>\$ 30,016</u>	<u>(15,819)</u>	<u>-</u>	<u>14,197</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 73,178
Other	16,499
Support services:	
Instructional staff	3,841
Administration	736
Operation and maintenance of plant	9,261
Transportation	21,010
	<u>124,525</u>
Unallocated	<u>316,766</u>
Total depreciation expense - governmental activities	<u>\$ 441,291</u>
Business type activities:	
Food service operations	<u>\$ 15,819</u>

Note 5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2016 are summarized as follows:

	Balance Beginning of Year, restated	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,385,000	-	215,000	1,170,000	225,000
Revenue bonds	1,890,000	-	370,000	1,520,000	370,000
Termination benefits	7,252	-	7,252	-	-
Net OPEB liability	162,847	12,248	-	175,095	-
Net pension liability	2,120,409	528,988	-	2,649,397	-
Total	<u>\$ 5,565,508</u>	<u>541,236</u>	<u>592,252</u>	<u>5,514,492</u>	<u>-</u>
Business type activities:					
Net OPEB liability	\$ 5,767	433	-	6,200	-
Net pension liability	56,826	15,294	-	72,120	-
Total	<u>\$ 62,593</u>	<u>15,727</u>	<u>-</u>	<u>78,320</u>	<u>-</u>

General Obligation Bonds Payable

Details of the District's June 30, 2016 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Issue dated January 1, 2011			
	Interest Rates	Principal	Interest	Total
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		<u>\$ 1,170,000</u>	<u>101,941</u>	<u>1,271,941</u>

Revenue Bonds

Details of the District's June 30, 2016 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
2017	1.25%	\$ 370,000	22,475	392,475
2018	1.50	375,000	17,350	392,350
2019	1.75	385,000	11,169	396,169
2020	2.00	390,000	3,900	393,900
Total		<u>\$ 1,520,000</u>	<u>54,894</u>	<u>1,574,894</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$2,550,000 of bonds issued in May 2012. The bonds were issued for the purpose of financing a portion of the costs of a new athletic complex. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2020. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 64% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the

bonds is \$1,574,894. For the current year, \$370,000 of principal and \$26,638 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$614,121.

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, 2016, the District paid \$7,252 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.

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, any time 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, except members with service before June 30, 2012 will use the highest three-year average salary as of that date 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% 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% 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 - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State 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 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the District contributed 8.93% of covered payroll for a total rate of 14.88%.

The District's contributions to IPERS for the year ended June 30, 2016 were \$340,436.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the District reported a liability of \$2,721,517 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 IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the District's collective proportion was 0.055086%, which was an increase of 0.000187% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$240,998. At June 30, 2016, 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	\$ 41,119	\$ -
Changes of assumptions	74,930	-
Net difference between projected and actual earnings on IPERS' investments	-	226,501
Changes in proportion and differences between District contributions and the District's proportionate share of contributions	47,302	-
District contributions subsequent to the measurement date	340,436	-
Total	\$ 503,787	\$ 226,501

\$340,436 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, 2017. 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,	Amount
2017	\$ (64,154)
2018	(64,154)
2019	(64,154)
2020	125,377
2021	3,934
Total	<u>\$ (63,151)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 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% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1% real wage inflation.

The actuarial assumptions used in the June 30, 2015 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 IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of 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:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core Plus Fixed Income	28%	2.04%
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. 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 IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' 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 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 4,764,886	\$ 2,721,517	\$ 996,766

IPERS' Fiduciary Net Position - Detailed information about the IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - At June 30, 2016, the District reported payables to the IPERS of \$36,531 for legally required District contributions and \$24,341 for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

Note 7. Other Postemployment 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 78 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 United Health Care. 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, 2016, the amount contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 29,472
Interest on net OPEB obligation	4,215
Adjustment to annual required contribution	<u>(13,975)</u>
Annual OPEB cost	19,712
Contributions made	<u>(7,031)</u>
Increase in net OPEB obligation	12,681
Net OPEB obligation beginning of year, restated	<u>168,614</u>
Net OPEB obligation end of year	<u><u>\$ 181,295</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, 2016.

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, 2016 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 34,716	7.71%	\$ 174,310
2015	38,597	8.75	209,531
2016	19,712	35.67	181,295

Funded Status and Funding Progress - As of July 1, 2015, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was \$179,694, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$179,694. The covered payroll (annual payroll of active employees covered by the plan) was \$3,472,367 and the ratio of the UAAL to covered payroll was 5.17%. As of June 30, 2016, 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, presents 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, 2015 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 \$260,063 for the year ended June 30, 2016 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, 2016 is comprised of the following programs:

Program	Amount
Weighted At-Risk Programs	\$ 2,522
Returning Dropouts and Dropout Prevention Programs	9,068
Four-year old Preschool State Aid	8,005
Teacher Salary Supplement	109,313
Successful Progression for Early Readers	1,013
Professional Development for Model Core Curriculum	22,402
Professional Development	3,777
Teacher Leadership State Aid	1,178
Total	<u>\$ 157,278</u>

Note 11. Operating Leases

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.

The District entered into an operating lease with Apple, Inc. for equipment used in the District's 1:1 computer program. Details of the contract include semi-annual payments of \$55,891 through May 2018.

Note 12. Deficit Balances

The District had three deficit accounts within the Special Revenue, Student Activity Fund with combined deficit unassigned fund balances of \$9,962.

Note 13. Reconciliation of Governmental Fund Balances to Net Position

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

	Net Investment in Capital Assets	Debt Service	Unassigned/ Unrestricted
Fund balance (Exhibit C)	\$ -	640,947	1,126,370
Capital assets, net of accumulated depreciation	8,526,355	-	-
General obligation bond capitalized indebtedness	(1,170,000)	-	-
Revenue bond capitalized indebtedness	(1,520,000)	-	-
Accrued interest payable	-	(17,640)	-
Unassigned for student activities	-	-	(9,962)
Internal service fund	-	-	57,160
Pension related deferred outflows	-	-	489,748
Pension related deferred inflows	-	-	(221,797)
Net pension liability	-	-	(2,649,397)
Net OPEB liability	-	-	(175,095)
Net position (Exhibit A)	<u>\$ 5,836,355</u>	<u>623,307</u>	<u>(1,382,973)</u>

Note 14. Other Postemployment Benefits (OPEB) Restatement

In previous fiscal years, Earlham Community School District's GASB Statement No. 45 actuarial valuations included an 80% benefit selection by employee assumption. The District and its actuary have determined that a 60% benefit selection by employee assumption would more accurately reflect District employee selection as of the July 1, 2015 valuation date. Due to the change in assumptions, the beginning balance of the net OPEB liability for Earlham Community School District has been restated.

Details of the effects of this adjustment on the restated July 1, 2015 beginning balance of Earlham Community School District's enterprise fund and its governmental activities are as follows:

	Governmental Activities	Business Type Activities: School Nutrition	Total Net OPEB Liability
Net OPEB liability at June 30, 2015	\$ (200,249)	(9,282)	(209,531)
Reclassification due to benefit selection by employees assumption change from 80% to 60% included in the valuation dated July 1, 2015.	37,402	3,515	40,917
Net OPEB liability at July 1, 2015, as restated	\$ (162,847)	(5,767)	(168,614)

The cumulative effect of the July 1, 2015 restatement caused by the assumption change in the July 1, 2015 actuarial valuation on the July 1, 2015 beginning balances of Earlham Community School District are as follows:

	Governmental Activities	Business Type Activities
Net position June 30, 2015, as previously reported	\$ 5,320,950	\$ (30,796)
Net OPEB liability restatement adjustment	37,402	3,515
Net position July 1, 2015, as restated	\$ 5,358,352	\$ (27,281)

REQUIRED SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2016

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 3,669,335	254,319	3,923,654	4,501,204	4,501,204	(577,550)
State sources	4,627,533	2,548	4,630,081	5,019,835	5,019,835	(389,754)
Federal sources	149,936	125,677	275,613	195,000	195,000	80,613
Total revenues	8,446,804	382,544	8,829,348	9,716,039	9,716,039	(886,691)
Expenditures/Expenses:						
Instruction	4,709,882	-	4,709,882	5,425,000	5,425,000	715,118
Support services	2,151,894	-	2,151,894	3,020,000	3,020,000	868,106
Non-instructional programs	-	395,908	395,908	575,000	575,000	179,092
Other expenditures	1,056,728	-	1,056,728	1,321,808	1,321,808	265,080
Total expenditures/expenses	7,918,504	395,908	8,314,412	10,341,808	10,341,808	2,027,396
Excess(Deficiency) of revenues over(under) expenditures/expenses	528,300	(13,364)	514,936	(625,769)	(625,769)	1,140,705
Other financing sources, net	1,062	-	1,062	1,500	1,500	(438)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	529,362	(13,364)	515,998	(624,269)	(624,269)	1,140,267
Balances beginning of year, as restated	2,474,731	(27,281)	2,447,450	1,882,370	1,882,370	565,080
Balances end of year	\$ 3,004,093	(40,645)	2,963,448	1,258,101	1,258,101	1,705,347

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2016

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
 FOR THE LAST TWO YEARS*
 REQUIRED SUPPLEMENTARY INFORMATION

	2016	2015
District's proportion of the net pension liability	0.055086%	0.054899%
District's proportionate share of the net pension liability	\$ 2,721,517	2,177,235
District's covered-employee payroll	\$ 3,773,897	3,600,829
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.46%
IPERS' net position as a percentage of the total pension liability	87.61%	87.61%

* In Accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TEN YEARS
REQUIRED SUPPLEMENTARY INFORMATION

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 340,436	337,009	321,554	300,759	276,287	233,498	230,309	220,233	195,403	173,168
Contributions in relation to the statutorily required contribution	(340,436)	(337,009)	(321,554)	(300,759)	(276,287)	(233,498)	(230,309)	(220,233)	(195,403)	(173,168)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 3,812,272	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
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for 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% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 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.

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% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2015. 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 the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016

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
2016	July 1, 2015	-	179,694	179,694	0.00	3,472,367	5.17

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.

EARLHAM COMMUNITY SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2016

	Special Revenue		
	Management Levy	Student Activity	Total
Assets			
Cash and pooled investments	\$ 106,726	38,195	144,921
Receivables:			
Property tax:			
Delinquent	1,148	-	1,148
Succeeding year	100,000	-	100,000
Accounts	-	1,550	1,550
Total assets	\$ 207,874	39,745	247,619
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	-	1,828	1,828
Deferred Inflows of Resources:			
Unavailable revenues:			
Succeeding year property tax	100,000	-	100,000
Fund balances:			
Restricted for:			
Management levy purposes	107,874	-	107,874
Student activities	-	47,879	47,879
Unassigned	-	(9,962)	(9,962)
Total fund balances	107,874	37,917	145,791
Total liabilities, deferred inflows of resources and fund balances	\$ 207,874	39,745	247,619

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, 2016

	Special Revenue		
	Management Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 124,939	-	124,939
Other	6,367	176,761	183,128
State sources	1,030	-	1,030
Total revenues	<u>132,336</u>	<u>176,761</u>	<u>309,097</u>
Expenditures:			
Current:			
Instruction:			
Other	-	192,813	192,813
Support services:			
Operation and maintenance of plant	135,904	-	135,904
Total expenditures	<u>135,904</u>	<u>192,813</u>	<u>328,717</u>
Change in fund balances	(3,568)	(16,052)	(19,620)
Fund balances beginning of year	<u>111,442</u>	<u>53,969</u>	<u>165,411</u>
Fund balances end of year	<u>\$ 107,874</u>	<u>37,917</u>	<u>145,791</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUND ACCOUNTS
 JUNE 30, 2016

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 550,777	281,008	831,785
Receivables:			
Property tax:			
Delinquent	-	2,220	2,220
Succeeding year	-	231,907	231,907
Due from other governments	100,802	-	100,802
Total assets	\$ 651,579	515,135	1,166,714
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ -	1,100	1,100
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	231,907	231,907
Fund balances:			
Restricted for:			
School infrastructure	651,579	-	651,579
Physical plant and equipment	-	282,128	282,128
Total fund balances	651,579	282,128	933,707
Total liabilities, deferred inflows of resources and fund balances	\$ 651,579	515,135	1,166,714

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENSES
 AND CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUND ACCOUNTS
 YEAR ENDED JUNE 30, 2016

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	231,875	231,875
Other	1,019	398	1,417
State sources	614,121	1,865	615,986
Total revenues	<u>615,140</u>	<u>234,138</u>	<u>849,278</u>
Expenditures:			
Current:			
Instruction:			
Regular	-	12,075	12,075
Support services:			
Administration	2,000	18,314	20,314
Operation and maintenance of plant	2,800	57,589	60,389
Transportation	-	8,067	8,067
Capital outlay	90,161	59,414	149,575
Total expenditures	<u>94,961</u>	<u>155,459</u>	<u>250,420</u>
Excess of revenues over expenditures	520,179	78,679	598,858
Other financing uses:			
Transfer out	<u>(494,788)</u>	-	<u>(494,788)</u>
Change in fund balances	25,391	78,679	104,070
Fund balances beginning of year	<u>626,188</u>	<u>203,449</u>	<u>829,637</u>
Fund balances end of year	<u>\$ 651,579</u>	<u>282,128</u>	<u>933,707</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, 2016

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
General Student Activity	\$ 282	1,329	1,674	(63)
Drama	9,065	5,519	6,263	8,321
High School Music Trip	7,124	395	541	6,978
Jack Oatts Festival	8,238	8,347	6,386	10,199
Athletic	1,693	85,993	90,780	(3,094)
Cheerleaders	610	10,094	8,074	2,630
Drill Team	597	1,045	1,400	242
FFA	16,740	40,559	47,095	10,204
National Honor Society	530	3,565	3,112	983
Annual	1,697	2,458	10,960	(6,805)
International Trip	733	2,975	3,615	93
Science Club	165	-	-	165
Art Club	1,385	-	100	1,285
Spanish Club	258	416	569	105
High School Student Council	4,607	11,762	9,826	6,543
Middle School Student Council	245	2,304	2,418	131
Total	\$ 53,969	176,761	192,813	37,917

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,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues:										
Local sources:										
Local tax	\$ 2,866,923	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
Tuition	424,814	381,451	372,237	410,115	511,146	360,328	396,955	355,381	347,771	333,225
Other	377,598	404,078	336,092	377,113	362,959	294,577	256,445	262,524	311,747	401,244
State sources	4,627,533	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
Federal sources	149,936	172,468	117,707	118,106	94,319	273,141	414,884	192,801	142,997	128,331
Total	\$ 8,446,804	8,180,397	7,431,419	7,169,814	7,303,526	6,887,171	6,482,680	6,675,019	6,342,900	5,924,706
Expenditures:										
Current:										
Instruction:										
Regular	\$ 3,209,035	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
Special	700,326	666,595	737,669	596,671	529,216	543,999	689,498	591,899	539,737	540,525
Other	800,521	792,994	807,747	763,880	757,302	717,887	684,619	688,507	655,987	681,938
Support services:										
Student	167,832	159,867	156,491	101,165	136,895	91,960	91,797	76,014	71,135	82,723
Instructional staff	431,082	436,552	372,447	381,646	332,356	90,814	123,213	112,008	109,127	114,410
Administration	713,688	703,053	673,993	662,218	678,530	654,412	570,641	586,681	625,624	564,344
Operation and maintenance of plant	685,141	545,883	702,891	645,019	546,062	623,820	528,375	481,119	520,895	557,528
Transportation	154,151	196,670	222,624	180,730	267,166	196,585	144,288	254,955	192,214	160,321
Capital outlay	149,575	168,858	346,066	1,461,166	1,612,814	77,863	17,999	66,849	677,155	19,452
Long-term debt:										
Principal	585,000	565,000	553,960	232,709	2,221,524	285,806	274,713	266,947	233,895	220,000
Interest and fiscal charges	62,090	69,185	76,437	69,937	156,009	135,477	131,813	140,288	150,126	167,259
Other expenditures:										
AEA flow-through	260,063	259,234	234,989	224,108	226,836	243,441	240,207	223,403	207,424	188,419
Total	\$ 7,918,504	7,778,539	8,031,910	8,373,631	10,288,663	6,762,262	6,156,290	6,153,218	6,573,061	5,586,574

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of Earlham Community School District:

We have audited 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, 2016, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 22, 2017.

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 deficiencies in internal control we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-16 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. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-B-16 and I-C-16 to be significant deficiencies.

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, 2016 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 22, 2017
Newton, Iowa

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-16 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 one or more 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 - Employees are utilized to the fullest extent to segregate duties as much as possible. The district will continue to monitor and implement further internal controls wherever possible.

Conclusion - Response accepted.

I-B-16 Supporting Documentation - We noted payments for credit cards purchases which were paid from the credit card statement without supporting documentation.

Recommendation - The District has a policy in place for credit card usage, which states that the users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place with personnel using the District credit cards to ensure the proper detailed documentation will be available with paid credit card statements or in exceptional circumstances, the Superintendent or School Board may allow a claim without proper receipt. Written documentation explaining the exceptional circumstances is maintained as part of the school district's record of the claim.

Response - The district currently has only 2 credit cards which are for fuel. Employees are reminded frequently about the importance of turning in the receipts on a timely basis. Occasionally there are printer problems where receipts won't print and employees have been advised to write down the pertinent information (date, time, gallons, and amount) on a slip of paper and turn it in when getting an original receipt is not possible. We will continue to monitor and work with employees to make sure all documentation is turned in.

Conclusion - Response accepted.

I-C-16 Student Activity Fund - Ordering - We noted that the District purchased food inventory and then sold it at cost to the Booster Club and Quarterback Club. The District cannot use the benefits it holds as a nonprofit governmental entity on behalf of an outside entity.

Recommendation - The District should not allow individuals or groups to make purchases through a District account. Since these clubs are independent of the District, they would need to establish separate accounts with vendors to purchase their own food inventory.

Response - This practice has been stopped and the outside organizations are now taking care of their own purchases.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-16 Certified Budget - District disbursements for the year ended June 30, 2016, did not exceed the amounts budgeted.

II-B-16 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-16 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-16 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Book, Transportation Director Owns Mike's Body & Paint	Services	\$ 2,709

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

II-E-16 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 ensure that the coverage is adequate for current operations.

II-F-16 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board, however, we did note the following:

Official Depository - We noted that Banker's Trust was not listed as an official depository in accordance with Chapter 12C.2 of the Code of Iowa which states in part, *"The approval of a financial institution as a depository of public funds for a public body shall be by written resolution or order that shall be entered of record in the minutes of the approving board, and that shall distinctly name each depository approved, and specify the maximum amount that may be kept on deposit in each depository."*

Recommendation - The District should list all the official depositories in accordance with Chapter 12 C.2 of the Code of Iowa.

Response - Banker's Trust was added as an official depository by the school board and will be included in future depository resolutions.

Conclusion - Response accepted.

II-G-16 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

II-H-16 Supplementary Weighting - We noted no variance in the supplementary weighting certified to the Iowa Department of Education.

II-I-16 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-16 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-16 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-16 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, 2016, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$ 626,188
Revenues:		
Sales tax revenues	\$ 614,121	
Other local revenues	1,019	615,140
		<u>1,241,328</u>
Expenditures/transfer out:		
School infrastructure construction	85,500	
Equipment	2,800	
Other	6,661	
Transfer to other funds		
Debt service fund	494,788	589,749
		<u>589,749</u>
Ending Balance		<u>\$ 651,579</u>

For the year ended June 30, 2016, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	<u>\$ 0.57331</u>	<u>\$ 100,000</u>

II-M-16 Financial Condition - The District had three negative account balances within the Student Activity Fund with combined deficit balances of \$9,962 at June 30, 2016.

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

Response - The activity sponsors are working closely with administration to get the negative balances taken care of through fundraising, donations, and monitoring the timing of purchases.

Conclusion - Response accepted.