

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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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, 2006, 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 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 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 at June 30, 2006, 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.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2006, 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, contract 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 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 36 through 37 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, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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 24, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Odebolt-Arthur 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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 Financial Highlights**

- General Fund revenues decreased from \$3,214,171 in fiscal 2005 to \$3,144,178 in fiscal 2006, while General Fund expenditures increased from \$2,973,503 in fiscal 2005 to \$3,085,771 in fiscal 2006. The District's General Fund balance increased from \$801,986 in fiscal 2005 to \$861,151 in fiscal 2006, a 7% increase.
- The decrease in General Fund revenues was attributable to a decrease in property tax and state and federal grant revenue in fiscal 2006. The increase in expenditures was due primarily to the increase in salaries and benefits.

### 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 Assets and a Statement of Activities. These provide information about the activities of Odebolt-Arthur 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 Odebolt-Arthur 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 Sample Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

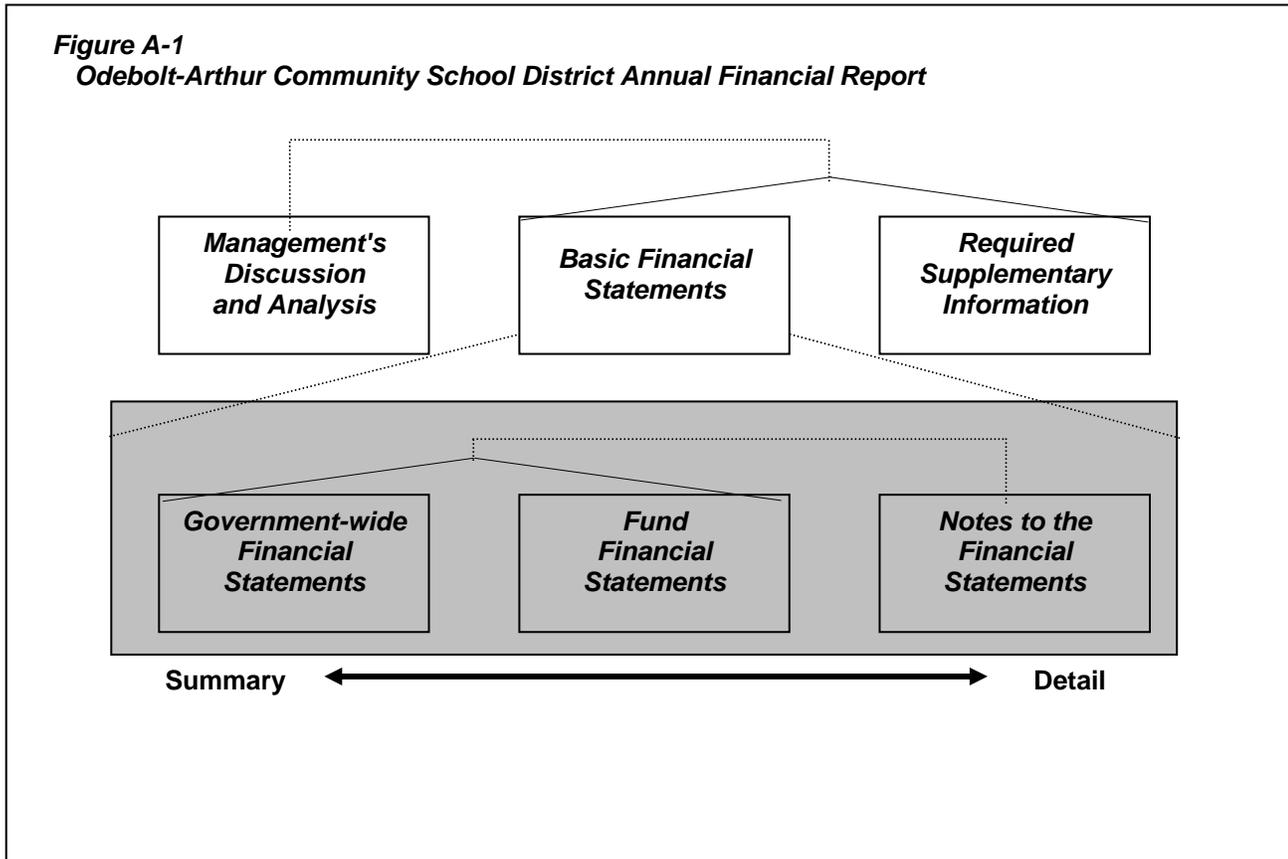


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net 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 financial 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 financial position. Over time, increases or decreases in the District's net assets are 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 program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District current has one internal service fund used to account for the District's employee flexible benefit plan.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets 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 and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain monies collected on behalf of other entities.

The District is responsible for ensuring 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 government-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 assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,249,186	3,126,464	32,319	38,816	3,281,505	3,165,280	-4%
Capital assets	1,078,631	1,077,943	12,094	9,555	1,090,725	1,087,498	0%
<b>Total assets</b>	<b>4,327,817</b>	<b>4,204,407</b>	<b>44,413</b>	<b>48,371</b>	<b>4,372,230</b>	<b>4,252,778</b>	<b>-3%</b>
Long-term liabilities	26,435	40,571	-	-	26,435	40,571	53%
Other liabilities	2,007,814	1,739,211	11,640	6,477	2,019,454	1,745,688	-14%
<b>Total liabilities</b>	<b>2,034,249</b>	<b>1,779,782</b>	<b>11,640</b>	<b>6,477</b>	<b>2,045,889</b>	<b>1,786,259</b>	<b>-13%</b>
Net Assets:							
Invested in capital assets, net of related debt	1,078,631	1,077,943	12,094	9,555	1,090,725	1,087,498	0%
Restricted	357,158	439,051	-	-	357,158	439,051	23%
Unrestricted	857,779	907,631	20,679	32,339	878,458	939,970	7%
<b>TOTAL NET ASSETS</b>	<b>2,293,568</b>	<b>2,424,625</b>	<b>32,773</b>	<b>41,894</b>	<b>2,326,341</b>	<b>2,466,519</b>	<b>6%</b>

The District's combined net assets increased by \$140,178, over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$81,893 or 23% over the prior year. The increase was primarily a result of physical plant and equipment property tax and sales taxes that were collected, but not spent in fiscal year 2006.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$61,512, or 7%.

Figure A-4 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-4

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	
Revenues							
Program Revenues:							
Charges for services	270,409	276,468	75,661	61,424	346,070	337,892	-2%
Operating grants & contributions	428,056	455,768	83,299	78,209	511,355	533,977	4%
Capital grants & contributions	24,771	25,000	-	-	24,771	25,000	1%
General Revenues:							
Property taxes	1,259,277	1,264,397	-	-	1,259,277	1,264,397	0%
Income Surtax	134,722	60,789	-	-	134,722	60,789	-55%
Local option sales tax	187,292	180,760	-	-	187,292	180,760	-3%
Unrestricted state grants	1,359,064	1,297,155	-	-	1,359,064	1,297,155	-5%
Unrestricted investment earnings	30,798	48,198	228	345	31,026	48,543	56%
Other revenue	2,577	13,012	-	-	2,577	13,012	405%
<b>Total Revenues</b>	<b>3,696,966</b>	<b>3,621,547</b>	<b>159,188</b>	<b>139,978</b>	<b>3,856,154</b>	<b>3,761,525</b>	<b>-2%</b>
Expenses:							
Instruction	2,184,240	2,153,658	-	-	2,184,240	2,153,658	-1%
Support services	873,103	1,055,677	-	-	873,103	1,055,677	21%
Non-instructional programs	9,978	-	164,721	130,857	174,699	130,857	-25%
Other expenditures	187,416	281,155	-	-	187,416	281,155	50%
<b>Total expenses</b>	<b>3,254,737</b>	<b>3,490,490</b>	<b>164,721</b>	<b>130,857</b>	<b>3,419,458</b>	<b>3,621,347</b>	<b>6%</b>
<b>Change in net assets before Transfers</b>	<b>442,229</b>	<b>131,057</b>	<b>(5,533)</b>	<b>9,121</b>	<b>436,696</b>	<b>140,178</b>	<b>-68%</b>
Transfers	-	-	-	-	-	-	0%
<b>CHANGE IN NET ASSETS</b>	<b>442,229</b>	<b>131,057</b>	<b>(5,533)</b>	<b>9,121</b>	<b>436,696</b>	<b>140,178</b>	<b>-68%</b>
Net assets beginning of year	1,851,339	2,293,568	38,306	32,773	1,889,645	2,326,341	23%
Net assets end of year	2,293,568	2,424,625	32,773	41,894	2,326,341	2,466,519	6%

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

**Governmental Activities**

Revenues for governmental activities were \$3,621,547 and expenses were \$3,490,490. The District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District’s major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

**Total and Net Cost of Governmental Activities**

	<b>Total Cost of Services 2005 \$</b>	<b>Total Cost of Services 2006 \$</b>	<b>Net Cost of Services 2005 \$</b>	<b>Net Cost of Services 2006 \$</b>
Instruction	2,184,240	2,153,658	1,610,362	1,648,282
Support Services	873,103	1,055,677	867,775	947,590
Non-instructional Programs	9,978	-	9,978	-
Other Expenses	187,416	281,155	43,386	137,382
<b>TOTAL</b>	<b>3,254,737</b>	<b>3,490,490</b>	<b>2,531,501</b>	<b>2,733,254</b>

- The cost financed by users of the District’s programs was \$276,468
- Federal and state governments subsidized certain programs with grants and contributions totaling \$480,768.
- The net cost of governmental activities was financed with \$1,505,946 in property and other taxes and \$1,297,155 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$139,978 and expenses were \$130,857. The District’s business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

As previously noted, Odebolt-Arthur 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 a combined fund balance of \$1,314,311, well above last year’s ending fund balances of \$1,144,341.

## **Governmental Fund Highlights**

- The District's General Fund financial position is the result of many factors. Growth during the year resulted despite of the decline in revenues received. Expenditures were adjusted accordingly to the decline in enrollment and the sharing possibilities offered with neighboring school districts.
- The General Fund balance increased from \$801,986 to \$861,151, due in part to the sharing arrangements of both teaching staff and administration and also staff attrition.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$36,198 in fiscal 2005 to \$68,198 in fiscal 2006. Due to the tax levy being reduced for the FY 2004/05 budget, the District, seeing a need to complete some classroom update/remodeling, increased the tax levy. Therefore, the fund balance experienced an increase from the previous year.
- The Capital Projects Fund balance increased due to the additional local option sales tax revenues that were received from all three counties located in the Odebolt-Arthur School district, Sac, Ida, and Crawford. The District ended fiscal 2005 with a balance of \$177,296, and fiscal 2006 ended with a balance of \$223,744.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$32,773 at June 30, 2005 to \$41,894 at June 30, 2006 representing an increase of approximately 28%.

## **BUDGETARY HIGHLIGHTS**

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.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function due to the timing of expenditures paid at year-end without sufficient time to amend the budget; plus the fact that some changes were necessary for reporting purposes to the state.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$1.09 million, 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 the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$133,756.

The original cost of the District's capital assets was \$3.3 million. Governmental funds account for \$3.27 million, with the remainder of \$0.03 million accounted for in the Proprietary, School Nutrition Fund.

**Figure A-6**

**Capital Assets (net of depreciation)**

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2005-2006
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Land	11,053	11,053	-	-	11,053	11,053	0%
Construction in progress	-	-	-	-	-	-	0%
Buildings	810,516	785,185	-	-	810,516	785,185	-3%
Improvements	60,894	119,457	-	-	60,894	119,457	96%
Equipment & Furniture	196,168	162,248	12,094	9,555	208,262	171,803	-17%
<b>TOTAL</b>	<u>1,078,631</u>	<u>1,077,943</u>	<u>12,094</u>	<u>9,555</u>	<u>1,090,725</u>	<u>1,087,498</u>	<u>0%</u>

**Long-Term Debt**

This district has no outstanding debt other than the long-term obligation for termination benefits.

**Figure A-7**

**Outstanding Long-Term Obligations**

	Total School District		Percentage Change 2005-2006
	2005	2006	
	\$	\$	
Termination benefits	<u>26,435</u>	<u>40,571</u>	<u>53%</u>

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

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

- School financing is highly dependent upon student enrollment. The District's September 2005 enrollment decreased by six students. This drop in enrollment will decrease the District's funding for the fiscal year 2006-07.
- The District has evaluated the middle school curriculum and has determined that the addition of a science teacher would be beneficial for the students of Odebolt-Arthur.
- Sharing discussions will be continued with a neighboring school district to provide more opportunities for the students at Odebolt-Arthur in the future.

## **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 Carol Auen, District Secretary/ and Business Manager, Odebolt-Arthur Community School District, 600 South Maple St., Odebolt, IA 51458.

## BASIC FINANCIAL STATEMENTS

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities \$	Business Type Activities \$	Total \$
<b>Assets</b>			
Cash and cash equivalents:			
Other	1,514,097	32,880	1,546,977
Receivables:			
Property tax:			
Delinquent	28,904	-	28,904
Succeeding year	1,322,788	-	1,322,788
Accounts	205	11	216
Due from other governments	260,470	-	260,470
Inventories	-	5,925	5,925
Capital assets, net of accumulated depreciation	1,077,943	9,555	1,087,498
<b>Total assets</b>	<u>4,204,407</u>	<u>48,371</u>	<u>4,252,778</u>
<b>Liabilities</b>			
Accounts payable	116,443	120	116,563
Salaries and benefits payable	299,980	5,272	305,252
Deferred revenue:			
Succeeding year property tax	1,322,788	-	1,322,788
Other	-	1,085	1,085
Long-term liabilities			
Portion due within one year:			
Termination benefits	21,016	-	21,016
Portion due after one year:			
Termination benefits	19,555	-	19,555
<b>Total liabilities</b>	<u>1,779,782</u>	<u>6,477</u>	<u>1,786,259</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,077,943	9,555	1,087,498
Restricted for:			
Management levy	45,144	-	45,144
Capital outlay	318,404	-	318,404
Other special revenue purposes	75,503	-	75,503
Unrestricted	907,631	32,339	939,970
<b>Total net assets</b>	<u><u>2,424,625</u></u>	<u><u>41,894</u></u>	<u><u>2,466,519</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants, Contributions and Restricted Interest</b>	<b>Capital Grants, Contributions and Restricted Interest</b>
	\$	\$	\$	\$
<b>Governmental activities:</b>				
<b>Instruction:</b>				
Regular instruction	1,690,289	182,941	142,632	-
Special instruction	310,834	120	81,334	-
Other instruction	152,535	88,824	9,525	-
	<u>2,153,658</u>	<u>271,885</u>	<u>233,491</u>	<u>-</u>
<b>Support services:</b>				
Student services	185,298	4,473	28,528	-
Instructional staff services	126,761	-	74,976	-
Administration services	383,621	-	-	-
Operation and maintenance of plant services	231,083	110	-	-
Transportation services	128,914	-	-	-
	<u>1,055,677</u>	<u>4,583</u>	<u>103,504</u>	<u>-</u>
<b>Other expenditures:</b>				
Facilities acquisition	61,809	-	-	25,000
AEA flowthrough	118,773	-	118,773	-
Depreciation (unallocated)*	100,573	-	-	-
	<u>281,155</u>	<u>-</u>	<u>118,773</u>	<u>25,000</u>
<b>Total governmental activities</b>	<b>3,490,490</b>	<b>276,468</b>	<b>455,768</b>	<b>25,000</b>
<b>Business type activities:</b>				
<b>Non-instructional programs:</b>				
Food service operations	130,857	61,424	78,209	-
<b>Total</b>	<b>3,621,347</b>	<b>337,892</b>	<b>533,977</b>	<b>25,000</b>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
<b>Total general revenues</b>				

**Change in net assets**

Net assets beginning of year

Net assets end of year

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

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>
(1,364,716)	-	(1,364,716)
(229,380)	-	(229,380)
(54,186)	-	(54,186)
<u>(1,648,282)</u>	<u>-</u>	<u>(1,648,282)</u>
(152,297)	-	(152,297)
(51,785)	-	(51,785)
(383,621)	-	(383,621)
(230,973)	-	(230,973)
(128,914)	-	(128,914)
<u>(947,590)</u>	<u>-</u>	<u>(947,590)</u>
(36,809)	-	(36,809)
-	-	-
(100,573)	-	(100,573)
<u>(137,382)</u>	<u>-</u>	<u>(137,382)</u>
(2,733,254)	-	(2,733,254)
-	8,776	8,776
<u>(2,733,254)</u>	<u>8,776</u>	<u>(2,724,478)</u>
1,235,814	-	1,235,814
28,583	-	28,583
60,789	-	60,789
180,760	-	180,760
1,297,155	-	1,297,155
48,198	345	48,543
13,012	-	13,012
<u>2,864,311</u>	<u>345</u>	<u>2,864,656</u>
131,057	9,121	140,178
<u>2,293,568</u>	<u>32,773</u>	<u>2,326,341</u>
<u>2,424,625</u>	<u>41,894</u>	<u>2,466,519</u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

<b>Assets</b>	General Fund \$	Nonmajor Governmental Funds \$	Total \$
Cash and pooled investments	1,120,187	391,535	1,511,722
Receivables:			
Property tax:			
Delinquent	25,967	2,937	28,904
Succeeding year	1,100,013	222,775	1,322,788
Accounts	15	190	205
Interfund receivable	25,000	-	25,000
Due from other governments	138,554	121,916	260,470
<b>Total assets</b>	<u>2,409,736</u>	<u>739,353</u>	<u>3,149,089</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	104,487	11,956	116,443
Salaries and benefits payable	299,980	-	299,980
Interfund payable	-	25,000	25,000
Deferred revenue:			
Succeeding year property tax	1,100,013	222,775	1,322,788
Other	44,105	26,462	70,567
Total liabilities	<u>1,548,585</u>	<u>286,193</u>	<u>1,834,778</u>
Fund balances:			
Unreserved reported in:			
General fund	861,151	-	861,151
Special revenue funds	-	229,416	229,416
Capital projects funds	-	223,744	223,744
Total fund balances	<u>861,151</u>	<u>453,160</u>	<u>1,314,311</u>
<b>Total liabilities and fund balances</b>	<u>2,409,736</u>	<u>739,353</u>	<u>3,149,089</u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Balance Sheet - Governmental Funds  
 to the Statement of Net Assets

June 30, 2006

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	1,314,311
 <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.	1,077,943
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	70,567
An internal service fund is used by the District's management to charge the costs of the self-funded health insurance program (and/or employee flexible benefit program) to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	2,375
Long-term liabilities, including termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(40,571)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>2,424,625</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	1,190,074	342,335	1,532,409
Tuition	101,939	-	101,939
Other	127,890	133,354	261,244
State sources	1,600,419	120	1,600,539
Federal sources	123,856	25,000	148,856
Total revenues	<u>3,144,178</u>	<u>500,809</u>	<u>3,644,987</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,621,999	41,599	1,663,598
Special instruction	308,843	-	308,843
Other instruction	147,549	3,426	150,975
	<u>2,078,391</u>	<u>45,025</u>	<u>2,123,416</u>
Support services:			
Student services	71,903	113,395	185,298
Instructional staff services	121,784	4,977	126,761
Administration services	375,789	7,832	383,621
Operation and maintenance of plant services	210,187	27,096	237,283
Transportation services	108,944	7,807	116,751
	<u>888,607</u>	<u>161,107</u>	<u>1,049,714</u>
Other expenditures:			
Facilities acquisition	-	186,138	186,138
AEA flowthrough	118,773	-	118,773
	<u>118,773</u>	<u>186,138</u>	<u>304,911</u>
Total expenditures	<u>3,085,771</u>	<u>392,270</u>	<u>3,478,041</u>
Excess (deficiency) of revenues over (under) expenditures	<u>58,407</u>	<u>108,539</u>	<u>166,946</u>
Other financing sources (uses):			
Compensation for loss of fixed assets	-	1,908	1,908
Sales of equipment and real property	758	358	1,116
Total other financing sources (uses)	<u>758</u>	<u>2,266</u>	<u>3,024</u>
Net change in fund balances	59,165	110,805	169,970
Fund balances beginning of year	<u>801,986</u>	<u>342,355</u>	<u>1,144,341</u>
Fund balances end of year	<u><u>861,151</u></u>	<u><u>453,160</u></u>	<u><u>1,314,311</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, 2006

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		169,970
<b><i>Amounts reported for governmental activities in the Statement of Activities are different because:</i></b>		
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. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Disposal of assets	(11,271)	
Expenditures for capital assets	141,800	
Depreciation expense	<u>(131,217)</u>	(688)
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.		(26,464)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		(14,136)
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>2,375</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>131,057</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2006

	Nonmajor School Nutrition <u>          </u> \$	Governmental Activities - Internal Service Fund <u>          </u> \$
<b>Assets</b>		
Cash and cash equivalents	32,880	2,375
Accounts receivable	11	-
Inventories	5,925	-
Capital assets, net of accumulated depreciation	<u>9,555</u>	<u>-</u>
<b>Total assets</b>	<u>48,371</u>	<u>2,375</u>
<b>Liabilities</b>		
Accounts payable	120	-
Salaries and benefits payable	5,272	-
Deferred revenue	<u>1,085</u>	<u>-</u>
<b>Total liabilities</b>	<u>6,477</u>	<u>-</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	9,555	-
Unrestricted	<u>32,339</u>	<u>2,375</u>
<b>Total net assets</b>	<u><u>41,894</u></u>	<u><u>2,375</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets  
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition <u>          </u> \$	Governmental Activities - Internal Service Fund <u>          </u> \$
Operating revenue:		
Local sources:		
Charges for service	61,424	13,581
Operating expenses:		
Non-instructional programs:		
Salaries	49,885	-
Benefits	6,965	-
Purchased services	1,209	-
Supplies	70,259	-
Depreciation	2,539	-
Other	-	11,206
	<u>130,857</u>	<u>11,206</u>
Operating gain (loss)	<u>(69,433)</u>	<u>2,375</u>
Non-operating revenue:		
State sources	2,145	-
Federal sources	76,064	-
Interest income	345	-
Total non-operating revenue	<u>78,554</u>	<u>-</u>
Change in net assets	9,121	2,375
Net assets beginning of year	<u>32,773</u>	<u>-</u>
Net assets end of year	<u><u>41,894</u></u>	<u><u>2,375</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition	Governmental Activities - Internal Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sales	62,274	13,581
Cash received from daycare services		
Cash payments to employees for services	(62,653)	-
Cash payments to suppliers for goods or services	(60,213)	(11,206)
Net cash used by operating activities	<u>(60,592)</u>	<u>2,375</u>
Cash flows from non-capital financing activities:		
State grants received	2,145	-
Federal grants received	63,950	-
Net cash provided by non-capital financing activities	<u>66,095</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	345	-
Net increase (decrease) in cash and cash equivalents	5,848	2,375
Cash and cash equivalents at beginning of year	<u>27,032</u>	<u>-</u>
Cash and cash equivalents at end of year	<u><u>32,880</u></u>	<u><u>2,375</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(69,433)	2,375
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	12,114	-
Depreciation	2,539	-
Decrease (increase) in inventories	(659)	-
Decrease (increase) in accounts receivable	10	-
(Decrease) increase in accounts payable	(200)	-
(Decrease) increase in salaries and benefits payable	(5,803)	-
(Decrease) increase in deferred revenue	840	-
Net cash used in operating activities	<u>(60,592)</u>	<u>2,375</u>

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

During the year ended June 30, 2006, the District received \$12,114 of federal commodities.

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship <u>          </u> \$	Agency <u>          </u> \$
<b>Assets</b>		
Cash and pooled investments	135,099	40,050
Accounts receivable	<u>          -</u>	<u>          374</u>
<b>Total assets</b>	<u>          135,099</u>	<u>          40,424</u>
<b>Liabilities</b>		
Accounts payable	375	579
Other payables	<u>          -</u>	<u>          39,845</u>
<b>Total liabilities</b>	<u>          375</u>	<u>          40,424</u>
<b>Net Assets</b>		
Reserved for scholarships	<u>          134,724</u>	<u>          -</u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Interest	1,306
Deductions:	
Support services:	
Scholarships awarded	<u>4,375</u>
Change in net assets	(3,069)
Net assets beginning of year, as restated	<u>137,793</u>
Net assets end of year	<u><u>134,724</u></u>

# ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2006

### 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 fund:

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's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's employee flexible benefit plan.

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.

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's employee flexible benefit plan.

#### 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 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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for

and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax 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, 2006, expenditures exceeded the amount budgeted in the support services function.

## 2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 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.

At June 30, 2006, the District had the following investments:

	Fair Value
	\$
Private Purpose Trust Fund:	
New York Life Annuity	21,989
US Treasury Note	5,000
	<u>26,989</u>

Interest rate risk: The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

### 3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
General Fund	Nonmajor Governmental Funds: Physical Plant and Equipment Fund	25,000

### 4. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	11,053	-	-	11,053
Capital assets being depreciated:				
Buildings	2,137,104	55,000	24,522	2,167,582
Improvements other than buildings	235,070	67,000	-	302,070
Furniture and equipment	778,975	19,800	(7,494)	806,269
Total capital assets being deprec.	<u>3,151,149</u>	<u>141,800</u>	<u>17,028</u>	<u>3,275,921</u>
Less accumulated depreciation for:				
Buildings	1,326,588	55,921	112	1,382,397
Improvements other than buildings	174,176	9,017	580	182,613
Furniture and equipment	582,807	66,279	5,065	644,021
Total accumulated depreciation	<u>2,083,571</u>	<u>131,217</u>	<u>5,757</u>	<u>2,209,031</u>
Total capital assets being depreciated, net	<u>1,067,578</u>	<u>10,583</u>	<u>11,271</u>	<u>1,066,890</u>
Governmental activities capital assets, net	<u>1,078,631</u>	<u>10,583</u>	<u>11,271</u>	<u>1,077,943</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	40,531	-	-	40,531
Less accumulated depreciation	<u>28,437</u>	<u>2,539</u>	-	<u>30,976</u>
Business type activities capital assets, net	<u>12,094</u>	<u>(2,539)</u>	-	<u>9,555</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	14,930
Special Education	1,991
Other	1,560
Support Services:	
Transportation	<u>12,163</u>
	30,644
Unallocated depreciation	<u>100,573</u>
Total depreciation expense – governmental activities	<u>131,217</u>
Business type activities:	
Food services	<u>2,539</u>

## 5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Termination benefits	<u>26,435</u>	<u>24,000</u>	<u>9,864</u>	<u>40,571</u>	<u>21,016</u>

### Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

At June 30, 2006, the District has obligations to four participants with a total liability of \$40,571. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$9,864.

## 6. 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, 2006, 2005, and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$115,133, \$105,966 and \$111,236 respectively, equal to the required contributions for each year.

## **7. 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.

## **8. 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 \$118,773 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## **9. Restatement of Beginning Net Assets for Fiduciary Funds**

The beginning balance of the Private Purpose Trust Fund was increased by \$5,632 because June 30, 2005 payables were overstated.

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, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,895,592	61,769	1,957,361	1,911,885	1,911,885	45,476
Intermediate sources	-	-	-	22,000	22,000	(22,000)
State sources	1,600,539	2,145	1,602,684	1,782,466	1,782,466	(179,782)
Federal sources	148,856	76,064	224,920	160,000	160,000	64,920
Total revenues	<u>3,644,987</u>	<u>139,978</u>	<u>3,784,965</u>	<u>3,876,351</u>	<u>3,876,351</u>	<u>(91,386)</u>
Expenditures:						
Instruction	2,123,416	-	2,123,416	2,811,470	2,811,470	688,054
Support services	1,049,714	-	1,049,714	1,008,318	1,008,318	(41,396)
Non-instructional programs	-	130,857	130,857	198,241	198,241	67,384
Other expenditures	304,911	-	304,911	429,914	429,914	125,003
Total expenditures	<u>3,478,041</u>	<u>130,857</u>	<u>3,608,898</u>	<u>4,447,943</u>	<u>4,447,943</u>	<u>839,045</u>
Excess (deficiency) of revenues over (under) expenditures	166,946	9,121	176,067	(571,592)	(571,592)	747,659
Other financing sources (uses) net	<u>3,024</u>	<u>-</u>	<u>3,024</u>	<u>1,000</u>	<u>1,000</u>	<u>2,024</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	169,970	9,121	179,091	(570,592)	(570,592)	749,683
Balance beginning of year	<u>1,144,341</u>	<u>32,773</u>	<u>1,177,114</u>	<u>1,021,530</u>	<u>1,021,530</u>	<u>155,584</u>
Balance end of year	<u><u>1,314,311</u></u>	<u><u>41,894</u></u>	<u><u>1,356,205</u></u>	<u><u>450,938</u></u>	<u><u>450,938</u></u>	<u><u>905,267</u></u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons 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 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 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. 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. During the year, the District did not amend the budget.

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds				Total
	Management	Student	Physical	Capital	
	Levy	Activity	Plant and	Projects	
	\$	\$	\$	\$	\$
Cash and pooled investments	83,430	82,254	67,953	157,898	391,535
Receivables:					
Property tax:					
Delinquent	2,285	-	652	-	2,937
Succeeding year	160,000	-	62,775	-	222,775
Accounts	-	190	-	-	190
Due from other governments	-	-	51,463	70,453	121,916
<b>Total assets</b>	<b>245,715</b>	<b>82,444</b>	<b>182,843</b>	<b>228,351</b>	<b>739,353</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Accounts payable	-	6,941	408	4,607	11,956
Interfund payables	-	-	25,000	-	25,000
Deferred revenue:					
Succeeding year property tax	160,000	-	62,775	-	222,775
Other	-	-	26,462	-	26,462
Total liabilities	160,000	6,941	114,645	4,607	286,193
Fund balances:					
Unreserved reported in:					
Special revenue funds	85,715	75,503	68,198	-	229,416
Capital projects funds	-	-	-	223,744	223,744
Total fund balances	85,715	75,503	68,198	223,744	453,160
<b>Total liabilities and fund balances</b>	<b>245,715</b>	<b>82,444</b>	<b>182,843</b>	<b>228,351</b>	<b>739,353</b>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds				Total
	Management	Student	Physical	Capital	
	Levy	Activity	Plant and	Projects	
		Equipment			
	\$	\$	Levy	\$	\$
Revenues:					
Local sources:					
Local tax	99,943	-	61,632	180,760	342,335
Other	8,955	121,279	1,965	1,155	133,354
State sources	93	-	27	-	120
Federal sources	-	-	25,000	-	25,000
Total revenues	<u>108,991</u>	<u>121,279</u>	<u>88,624</u>	<u>181,915</u>	<u>500,809</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	41,191	-	408	-	41,599
Other instruction	-	3,426	-	-	3,426
Support services:					
Student services	-	113,395	-	-	113,395
Instructional staff services	-	4,977	-	-	4,977
Administration services	7,832	-	-	-	7,832
Operation and maintenance of					
plant services	20,085	-	7,011	-	27,096
Transportation services	7,007	-	800	-	7,807
Other expenditures:					
Facilities acquisition	-	-	48,763	137,375	186,138
Total expenditures	<u>76,115</u>	<u>121,798</u>	<u>56,982</u>	<u>137,375</u>	<u>392,270</u>
Excess (deficiency) of revenues over (under) expenditures	<u>32,876</u>	<u>(519)</u>	<u>31,642</u>	<u>44,540</u>	<u>108,539</u>
Other financing sources (uses):					
Compensation for loss of fixed assets	-	-	-	1,908	1,908
Sales of real property	-	-	358	-	358
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>358</u>	<u>1,908</u>	<u>2,266</u>
Net change in fund balance	32,876	(519)	32,000	46,448	110,805
Fund balances beginning of year	<u>52,839</u>	<u>76,022</u>	<u>36,198</u>	<u>177,296</u>	<u>342,355</u>
Fund balances end of year	<u><u>85,715</u></u>	<u><u>75,503</u></u>	<u><u>68,198</u></u>	<u><u>223,744</u></u>	<u><u>453,160</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

<u>Account</u>	Balance Beginning of Year \$	Revenues \$	Expenditures \$	Balance End of Year \$
Athletics	43,313	29,949	26,329	46,933
Baseball/softball	(811)	4,287	4,687	(1,211)
Football	322	6,603	4,445	2,480
Volleyball	6,619	1,179	3,360	4,438
Basketball	2,167	5,643	3,182	4,628
Wrestling	(769)	1,086	3,179	(2,862)
Track	945	983	3,905	(1,977)
Golf	(636)	-	1,224	(1,860)
HS cheerleading	2,150	680	456	2,374
Dance/drill team	1,055	2,247	1,849	1,453
Yearbook	4,350	15,939	16,809	3,480
Greenhouse	(119)	438	281	38
Drama/speech	2,076	2,174	1,283	2,967
National Honor Society	378	812	344	846
Student council	1,080	2,592	3,000	672
FFA	6,120	22,497	23,825	4,792
TAG	848	5,723	3,249	3,322
Springbrook/DARE	5,257	374	1,213	4,418
S.O.D.A.	92	-	-	92
Music	99	14	100	13
Class of 2005	6	288	44	250
Class of 2006	1,013	327	1,828	(488)
Class of 2007	1,699	6,501	6,207	1,993
Class of 2008	-	8,733	5,326	3,407
Class of 2009	-	277	-	277
Unallocated interest	-	1,779	-	1,779
Beginning accrual entries	(1,232)	(36)	(1,268)	-
Ending accrual entries	-	190	6,941	(6,751)
	<u>76,022</u>	<u>121,279</u>	<u>121,798</u>	<u>75,503</u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2006

	<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>Staff Deducts</u>	<u>DECAT</u>	<u>Total</u>
Balance beginning of year	(2,689)	21,675	(445)	3,614	(6,447)	15,713	1,369	354	2,114	8,867	44,125
Additions:											
Collections	3,447	2,894	18,549	2,152	8,176	354	1,010	-	-	-	36,582
Deductions:											
Miscellaneous	<u>(76)</u>	<u>2,703</u>	<u>18,104</u>	<u>2,450</u>	<u>(385)</u>	<u>5,365</u>	<u>1,366</u>	<u>354</u>	<u>2,114</u>	<u>8,867</u>	<u>40,862</u>
Balance end of year	<u>834</u>	<u>21,866</u>	<u>-</u>	<u>3,316</u>	<u>2,114</u>	<u>10,702</u>	<u>1,013</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,845</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			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,532,409	1,532,608	1,498,587	1,447,106
Tuition	101,939	112,921	92,243	53,952
Other	261,244	188,383	141,410	135,859
State sources	1,600,539	1,623,410	1,555,753	1,535,666
Federal sources	148,856	188,481	153,804	133,514
Total revenues	<u>3,644,987</u>	<u>3,645,803</u>	<u>3,441,797</u>	<u>3,306,097</u>
Expenditures:				
Instruction:				
Regular instruction	1,663,598	1,541,939	1,533,265	1,484,400
Special instruction	308,843	346,517	364,932	305,503
Other instruction	150,975	295,333	294,894	323,573
Support services:				
Student services	185,298	76,651	64,853	65,210
Instructional staff services	126,761	100,015	99,886	89,431
Administration services	383,621	290,063	354,064	352,135
Operation and maintenance of plant services	237,283	295,936	290,187	301,298
Transportation services	116,751	103,095	203,063	139,889
Non-instructional programs	-	9,978	-	179
Other expenditures:				
Facilities acquisition	186,138	55,927	-	-
Long-term debt:				
Principal	-	-	-	53,799
Interest and other charges	-	-	-	1,658
AEA flowthrough	118,773	119,259	122,356	131,104
Total expenditures	<u>3,478,041</u>	<u>3,234,713</u>	<u>3,327,500</u>	<u>3,248,179</u>

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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  
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 as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 24, 2006. 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.

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 opinions on the financial statements and not to provide an opinion 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 judgment, 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 reportable 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 caused by error or fraud 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 06-I-A and 06-I-B are material weaknesses.

### Compliance and Other Matters

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 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 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, 2006 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Odebolt-Arthur Community School District and other parties to whom Odebolt-Arthur Community School 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 24, 2006

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

06-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.

06-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, 2006

Part II: Other Findings Related to Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, exceeded the amount budgeted in the support services function.

Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures 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.

06-II-B 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.

06-II-C 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.

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

06-II-E 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.

06-II-F Board Minutes: We noted a few bills which were paid and not listed in the minutes for board approval.

Recommendation: The District should list all bills in the minutes approved by the board for payment.

District Response: We will list all bills in the minutes in the future.

Conclusion: Response accepted.

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

06-II-H 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 \$21,989 of Private Purpose 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.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

06-II-I Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.

06-II-J Home School Assistance Program Expenditures: We reviewed expenditures of State monies received for the home school assistance program. We noted the purchase of religious items.

Recommendation: The District may purchase education supplies for the home school assistance program. Any supplies purchased for the home school program must be the type of supplies that the District could purchase for use in the public school.

District Response: We will monitor the types of supplies that are purchased for the home school assistance program.

Conclusion: Response accepted.