

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	15
Statement of Activities	B	16-17
Governmental Fund Financial Statements:		
Balance Sheet	C	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	21
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	22
Statement of Revenues, Expenses, and Changes in Net Assets	H	23
Statement of Cash Flows	I	24
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	25
Statement of Changes in Fiduciary Net Assets	K	26
Notes to Financial Statements		27-36
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		38
Notes to Required Supplementary Information - Budgetary Reporting		39
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	43
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	44
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	45
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		46-47
Schedule of Findings		48-50

Independent Auditor's Report

To the Board of Education of
Odebolt-Arthur Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Odebolt-Arthur Community School District, Odebolt, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Odebolt-Arthur Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Odebolt-Arthur Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated October 21, 2004, on our consideration of Odebolt-Arthur Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Odebolt-Arthur Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

October 21, 2004

Odebolt-Arthur Community School District

Management Discussion & Analysis

This section of the Odebolt-Arthur Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2004. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which immediately follow this section. Because the Odebolt-Arthur Community School District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

Financial Highlights

- The State of Iowa imposed a 2.5% reduction in State Foundation Aid, Instructional Support Programs, Educational Excellence Allocations, Teacher Compensation Allocations, and Iowa Early Intervention Allocations in November, which reduced state FY04 revenues by \$41,102 in the General Fund.
- Since the reduction occurred mid year, the District had already obligated the resources to fund fiscal 2004 salaries and programs. The District responded to the reduction by a combination of reducing expenditures in technology; purchased services; equipment and supplies; and using a portion of fund balance.
- Even though there was a reduction in revenues and an increase in salaries, benefits, utilities and special education costs the District's General Fund balance increased by \$130,264.
- Voters in Sac, Ida and Crawford County passed a ten-year one-cent local option sales tax for school facilities which is expected to generate at least an additional \$80,000 per year.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- *Fiduciary funds statements* provide information about the relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year.

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

Figure A-1

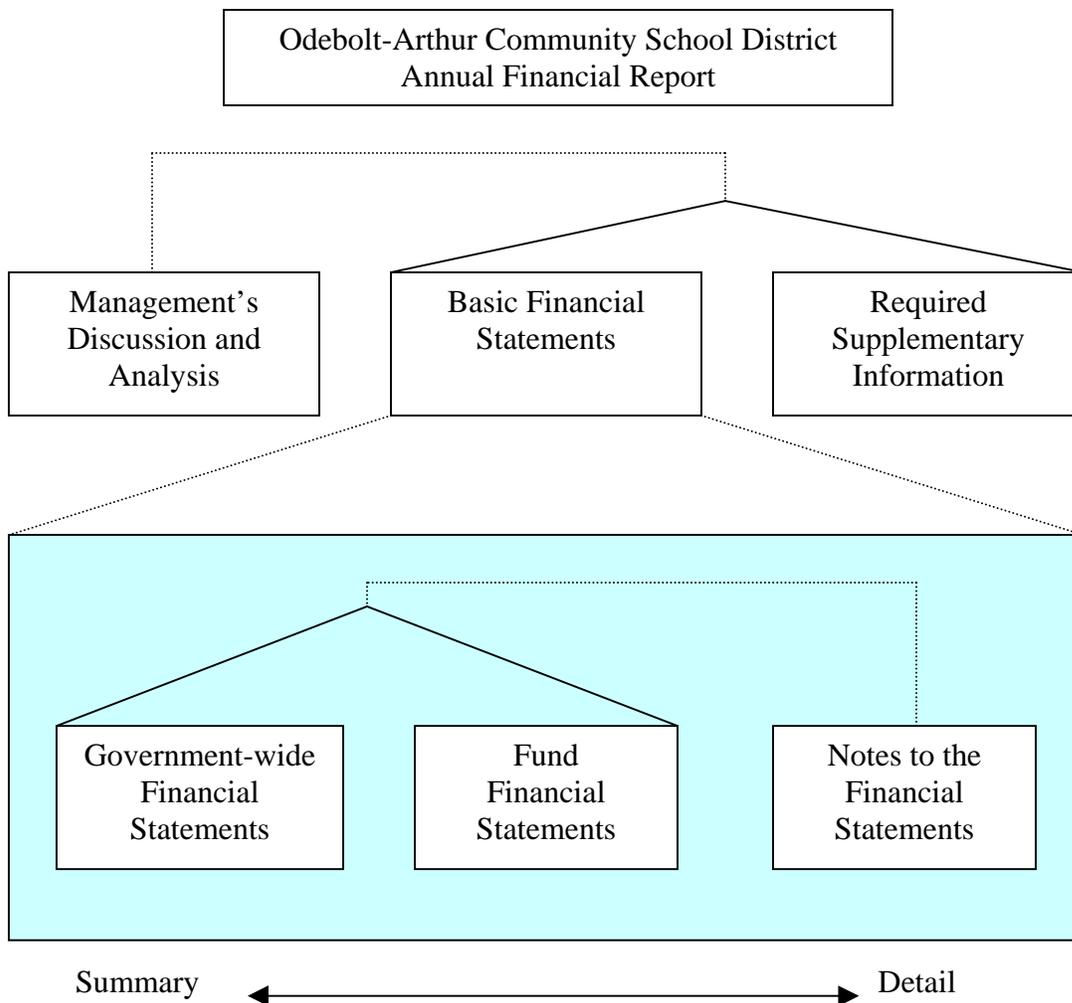


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

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

	Government-wide Statements	Fund Financial 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 business: food services is included here	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 assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balance 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flow 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	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

Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and

expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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 taxes 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 food service program would be 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:

- *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 funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund, Capital Projects Fund and

Special Revenue Funds that consist of Activity, Management, and Physical Plant and Equipment Levy funds.

- *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 statements. The District's enterprise fund, one type of a 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.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship funds. The District accounts for outside donations for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets. The District's combined net assets were slightly larger on June 30, 2004, than they were the year before, increasing \$22,542 (see *Figure A-4*).

Figure A-3

Condensed Statement of Net Assets			
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total School District</u>
	<u>2004</u>	<u>2004</u>	<u>2004</u>
Current and other assets	\$2,633,273	\$25,882	\$2,659,155
Capital assets	1,106,470	14,925	1,121,395
Total Assets	3,739,743	40,807	3,780,550
Long-term liabilities	34,250	-	34,250
Other liabilities	1,854,154	2,501	1,856,655
Total liabilities	1,888,404	2,501	1,890,905
Net Assets:			
Invested in capital assets, net of related debt	1,106,470	14,925	1,121,395
Restricted	148,849	-	148,849
Unrestricted	596,020	23,381	619,401
TOTAL NET ASSETS	\$1,851,339	\$38,306	\$1,889,645

Changes in net assets. Fiscal year 2003-2004 marks the initial District implementation of the GASB-34 financial reporting model. As a result, prior year comparisons are not available but will be provided in all subsequent years. *Figure A-4* reflects only totals from the current fiscal year ending June 30, 2004.

Governmental Activities -

Referring to *Figure A-4*, revenues for the District's governmental activities were \$3,415,973 for fiscal year 2004. Total governmental expenditures were \$3,391,934.

In a difficult budget year, the District did a remarkable job trimming expenses to match available revenues.

Figure A-4

Changes in Net Assets from Operating Results

	<u>Governmental Activities</u> <u>2004</u>	<u>Business-type Activities</u> <u>2004</u>	<u>Total School District</u> <u>2004</u>
Revenues			
Program Revenues			
Charges for services	\$225,519	\$74,343	\$299,862
Operating Grants & Contributions	430,701	89,101	519,802
Capital Grants & Contributions	-	-	-
General Revenues			
Property taxes & other taxes	1,470,941	-	1,470,941
Unrestricted State Grants	1,278,856	-	1,278,856
Unrestricted Investment Earnings	8,134	66	8,200
Other Revenue	1,822	-	1,822
Total Revenues	\$3,415,973	\$163,510	\$3,579,483
Expenses			
Instruction	2,204,901	-	2,204,901
Support Services	1,002,047	-	1,002,047
Non-Instructional Programs	-	165,007	165,007
Other Expenses	184,986	-	184,986
Total Expenses	\$3,391,934	\$165,007	\$3,556,941
Transfers	-	-	-
Change in Net Assets	\$24,039	\$(1,497)	\$22,542

Figure A-5

Net Cost of Governmental Activities

Total Cost	Net Cost
------------	----------

	of Services 2004	of Services 2004
Instruction	\$2,204,901	\$1,672,716
Support Services	1,002,047	1,000,368
Non-instructional Programs	-	-
Other Expenses	184,986	62,630
TOTAL	\$3,391,934	\$2,735,714

Figure A-5 presents the cost of the District's major governmental activities: instruction, support services, non-instruction programs and other expenses. The table shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions. (As with Figure A-4, a two-year comparison with the prior fiscal year is not possible under the new GASB 34 format. In the future a two-year comparison will be provided.)

- The cost of all governmental activities this year was \$3,391,934.
- Some of the cost was financed by the users of the District's programs (\$225,519).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$430,701).
- Most of the District's costs (\$2,735,714), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$1,470,941 in property and other local taxes, and \$1,288,812 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

Business-Type Activities -

The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income. The District's business-type activities show a slight decrease in net assets with expenses exceeding revenues by \$1,497 (refer to Figure A-4). The Board of Education did not increase school meal prices for fiscal year 2004, but made a decision to increase adult lunch prices from \$1.75 to \$2.00 and student breakfast prices from \$.50 to \$.60 for fiscal year 2005.

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$730,771, slightly more than last year's ending fund balances of \$614,652.

Governmental Fund Highlights

The General Fund balance increased from \$428,574 to \$558,838, due in part to an additional early retirement, reducing the kindergarten classes from two sections to one, and continuing a second year contract for a part-time (60%) superintendent.

The Nonmajor Governmental (Management and Activity, PPEL and Capital Projects) Funds balance decreased from \$14,145 to \$171,933. The Capital Projects Fund balance increased, due in large part to the revenue generated from the local option sales tax, while the Management Fund and PPEL Fund balances decreased.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$39,803 at June 30, 2003 to \$38,306 at June 30, 2004, representing a decrease of \$1,497. This reduction was due the purchase of a new dishwasher and some updates in the school's kitchen.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

During FY04, total revenues were below expectations held when the FY04 budget was assembled in February, 2003. Ultimately, budgeted amounts exceeded actual revenue by \$48,420. This was due to a variety of factors that could not have been anticipated when a budget estimate was assembled. For example, in November, 2003, the Governor announced a 2.5% across the board cut. The District also found out after the budget was established that Phase III revenues were going to be eliminated. On the expense side, the District began adjusting to all of these factors, and succeeded in keeping total disbursements below total receipts. When a preliminary budget is set, the District always requests the ability to expend its full budget if necessary, but has the goal of keeping disbursements in line with revenues as actual revenue accumulates. As a result, the District's certified budget should always exceed the actual expenditures during the year. It is apparent that even in such a difficult fiscal year in which to accurately predict revenues, the District was able to meet its goal and keep total disbursements of \$3,492,507 below total receipts of \$3,605,307

Capital Asset and Debt Administration

Capital Assets

By the end of 2004, the District had invested \$1,121,395, net of accumulated depreciation, in a broad range of assets, including school buildings, athletic facilities, transportation equipment, and computer and audio-visual equipment (see *Figure A-6*). This amount represents a net decrease of \$30,986 from last year. (More detailed information about capital assets can be found in Note 5 to the financial statements.) The District was able to stay within its means and not accumulate any debt in FY04. Capital assets were purchased as revenue became available and included a roof and technology equipment.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities 2004	Business Type Activities 2004	Total School District 2004
Land	11,053	-	11,053
Improvements	67,141	-	67,141
Buildings	789,538	-	789,538
Equipment & Furniture	238,738	14,925	253,663
TOTAL	1,106,470	14,925	1,121,395

Long-Term Debt

At June 30, 2004, the District had \$34,250 in long-term debt outstanding (Figure A-7). This represents an increase of approximately \$23,765 from last year. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7

Long-Term Debt

	Balance End of 2004	Due Within One Year
Early retirement	34,250	9,000
Total	<u>\$34,250</u>	<u>\$9,000</u>

Factors Bearing on the District's Future

The District continues to monitor the decline in enrollment which results in fewer dollars to work with. Additional sharing of teachers, both in the classrooms and through the ICN has been beneficial and will continue. For FY05 the District has agreed to share two administrators on a half-time basis with a neighboring district for an additional savings. Budgeting practices such as making sure disbursements do not exceed receipts, even during challenging years like FY04, combined with a solid foundation of cash balance and unspent balance, allow the District to provide the resources needed for excellent student achievement while still keeping the tax burden reasonable. The District looks forward to the 4% allowable growth projected for FY06. However, costs outside of the Board's control such as declining enrollment, continual increases in health insurance and utility costs are worrisome, and employee contract settlements will also have an effect on the District's financial viability.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact Russ Freeman, Superintendent, or Carol Auen, Business Manager, Odebolt-Arthur Community School District, 600 S. Maple Street, Odebolt, Iowa 51458.

BASIC FINANCIAL STATEMENTS

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities \$	Business Type Activities \$	Total \$
Assets			
Cash and cash equivalents:			
ISCAP	611,765	-	611,765
Other	660,855	36,432	697,287
Receivables:			
Property tax:			
Delinquent	14,202	-	14,202
Succeeding year	1,226,338	-	1,226,338
Accounts	4,968	9	4,977
Accrued interest:			
ISCAP	1,851	-	1,851
Other	262	-	262
Due from other governments	97,574	-	97,574
Interfund receivable/payable	15,458	(15,458)	-
Inventories	-	4,899	4,899
Capital assets, net of accumulated depreciation	1,106,470	14,925	1,121,395
Total assets	3,739,743	40,807	3,780,550
Liabilities			
Accounts payable	11,635	2,256	13,891
Deferred revenue:			
Succeeding year property tax	1,226,338	-	1,226,338
Other	-	245	245
ISCAP warrants payable	608,000	-	608,000
ISCAP accrued interest payable	2,807	-	2,807
ISCAP premium	5,374	-	5,374
Long-term liabilities			
Portion due within one year:			
Early retirement	9,000	-	9,000
Portion due after one year:			
Early retirement	25,250	-	25,250
Total liabilities	1,888,404	2,501	1,890,905
Net assets			
Invested in capital assets, net of related debt	1,106,470	14,925	1,121,395
Restricted for:			
Capital outlay	97,418	-	97,418
Other special revenue purposes	51,431	-	51,431
Unrestricted	596,020	23,381	619,401
Total net assets	1,851,339	38,306	1,889,645

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Instruction:				
Regular instruction	1,543,515	125,254	231,199	-
Special instruction	364,932	24,378	65,928	-
Other instruction	296,454	75,400	10,026	-
	<u>2,204,901</u>	<u>225,032</u>	<u>307,153</u>	<u>-</u>
Support services:				
Student services	78,684	-	761	-
Instructional staff services	99,886	-	-	-
Administration services	354,064	-	-	-
Operation and maintenance of plant services	254,187	45	-	-
Transportation services	215,226	442	431	-
	<u>1,002,047</u>	<u>487</u>	<u>1,192</u>	<u>-</u>
Other expenditures:				
AEA flowthrough	122,356	-	122,356	-
Depreciation (unallocated)*	62,630	-	-	-
	<u>184,986</u>	<u>-</u>	<u>122,356</u>	<u>-</u>
Total governmental activities	3,391,934	225,519	430,701	-
Business type activities:				
Non-instructional programs:				
Food service operations	165,007	74,343	89,101	-
Total	<u>3,556,941</u>	<u>299,862</u>	<u>519,802</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

*This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,187,062)	-	(1,187,062)
(274,626)	-	(274,626)
(211,028)	-	(211,028)
<u>(1,672,716)</u>	<u>-</u>	<u>(1,672,716)</u>
(77,923)	-	(77,923)
(99,886)	-	(99,886)
(354,064)	-	(354,064)
(254,142)	-	(254,142)
(214,353)	-	(214,353)
<u>(1,000,368)</u>	<u>-</u>	<u>(1,000,368)</u>
-	-	-
(62,630)	-	(62,630)
<u>(62,630)</u>	<u>-</u>	<u>(62,630)</u>
(2,735,714)	-	(2,735,714)
-	(1,563)	(1,563)
<u>(2,735,714)</u>	<u>(1,563)</u>	<u>(2,737,277)</u>
1,295,865	-	1,295,865
87,198	-	87,198
43,142	-	43,142
44,736	-	44,736
1,278,856	-	1,278,856
8,134	66	8,200
1,822	-	1,822
<u>2,759,753</u>	<u>66</u>	<u>2,759,819</u>
24,039	(1,497)	22,542
<u>1,827,300</u>	<u>39,803</u>	<u>1,867,103</u>
<u>1,851,339</u>	<u>38,306</u>	<u>1,889,645</u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	611,765	-	611,765
Other	505,098	155,757	660,855
Receivables:			
Property tax:			
Delinquent	13,188	1,014	14,202
Succeeding year	1,118,187	108,151	1,226,338
Accounts	4,296	672	4,968
Accrued interest - ISCAP	1,851	-	1,851
Accrued interest - other	262	-	262
Interfund receivable	14,258	1,200	15,458
Due from other governments	79,790	17,784	97,574
	<u>2,348,695</u>	<u>284,578</u>	<u>2,633,273</u>
Total assets			
Liabilities and Fund Balances			
Liabilities:			
Warrants issued in excess of bank balance			
Accounts payable	7,141	4,494	11,635
ISCAP warrants payable	608,000	-	608,000
ISCAP accrued interest payable	2,807	-	2,807
ISCAP premium	5,374	-	5,374
Deferred revenue:			
Succeeding year property tax	1,118,187	108,151	1,226,338
Other	48,348	-	48,348
Total liabilities	<u>1,789,857</u>	<u>112,645</u>	<u>1,902,502</u>
Fund balances:			
Unreserved	<u>558,838</u>	<u>171,933</u>	<u>730,771</u>
	<u>2,348,695</u>	<u>284,578</u>	<u>2,633,273</u>
Total liabilities and fund balances			

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	730,771
<i>Amounts reported for governmental activities in the Statement of Net Assets 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.	1,106,470
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	48,348
Long-term liabilities, early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(34,250)</u>
Net assets of governmental activities (Exhibit A)	<u><u>1,851,339</u></u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	1,327,801	170,786	1,498,587
Tuition	92,243	-	92,243
Other	47,290	94,120	141,410
State sources	1,555,670	83	1,555,753
Federal sources	153,804	-	153,804
Total revenues	<u>3,176,808</u>	<u>264,989</u>	<u>3,441,797</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,526,478	6,787	1,533,265
Special instruction	364,932	-	364,932
Other instruction	213,528	81,366	294,894
	<u>2,104,938</u>	<u>88,153</u>	<u>2,193,091</u>
Support services:			
Student services	64,853	-	64,853
Instructional staff services	99,886	-	99,886
Administration services	349,564	4,500	354,064
Operation and maintenance of plant services	218,260	71,927	290,187
Transportation services	87,309	115,754	203,063
	<u>819,872</u>	<u>192,181</u>	<u>1,012,053</u>
Other expenditures:			
AEA flowthrough	122,356	-	122,356
Total expenditures	<u>3,047,166</u>	<u>280,334</u>	<u>3,327,500</u>
Excess (deficiency) of revenues over (under) expenditures	129,642	(15,345)	114,297
Other financing sources (uses):			
Sales of equipment and real property	622	1,200	1,822
Net change in fund balances	130,264	(14,145)	116,119
Fund balances beginning of year, as restated	<u>428,574</u>	<u>186,078</u>	<u>614,652</u>
Fund balances end of year	<u><u>558,838</u></u>	<u><u>171,933</u></u>	<u><u>730,771</u></u>

ODEBOLT-ARTHUR 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, 2004

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		116,119
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	69,732	
Depreciation expense	<u>(110,401)</u>	(40,669)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		
		(27,646)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement		<u>(23,765)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>24,039</u></u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	36,432
Accounts receivable	9
Inventories	4,899
Capital assets, net of accumulated depreciation	<u>14,925</u>
Total assets	<u>56,265</u>
Liabilities	
Interfund payable	15,458
Accounts payable	2,256
Deferred revenue	<u>245</u>
Total liabilities	<u>17,959</u>
Net assets	
Invested in capital assets, net of related debt	14,925
Unrestricted	<u>23,381</u>
Total net assets	<u><u>38,306</u></u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2004

	Nonmajor School Nutrition <u> </u> \$
Operating revenue:	
Local sources:	
Charges for service	<u>74,343</u>
Operating expenses:	
Non-instructional programs:	
Salaries	67,774
Benefits	8,548
Purchased services	2,071
Supplies	84,399
Depreciation	2,215
	<u>165,007</u>
Operating gain (loss)	<u>(90,664)</u>
Non-operating revenue:	
State sources	2,536
Federal sources	86,565
Interest income	66
Total non-operating revenue	<u>89,167</u>
Change in net assets	(1,497)
Net assets beginning of year	<u>39,803</u>
Net assets end of year	<u><u>38,306</u></u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Nonmajor School Nutrition \$
Cash flows form operating activities:	
Cash received from sale of lunches and breakfasts	74,206
Cash payments to employees for services	(60,865)
Cash payments to suppliers for goods or services	(64,422)
Net cash used by operating activities	<u>(51,081)</u>
Cash flows from non-capital financing activities:	
State grants received	2,536
Federal grants received	68,913
Net cash provided by non-capital financing activities	<u>71,449</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(11,898)</u>
Cash flows from investing activities:	
Interest on investments	<u>66</u>
Net increase (decrease) in cash and cash equivalents	8,536
Cash and cash equivalents at beginning of year	<u>27,896</u>
Cash and cash equivalents at end of year	<u><u>36,432</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(90,664)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	17,652
Depreciation	2,215
Decrease (increase) in inventories	2,324
Decrease (increase) in accounts receivable	(9)
(Decrease) increase in accounts payable	2,071
(Decrease) increase in payable to General Fund	15,458
(Decrease) increase in deferred revenue	(128)
Net cash used in operating activities	<u><u>(51,081)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$17,652 of federal commodities.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	Private Purpose Trust Scholarship \$	Agency \$
Assets		
Cash and pooled investments	107,530	44,116
Accrued interest receivable	611	-
	<u>108,141</u>	<u>44,116</u>
Total Assets		
	<u>108,141</u>	<u>44,116</u>
Liabilities		
Accounts payable	4,703	-
Other payables	-	44,116
Total liabilities	<u>4,703</u>	<u>44,116</u>
Net Assets		
Reserved for scholarships	<u>103,438</u>	<u>-</u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	10,275
Interest	<u>3,003</u>
Total additions	13,278
Deductions:	
Support services:	
Scholarships awarded	<u>4,059</u>
Change in net assets	9,219
Net assets beginning of year	<u>94,219</u>
Net assets end of year	<u><u>103,438</u></u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

Odebolt-Arthur Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Odebolt and Arthur, Iowa and the predominately agricultural territory in a portion of Sac, Ida and Crawford 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, Odebolt-Arthur 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 Odebolt-Arthur Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does 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 County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but 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 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 nonmajor governmental funds.

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 revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instruction, support and other costs.

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds, which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, propriety and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 judgements, 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 the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is 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 became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003, through June 30, 2004, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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, furniture and equipment are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair 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.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	200
Buildings	2,000
Improvements other than buildings	500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Furniture and equipment	3-20 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amount budgeted.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 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 or 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.

Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investments are all categories 1, which means that the investments are insured or registered or the securities are held by the District or its agent in the District's name.

The District's investments at June 30, 2004, are as follows:

	Fair Value
	\$
Expendable Trust Fund:	
New York Life Annuity	20,809
US Treasury Note	5,056
	<u>25,865</u>

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
Enterprise:		
School Nutrition Fund	General Fund	15,458

This amount is an advance for payment of expenses by the General Fund in June which will be repaid in the next month.

4. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2003-04B	1/30/04	1/28/05	340,302	1,851	338,000	2,807
2004-05A	6/30/04	6/30/05	<u>271,463</u>	-	<u>270,000</u>	-
Total			<u>611,765</u>	<u>1,851</u>	<u>608,000</u>	<u>2,807</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants %	Interest Rates on Investments %
2003-04B	2.000	1.310
2004-05A	3.000	2.463

5. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year as restated \$	Increases \$	Decreases \$	Balance End of Year \$
Governmental activities:				
Capital assets not being depreciated:				
Land	11,053	-	-	11,053
Capital assets being depreciated:				
Buildings	2,026,727	36,000	-	2,062,727
Improvements other than buildings	235,070	-	-	235,070
Furniture and equipment	769,361	33,732	-	803,093
Total capital assets being deprec.	<u>3,031,158</u>	<u>69,732</u>	-	<u>3,100,890</u>
Less accumulated depreciation for:				
Buildings	1,223,917	49,272	-	1,273,189
Improvements other than buildings	163,082	4,847	-	167,929
Furniture and equipment	508,073	56,282	-	564,355
Total accumulated depreciation	<u>1,895,072</u>	<u>110,401</u>	-	<u>2,005,473</u>
Total capital assets being depreciated, net	<u>1,136,086</u>	<u>(40,669)</u>	-	<u>1,095,417</u>
Governmental activities capital assets, net	<u>1,147,139</u>	<u>(40,669)</u>	-	<u>1,106,470</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	28,633	11,898	-	40,531
Less accumulated depreciation	<u>23,391</u>	<u>2,215</u>	-	<u>25,606</u>
Business type activities capital assets, net	<u>5,242</u>	<u>9,683</u>	-	<u>14,925</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	20,217
Other	1,560
Support Services:	
Student services	13,831
Transportation	<u>12,163</u>
	47,771
Unallocated depreciation	<u>62,630</u>
Total depreciation expense – governmental activities	<u>110,401</u>
Business type activities:	
Food services	<u>2,215</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Early retirement	<u>10,485</u>	<u>34,250</u>	<u>10,485</u>	<u>34,250</u>	<u>9,000</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age **fifty-five** and must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on salary in effect in year of retirement. Early retirement expenditures for the year ended June 30, **2004** totaled \$10,485.

7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$111,236, \$109,723, and \$112,633 respectively, equal to the required contributions for each year.

8. Risk Management

Odebolt-Arthur Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision, and prescription drugs.

Each member's contributions to ISEBA fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. The District's annual contributions to ISEBA for the year ended June 30, 2004, were \$206,157.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$122,356 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Accounting Change and Restatement

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended [June 30, 2004](#). The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended [June 30, 2004](#). The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities, and the changes in assets and liabilities at [July 1, 2003](#) caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		
	General	Nonmajor	Total
	\$	\$	\$
Net assets, June 30, 2003, as previously reported	428,574	175,593	604,167
GASB Interpretation 6 adjustments	-	10,485	10,485
Net assets, July 1, 2003, as restated for Governmental funds	428,574	186,078	614,652
GASB 34 adjustments:			
Capital assets net of accumulated depreciation of \$1,895,072			1,147,139
Long-term liabilities:			
Early retirement			(10,485)
Deferred revenue			75,994
Net assets, July 1, 2003, as restated			1,827,300

REQUIRED SUPPLEMENTARY INFORMATION

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Revenues:						
Local sources	1,732,240	74,409	1,806,649	1,794,277	1,794,277	12,372
State sources	1,555,753	2,536	1,558,289	1,672,450	1,672,450	(114,161)
Federal sources	153,804	86,565	240,369	187,000	187,000	53,369
Total revenues	<u>3,441,797</u>	<u>163,510</u>	<u>3,605,307</u>	<u>3,653,727</u>	<u>3,653,727</u>	<u>(48,420)</u>
Expenditures:						
Instruction	2,193,091	-	2,193,091	2,581,690	2,581,690	388,599
Support services	1,012,053	-	1,012,053	1,277,002	1,277,002	264,949
Non-instructional programs	-	165,007	165,007	155,000	155,000	(10,007)
Other expenditures	122,356	-	122,356	131,147	131,147	8,791
Total expenditures	<u>3,327,500</u>	<u>165,007</u>	<u>3,492,507</u>	<u>4,144,839</u>	<u>4,144,839</u>	<u>652,332</u>
Excess (deficiency) of revenues over (under) expenditures	114,297	(1,497)	112,800	(491,112)	(491,112)	603,912
Other financing sources (uses) net	<u>1,822</u>	<u>-</u>	<u>1,822</u>	<u>-</u>	<u>-</u>	<u>1,822</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	116,119	(1,497)	114,622	(491,112)	(491,112)	605,734
Balance beginning of year	<u>614,652</u>	<u>39,803</u>	<u>654,455</u>	<u>773,708</u>	<u>773,708</u>	<u>(119,253)</u>
Balance end of year	<u><u>730,771</u></u>	<u><u>38,306</u></u>	<u><u>769,077</u></u>	<u><u>282,596</u></u>	<u><u>282,596</u></u>	<u><u>486,481</u></u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

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 Internal Service, 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 the [modified accrual basis](#). Encumbrances are not recognized on the modified accrual basis budget and appropriations lapse at year end.

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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend its budget during the year.

During the year ended June 30, [2004](#), expenditures exceeded the amount budgeted in the non-instructional programs function.

OTHER SUPPLEMENTARY INFORMATION

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds				Total
	Management	Student	Physical	Capital	
	Levy	Activity Fund	Plant and Equipment Levy	Projects	
	\$	\$	\$	\$	\$
Cash and pooled investments	23,051	51,419	54,298	26,989	155,757
Receivables:					
Property tax:					
Delinquent	123	-	891	-	1,014
Succeeding year	108,000	-	151	-	108,151
Accounts	-	672	-	-	672
Interfund receivable	-	-	1,200	-	1,200
Due from other governments	-	-	-	17,784	17,784
Total assets	131,174	52,091	56,540	44,773	284,578
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	-	750	3,744	-	4,494
Deferred revenue:					
Succeeding year property tax	108,000	-	151	-	108,151
Total liabilities	108,000	750	3,895	-	112,645
Fund balances:					
Unreserved fund balance	23,174	51,341	52,645	44,773	171,933
Total liabilities and fund balances	131,174	52,091	56,540	44,773	284,578

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2004

	Special Revenue Funds				Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Capital Projects	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	11,953	-	114,097	44,736	170,786
Other	129	93,693	261	37	94,120
State sources	10	-	73	-	83
Total revenues	<u>12,092</u>	<u>93,693</u>	<u>114,431</u>	<u>44,773</u>	<u>264,989</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	6,787	-	-	-	6,787
Other instruction	-	81,366	-	-	81,366
Support services:					
Administration services	4,500	-	-	-	4,500
Operation and maintenance of plant services	-	-	71,927	-	71,927
Transportation services	55,373	-	60,381	-	115,754
Total expenditures	<u>66,660</u>	<u>81,366</u>	<u>132,308</u>	<u>-</u>	<u>280,334</u>
Excess (deficiency) of revenues over (under) expenditures	(54,568)	12,327	(17,877)	44,773	(15,345)
Other financing sources (uses):					
Sales of real property	-	-	1,200	-	1,200
Net change in fund balance	(54,568)	12,327	(16,677)	44,773	(14,145)
Fund balances beginning of year, as restated	<u>77,742</u>	<u>39,014</u>	<u>69,322</u>	<u>-</u>	<u>186,078</u>
Fund balances end of year	<u>23,174</u>	<u>51,341</u>	<u>52,645</u>	<u>44,773</u>	<u>171,933</u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Athletics	8,547	26,013	10,887	-	23,673
Baseball/softball	-	5,124	5,124	-	-
Football	-	4,579	4,579	-	-
Volleyball	7,825	1,070	1,992	-	6,903
Basketball	263	3,477	3,740	-	-
Wrestling	-	2,307	2,307	-	-
Track	-	1,608	1,608	-	-
Golf	-	660	660	-	-
HS cheerleading	1,603	1,358	623	-	2,338
Dance/drill team	659	2,033	1,822	-	870
Yearbook	1,034	15,589	10,997	(3,946)	1,680
Greenhouse	663	422	1,027	-	58
Drama/speech	1,896	1,948	2,093	-	1,751
National Honor Society	252	253	84	-	421
Student council	1,182	1,023	773	-	1,432
FFA	8,979	14,140	21,879	3,946	5,186
TAG	-	663	662	-	1
Springbrook/DARE	4,261	1,971	1,263	-	4,969
S.O.D.A.	92	-	-	-	92
Music	918	103	1,018	-	3
Class of 1999	400	-	400	-	-
Class of 2004	1,528	(271)	1,257	-	-
Class of 2005	1,513	5,269	6,496	-	286
Class of 2006	144	3,549	2,078	-	1,615
Class of 2007	-	141	-	-	141
Beginning accrual entries	(2,745)	(8)	(2,753)	-	-
Ending accrual entries	-	672	750	-	(78)
	<u>39,014</u>	<u>93,693</u>	<u>81,366</u>	<u>-</u>	<u>51,341</u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2004

	<u>Elementary School</u>	<u>Middle School</u>	<u>High School</u>	<u>Staff Projects</u>	<u>European Travel</u>	<u>Music Boosters</u>	<u>We're for Kids</u>	<u>O-A Outlet</u>	<u>DECAT</u>	<u>Total</u>
Balance beginning of year	(4,158)	19,685	2,571	1,401	1,598	10,357	789	-	8,435	40,678
Additions:										
Collections	6,294	10,545	24,764	8,819	5,737	8,382	2,009	414	-	66,964
Deductions:										
Miscellaneous	<u>6,308</u>	<u>7,970</u>	<u>24,842</u>	<u>7,240</u>	<u>11,950</u>	<u>3,178</u>	<u>1,792</u>	<u>246</u>	<u>-</u>	<u>63,526</u>
Balance end of year	<u>(4,172)</u>	<u>22,260</u>	<u>2,493</u>	<u>2,980</u>	<u>(4,615)</u>	<u>15,561</u>	<u>1,006</u>	<u>168</u>	<u>8,435</u>	<u>44,116</u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,498,587	1,447,106	1,311,885	1,154,851
Tuition	92,243	53,952	84,345	57,272
Other	141,410	135,859	166,872	159,893
State sources	1,555,753	1,535,666	1,550,765	1,688,745
Federal sources	153,804	133,514	90,662	119,826
Total revenues	<u>3,441,797</u>	<u>3,306,097</u>	<u>3,204,529</u>	<u>3,180,587</u>
Expenditures:				
Instruction:				
Regular instruction	1,533,265	1,484,400	1,479,236	1,354,513
Special instruction	364,932	305,503	265,542	226,668
Other instruction	294,894	323,573	344,156	331,354
Support services:				
Student services	64,853	65,210	111,073	92,862
Instructional staff services	99,886	89,431	81,218	109,963
Administration services	354,064	352,135	341,191	336,714
Operation and maintenance of plant services	290,187	301,298	234,457	344,520
Transportation services	203,063	139,889	108,415	107,342
Central support services	-	-	36,909	28,935
Non-instructional programs	-	179	7,360	4,429
Other expenditures:				
Long-term debt:				
Principal	-	53,799	51,368	48,998
Interest and other charges	-	1,658	4,089	6,459
AEA flowthrough	122,356	131,104	131,632	139,525
Total expenditures	<u>3,327,500</u>	<u>3,248,179</u>	<u>3,196,646</u>	<u>3,132,282</u>

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of the
Odebolt-Arthur Community School District:

We have audited the financial statements of the Odebolt-Arthur Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 21, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Odebolt-Arthur 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 grants, noncompliance 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 noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 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. Prior year statutory comments have all been resolved except for item 04-II-I.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Odebolt-Arthur Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items [04-I-A](#) and [04-I-B](#) are material weaknesses. Prior year reportable conditions have all been resolved except for items [04-I-A](#).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the [Odebolt-Arthur](#) Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of [Odebolt-Arthur](#) 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

October 21, [2004](#)

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

04-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and increase monitoring procedures to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

04-I-B Signature Plate: We noted that a plate bearing the signature of the Board President is used to cosign checks. The plate is under the care, custody, and control of the administrative office. This practice negates the internal control procedure established by requiring two signatures on a check.

Recommendation: We recommend that this practice cease. The board may designate a person other than the board president to cosign checks. If a signature plate is used, it should remain under the control of the person whose name the plate bears at all times.

District Response: We will discuss methods to limit access to the signature plate.

Conclusion: Response accepted.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget: Expenditures for the year ended June 30, 2004, exceeded the amount budgeted in the non-instructional programs function.

Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

District Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

04-II-C Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expenses: 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.

04-II-E Business Transactions: No business transactions between the district and district officials or employees were noted.

04-II-F Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-II-G Board Minutes: We noted no transactions requiring board approval that had not been approved by the board. We did note that not all minutes were timely published.

Recommendation: The District should timely publish the minutes of all meetings and hearings.

District Response: We will publish all minutes in the future.

Conclusion: Response accepted.

04-II-H Certified Enrollment: The number of nonresident open enrolled in students reported to the Iowa Department of Education for September 2003, was overstated by 1 student and the number of nonresident tuitioned in students was understated by 1 student.

Recommendation: The District should contact the Iowa department of Education and the Department of Management to resolve this matter.

District Response: We will contact these departments.

Conclusion: Response accepted.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting (Continued):

04-II-I Deposits and Investments: We noted an instance of what appears to be noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. The District has \$20,809 Trust Fund monies invested in a New York Life Insurance Company annuity.

Recommendation: The District should consult with their attorney on the legality of this investment.

District Response: We are working with the provider of the scholarship funds and his attorney to invest them according to Chapter 12B and Chapter 12C of the Code of Iowa.

Conclusion: Response accepted.

04-II-J 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.

04-II-K Withholding on Payments to Employees: We noted one employee who received payment for travel allowances based on a non-accountable plan. The travel allowance should have been included in the employee's W-2, but was not.

Recommendation: All payments to employees for unaccounted travel allowances are subject to payroll taxes and W-2 reporting.

District Response: We will change our reporting on these payments to comply with payroll reporting requirements.

Conclusion: Response accepted.