

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

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Independent Auditor's Report

To the Board of Education of
Anthon-Oto 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 Anthon-Oto Community School District, Anthon, Iowa, as of and for the year ended June 30, 2007, 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 Anthon-Oto Community School District at June 30, 2007, 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 April 10, 2008. on our consideration of Anthon-Oto 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 35 through 36 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 required 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 Anthon-Oto 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, 2006, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, 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

April 10, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Anthon-Oto 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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,892,232 in fiscal 2006 to \$3,569,391 in fiscal 2007, while General Fund expenditures decreased from \$3,798,770 in fiscal 2006 to \$3,520,915 in fiscal 2007. The District's General Fund balance increased from \$736,664 in fiscal 2006 to \$785,140 in fiscal 2007, a 7% increase.
- The main reason for the decrease in revenues and expenses was due to the mandatory conversion to GAAP in 2006. This made us report two year's worth of whole grade sharing revenues and expenses in 2006. In Fiscal Year 2007, only one year of those revenues and expenses was reported, causing revenues and expenses to decrease significantly. Next year our district will be able to make a more accurate comparison in these areas.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Anthon-Oto 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 the Anthon-Oto Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

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 Special Revenue Funds.

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

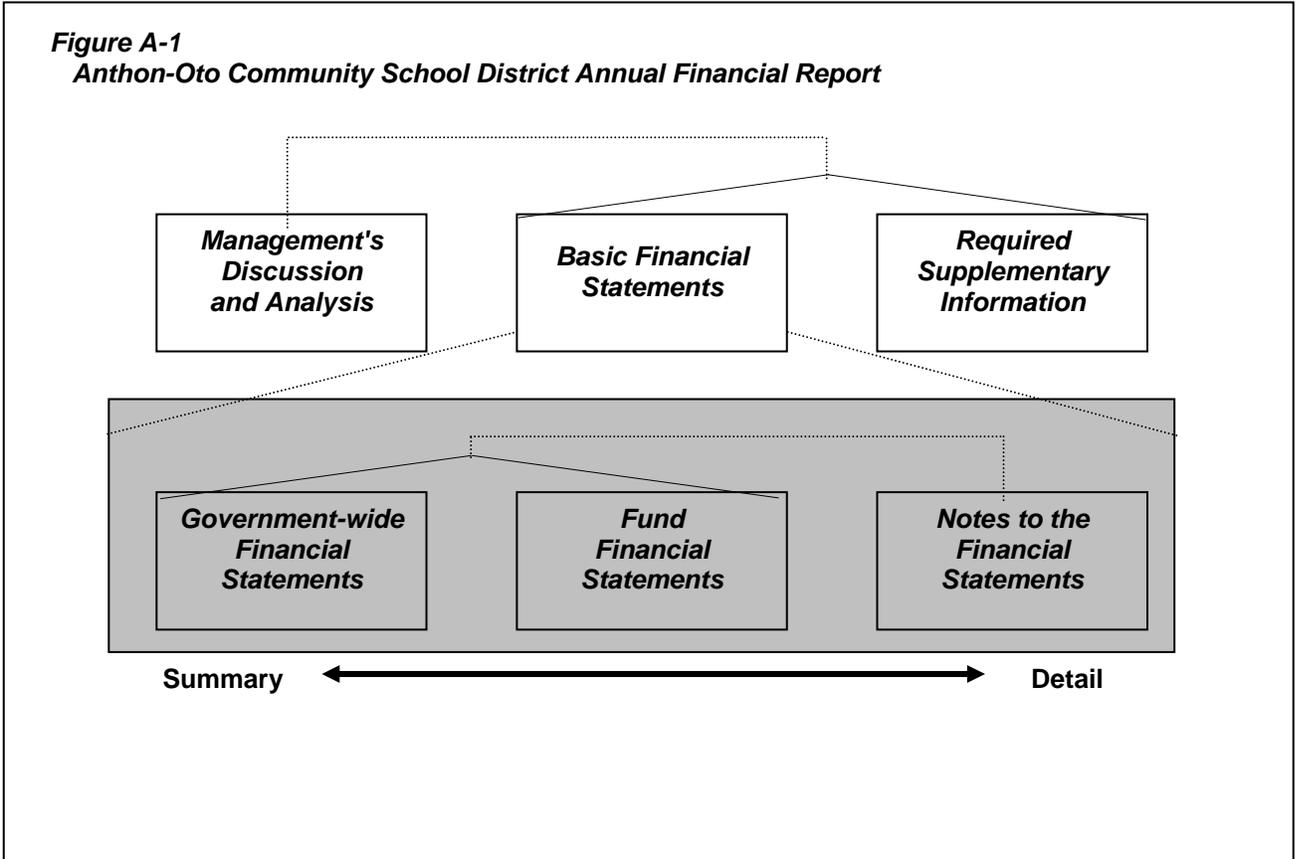


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food 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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<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, 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 two 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 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.

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, 2007 compared to June 30, 2006.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2007-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006	2007	2006	2007	2006	2007	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,266,729	3,125,709	41,866	(3,369)	3,308,595	3,122,340	-6%
Capital assets	837,698	2,132,333	13,140	11,804	850,838	2,144,137	152%
Total assets	4,104,427	5,258,042	55,006	8,435	4,159,433	5,266,477	27%
Long-term liabilities	1,516	900,000	-	-	1,516	900,000	59,267%
Other liabilities	1,478,061	1,547,331	1,313	1,234	1,479,374	1,548,565	5%
Total liabilities	1,479,577	2,447,331	1,313	1,234	1,480,890	2,448,565	65%
Net Assets:							
Invested in capital assets, net of related debt	837,698	1,232,333	13,140	11,804	850,838	1,244,137	46%
Restricted	990,507	734,400	-	-	990,507	734,400	-26%
Unrestricted	796,645	843,978	40,553	(4,603)	837,198	839,375	0%
TOTAL NET ASSETS	2,624,850	2,810,711	53,693	7,201	2,678,543	2,817,912	5%

The District's combined net assets increased by 5%, or approximately \$139,369, over the prior year.

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 decreased approximately \$256,107 or 26% over the prior year.

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 \$2,177, or 0%.

Figure A-4 shows the change in net assets for the years ended June 30, 2007 and 2006.

Figure A-4

	Change in Net Assets						Percentage Change 2006-2007
	Governmental Activities		Business-type Activities		Total School District		
	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	
Revenues							
Program Revenues:							
Charges for services	1,354,675	964,082	49,975	47,130	1,404,650	1,011,212	-28%
Operating grants & contributions	351,842	375,019	80,619	71,617	432,461	446,636	3%
Capital grants & contributions	-	22,445	-	-	-	22,445	100%
General Revenues:							
Property taxes	943,329	1,069,426	-	-	943,329	1,069,426	13%
Income Surtax	103,530	120,486	-	-	103,530	120,486	16%
Local option sales tax	238,771	229,140	-	-	238,771	229,140	-4%
Unrestricted state grants	1,167,181	1,109,034	-	-	1,167,181	1,109,034	-5%
Unrestricted investment earnings	62,780	53,694	1,038	1,098	63,818	54,792	-14%
Other revenue	34,150	16,637	-	-	34,150	16,637	-51%
Total Revenues	4,256,258	3,959,963	131,632	119,845	4,387,890	4,079,808	-7%
Expenses:							
Instruction	2,693,631	2,485,545	-	-	2,693,631	2,485,545	-8%
Support services	1,133,435	979,307	-	-	1,133,435	979,307	-14%
Non-instructional programs	885	2,921	139,699	166,337	140,584	169,258	20%
Other expenditures	274,019	306,329	-	-	274,019	306,329	12%
Total expenses	4,101,970	3,774,102	139,699	166,337	4,241,669	3,940,439	-7%
Change in net assets before Transfers	154,288	185,861	(8,067)	(46,492)	146,221	139,369	-5%
Transfers	-	-	-	-	-	-	0%
CHANGE IN NET ASSETS	154,288	185,861	(8,067)	(46,492)	146,221	139,369	-5%
Net assets beginning of year	2,470,562	2,624,850	61,760	53,693	2,532,322	2,678,543	6%
Net assets end of year	<u>2,624,850</u>	<u>2,810,711</u>	<u>53,693</u>	<u>7,201</u>	<u>2,678,543</u>	<u>2,817,912</u>	<u>5%</u>

Property taxes and unrestricted state grants are the largest revenue categories, accounting for 55% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,959,963 and expenses were \$3,774,102. In a difficult budget year, 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

	Total Cost of Services 2006 \$	Total Cost of Services 2007 \$	Net Cost of Services 2006 \$	Net Cost of Services 2007 \$
Instruction	2,693,631	2,485,545	1,137,131	1,329,034
Support Services	1,133,435	979,307	1,075,227	912,537
Non-instructional Programs	885	2,921	885	2,921
Other Expenses	274,019	306,329	182,210	168,064
TOTAL	4,101,970	3,774,102	2,395,453	2,412,556

- The cost financed by users of the District's programs was \$964,082;
- Federal and state governments subsidized certain programs with grants and contributions totaling \$375,019.
- The net cost of governmental activities was financed with \$1,069,426 in property and other taxes and \$1,109,034 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$119,845 and expenses were \$166,337. 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.

During the year ended June 30, 2007, the District had \$46,492 more expenses than revenues. The District raised lunch prices for Fiscal Year 2008 in hopes of balancing revenues and expenses better. Increases in food and freight prices along with salaries and benefits make this a continuing challenge.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Anthon-Oto 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 \$1,495,659, 12% below last year's ending fund balances of \$1,707,171.

Governmental Fund Highlights

- The General Fund balance increased from \$736,664 to \$785,140, due in part to the trimming of expenses to match the available revenues.

- The Local Option Sales Tax Fund balance decreased from \$768,146 in 2006 to \$472,865 in 2007. This balanced decreased significantly due to the completion of our HVAC project.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$53,693 at June 30, 2006 to \$7,201 at June 30, 2007, representing a decrease of approximately 87%. This decrease was mostly due to the disposal of obsolete equipment that was fully depreciated. In Fiscal year 2007, the district continued to improve meals and update some of the obsolete equipment. The main change in this fund came in the charges for services revenue, which was down approximately 6%. This was due to less students eating hot lunch, therefore decreasing the operating revenues, without decreasing the operating expenses. Regardless of how many students eat each day, we still have the same amount of kitchen staff. Salaries and benefits make up approximately 42% of this fund's expenses. Again, the district has raised hot lunch prices in Fiscal Year 2008 in an attempt to help offset the increasing expenses.

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. This is referred to as the certified budget. The budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures.

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.

The District went over budget in the other expenditures area. This was a result of unexpected expenses related to the HVAC Project along with the continued increases in the costs of fuel, propane, and electricity.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the general fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the district.

The Anthon-Oto District's unspent balance is extremely overstated. The reason for this is several years ago, the Board at that time chose not to tax for the District's full authority. This resulted in the unspent balance increasing, however, the district did not collect the cash to back up that authority. Therefore, our unspent balance is a lot higher than our actual cash carryover. The cash for this authority was never collected, and we cannot go back to collect it in the future. Therefore, our unspent balance really gives us an unrealistic view of our financial position.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested approximately \$2,144,135, 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) This represents a net increase of 152% from last year. The main increase in our capital assets was in our buildings category and was due to the HVAC upgrade. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$127,071.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2006-2007
	Activities		Activities		School District		
	2006	2007	2006	2007	2006	2007	
	\$	\$	\$	\$	\$	\$	
Land	10,000	10,000	-	-	10,000	10,000	0%
Buildings	716,770	1,970,844	-	-	716,769	1,970,844	175%
Improvements	17,265	16,169	-	-	17,265	16,169	-6%
Equipment & Furniture	93,661	135,318	13,140	11,804	106,802	147,122	38%
TOTAL	837,696	2,132,331	13,140	11,804	850,836	2,144,135	152%

Long-Term Debt

At June 30, 2007, the District had \$900,000 in long-term debt outstanding.

**Figure A-7
Outstanding Long-Term Obligations**

	Total School District		Percentage Change 2007-2006
	2006	2007	
	\$	\$	
Local Option Sales and Services			
Tax Revenue Bonds	-	900,000	100%
Early Retirement	1,516	-	-100%
	<u>1,516</u>	<u>900,000</u>	<u>59,267%</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 enrollment decreased in the fall of 2006 and 2007, which will mean less revenue generated for the 2007-2008 and 2008-2009 Fiscal Years. Enrollments are predicted to continue to decrease over the next several years as smaller Kindergarten classes replace the larger graduating classes. As the budget guarantee is phased out this will mean less revenues every year for our District.
- Woodbury County one-cent sales tax will expire in 2008, however a renewal was passed in the fall of 2005. Our district changed the ballot language to allow use of one-cent sales tax revenues to fund vehicle purchases. This will help our district by allowing some relief for General Fund Expenditures.
- Our district has spent down our one-cent sales tax monies with a major HVAC renovation in the 2006-2007 school year. The District borrowed against our future one-cent sales tax revenue to help pay for this project. We started repaying those funds in 2006-2007, and this liability will continue through the 2019-2020 Fiscal Year.

- Legislation was passed allowing additional funding and property tax relief for Whole Grade Sharing Districts to entice them to consolidate. Our District will continue to research these opportunities.

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 Shona Klingensmith, Board Secretary/Treasurer and Business Manager, Anthon-Oto Community School District, 110 W. Division St., Anthon, IA 51004.

BASIC FINANCIAL STATEMENTS

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
Other	1,114,271	146	1,114,417
Cash with fiscal agent	140,657	-	140,657
Receivables:			
Property tax:			
Delinquent	19,717	-	19,717
Succeeding year	1,049,251	-	1,049,251
Accounts	-	252	252
Due from other governments	793,715	-	793,715
Inventories	-	4,331	4,331
Interfund receivable/(payable)	8,098	(8,098)	-
Capital assets, net of accumulated depreciation	2,132,333	11,804	2,144,137
Total assets	5,258,042	8,435	5,266,477
Liabilities			
Accounts payable	428,351	-	428,351
Salaries and benefits payable	60,321	-	60,321
Accrued interest payable	9,408	-	9,408
Deferred revenue:			
Succeeding year property tax	1,049,251	-	1,049,251
Other	-	1,234	1,234
Long-term liabilities :			
Portion due within one year:			
Revenue bonds payable	55,000	-	55,000
Portion due after one year:			
Revenue bonds payable	845,000	-	845,000
Total liabilities	2,447,331	1,234	2,448,565
Net assets			
Invested in capital assets, net of related debt	1,232,333	11,804	1,244,137
Restricted for:			
State categorical aid	23,881	-	23,881
Management levy	165,242	-	165,242
Physical plant and equipment levy	54,547	-	54,547
Other special revenue purposes	17,865	-	17,865
Local option sales tax capital projects	472,865	-	472,865
Unrestricted	843,978	(4,603)	839,375
Total net assets	2,810,711	7,201	2,817,912

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,790,957	683,319	193,152	-
Special instruction	524,570	193,431	54,079	-
Other instruction	170,018	32,530	-	-
	<u>2,485,545</u>	<u>909,280</u>	<u>247,231</u>	<u>-</u>
Support services:				
Student services	46,774	-	-	-
Instructional staff services	45,514	-	10,448	-
Administration services	357,354	54,514	-	-
Operation and maintenance of plant services	284,195	-	-	-
Transportation services	245,470	288	1,520	-
	<u>979,307</u>	<u>54,802</u>	<u>11,968</u>	<u>-</u>
Non-instructional programs	<u>2,921</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	83,552	-	-	22,445
Long-term debt interest	37,631	-	22,007	-
AEA flowthrough	93,813	-	93,813	-
Depreciation (unallocated)*	91,333	-	-	-
	<u>306,329</u>	<u>-</u>	<u>115,820</u>	<u>22,445</u>
Total governmental activities	<u>3,774,102</u>	<u>964,082</u>	<u>375,019</u>	<u>22,445</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>166,337</u>	<u>47,130</u>	<u>71,617</u>	<u>-</u>
Total	<u>3,940,439</u>	<u>1,011,212</u>	<u>446,636</u>	<u>22,445</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

Net assets end of year

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

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(914,486)	-	(914,486)
(277,060)	-	(277,060)
(137,488)	-	(137,488)
<u>(1,329,034)</u>	<u>-</u>	<u>(1,329,034)</u>
(46,774)	-	(46,774)
(35,066)	-	(35,066)
(302,840)	-	(302,840)
(284,195)	-	(284,195)
<u>(243,662)</u>	<u>-</u>	<u>(243,662)</u>
<u>(912,537)</u>	<u>-</u>	<u>(912,537)</u>
(2,921)	-	(2,921)
(61,107)	-	(61,107)
(15,624)	-	(15,624)
-	-	-
<u>(91,333)</u>	<u>-</u>	<u>(91,333)</u>
<u>(168,064)</u>	<u>-</u>	<u>(168,064)</u>
(2,412,556)	-	(2,412,556)
-	(47,590)	(47,590)
<u>(2,412,556)</u>	<u>(47,590)</u>	<u>(2,460,146)</u>
1,044,038	-	1,044,038
25,388	-	25,388
120,486	-	120,486
229,140	-	229,140
1,109,034	-	1,109,034
53,694	1,098	54,792
<u>16,637</u>	<u>-</u>	<u>16,637</u>
<u>2,598,417</u>	<u>1,098</u>	<u>2,599,515</u>
185,861	(46,492)	139,369
<u>2,624,850</u>	<u>53,693</u>	<u>2,678,543</u>
<u>2,810,711</u>	<u>7,201</u>	<u>2,817,912</u>

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	General Fund	Capital Projects (LOST)	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments:				
Other	538,239	362,028	214,004	1,114,271
Cash with fiscal agent	-	140,657	-	140,657
Receivables:				
Property tax:				
Delinquent	18,511	-	1,206	19,717
Succeeding year	923,980	-	125,271	1,049,251
Interfund receivable	8,098	-	-	8,098
Due from other governments	738,213	33,057	22,445	793,715
Total assets	2,227,041	535,742	362,926	3,125,709
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	365,474	62,877	-	428,351
Salaries and benefits payable	60,320	-	1	60,321
Deferred revenue:				
Succeeding year property tax	923,980	-	125,271	1,049,251
Other	92,127	-	-	92,127
Total liabilities	1,441,901	62,877	125,272	1,630,050
Fund balances:				
Reserved for:				
State categorical aid	23,881	-	-	23,881
Unreserved, reported in:				
General fund	761,259	-	-	761,259
Special revenue funds	-	-	237,654	237,654
Capital project funds	-	472,865	-	472,865
Total fund balances	785,140	472,865	237,654	1,495,659
Total liabilities and fund balances	2,227,041	535,742	362,926	3,125,709

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

	\$
Total fund balances of governmental funds (Exhibit C)	1,495,659
<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.	2,132,333
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	92,127
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(9,408)
Long-term liabilities, termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(900,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,810,711</u></u>

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General Fund \$	Capital Projects (LOST) \$	Nonmajor Governmental Funds \$	Total \$
Revenues:				
Local sources:				
Local tax	1,113,865	229,140	65,417	1,408,422
Tuition	855,075	-	-	855,075
Other	138,405	23,656	39,284	201,345
State sources	1,343,195	-	-	1,343,195
Federal sources	118,851	-	22,445	141,296
Total revenues	<u>3,569,391</u>	<u>252,796</u>	<u>127,146</u>	<u>3,949,333</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,787,572	-	1,509	1,789,081
Special instruction	524,570	-	-	524,570
Other instruction	137,621	-	32,397	170,018
	<u>2,449,763</u>	<u>-</u>	<u>33,906</u>	<u>2,483,669</u>
Support services:				
Student services	46,615	-	159	46,774
Instructional staff services	45,513	-	1	45,514
Administration services	352,249	-	6,621	358,870
Operation and maintenance of plant services	262,352	10,397	10,640	283,389
Transportation services	270,610	-	15,160	285,770
	<u>977,339</u>	<u>10,397</u>	<u>32,581</u>	<u>1,020,317</u>
Non-instructional programs	-	-	2,921	2,921
Other expenditures:				
Facilities acquisition	-	1,409,457	22,445	1,431,902
Long-term debt:				
Interest and fiscal charges	-	-	28,223	28,223
AEA flowthrough	93,813	-	-	93,813
	<u>93,813</u>	<u>1,409,457</u>	<u>50,668</u>	<u>1,553,938</u>
Total expenditures	<u>3,520,915</u>	<u>1,419,854</u>	<u>120,076</u>	<u>5,060,845</u>
Excess (deficiency) of revenues over (under) expenditures	<u>48,476</u>	<u>(1,167,058)</u>	<u>7,070</u>	<u>(1,111,512)</u>
Other financing sources (uses):				
Bonds issued	-	900,000	-	900,000
Operating transfers in	-	-	28,223	28,223
Operating transfers out	-	(28,223)	-	(28,223)
Total other financing sources (uses)	<u>-</u>	<u>871,777</u>	<u>28,223</u>	<u>900,000</u>
Net change in fund balances	48,476	(295,281)	35,293	(211,512)
Fund balances beginning of year	<u>736,664</u>	<u>768,146</u>	<u>202,361</u>	<u>1,707,171</u>
Fund balances end of year	<u><u>785,140</u></u>	<u><u>472,865</u></u>	<u><u>237,654</u></u>	<u><u>1,495,659</u></u>

See notes to financial statements.

ANTHON-OTO 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, 2007

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(211,512)

**Amounts reported for governmental activities in the
Statement of Activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	1,418,383	
Depreciation expense	<u>(123,748)</u>	1,294,635

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.

10,630

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.

(9,408)

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		1,516
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Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.

(900,000)**Changes in net assets of governmental activities (Exhibit B)**185,861

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	146
Accounts receivable	252
Inventories	4,331
Capital assets, net of accumulated depreciation	<u>11,804</u>
Total assets	<u>16,533</u>
Liabilities	
Interfund payable	8,098
Deferred revenue	<u>1,234</u>
Total liabilities	<u>9,332</u>
Net assets	
Invested in capital assets, net of related debt	11,804
Unrestricted	<u>(4,603)</u>
Total net assets	<u><u>7,201</u></u>

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenues:	
Local sources:	
Charges for service	<u>47,130</u>
Operating expenses:	
Non-instructional programs:	
Salaries	60,770
Benefits	11,949
Purchased services	2,743
Supplies	87,496
Depreciation	3,323
Other	56
	<u>166,337</u>
Operating gain (loss)	<u>(119,207)</u>
Non-operating revenues:	
State sources	1,744
Federal sources	69,873
Interest income	1,098
Total non-operating revenues	<u>72,715</u>
Net income (loss)	(46,492)
Net assets beginning of year	<u>53,693</u>
Net assets end of year	<u><u>7,201</u></u>

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	46,934
Cash payments to employees for services	(72,798)
Cash payments to suppliers for goods or services	(78,668)
Net cash used by operating activities	<u>(104,532)</u>
Cash flows from non-capital financing activities:	
State grants received	1,744
Federal grants received	62,212
Net cash provided by non-capital financing activities	<u>63,956</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(2,043)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,239</u>
Net increase (decrease) in cash and cash equivalents	(41,380)
Cash and cash equivalents at beginning of year	<u>41,526</u>
Cash and cash equivalents at end of year	<u><u>146</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating gain (loss)	(119,207)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	7,661
Depreciation	3,323
Decrease (increase) in inventories	3,910
Decrease (increase) in accounts receivable	(140)
(Decrease) increase in deferred revenue	(79)
Net cash used in operating activities	<u><u>(104,532)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$7,661 of federal commodities.

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

Year ended June 30, 2007

1. Summary of Significant Accounting Policies

Anthon-Oto 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 Anthon and Oto, Iowa and the predominately agricultural territory in a portion of Woodbury County. 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, Anthon-Oto 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 Anthon-Oto 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 not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those 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 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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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 non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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, 2005 assessed property valuations; is for the tax accrual period July 1,

2006, through June 30, 2007, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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	500
Buildings	5,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

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	5-20 years
Furniture and equipment	3-10 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.

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 not available for appropriation or 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 are 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, 2007, expenditures exceeded the amount budgeted in the other expenditures function.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 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.

The District has the following investments in government securities invested with a fiscal agent at June 30, 2007.

	<u>Fair Value</u>
	\$
Goldman Sachs Financial Square Treasury Obligations Fund	140,657

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.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	1,358,936

The investment is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investments in the Iowa Schools Joint Investment Trust and Goldman Sack Financial Square Treasury Obligation Fund were rated Aaa by Moody's Investors Service.

3. Interfund Receivables and Payable

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
General Fund	Nonmajor Enterprise, School Nutrition Fund	8,098

The interfund receivable/payable represents monies owed by the School Nutrition Fund for salaries paid by the General Fund.

4. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Capital assets being depreciated:				
Buildings	1,718,618	1,342,995	-	3,061,613
Improvements other than buildings	188,232	-	-	188,232
Furniture and equipment	567,616	75,388	-	643,004
Total capital assets being deprec.	<u>2,474,466</u>	<u>1,418,383</u>	<u>-</u>	<u>3,892,849</u>
Less accumulated depreciation for:				
Buildings	1,001,848	88,921	-	1,090,769
Improvements other than buildings	170,967	1,096	-	172,063
Furniture and equipment	473,955	33,731	-	507,686
Total accumulated depreciation	<u>1,646,770</u>	<u>123,748</u>	<u>-</u>	<u>1,770,518</u>
Total capital assets being depreciated, net	<u>827,696</u>	<u>1,294,635</u>	<u>-</u>	<u>2,122,331</u>
Governmental activities capital assets, net	<u>837,696</u>	<u>1,294,635</u>	<u>-</u>	<u>2,132,331</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	80,949	2,043	5,384	77,608
Less accumulated depreciation	<u>67,809</u>	<u>3,323</u>	<u>5,328</u>	<u>65,804</u>
Business type activities capital assets, net	<u>13,140</u>	<u>(1,280)</u>	<u>56</u>	<u>11,804</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	1,876
Support services:	
Operation and maintenance of plant services	806
Transportation	29,733
	32,415
Unallocated depreciation	91,333
	123,748
 Business type activities:	
Food services operations	3,323
	3,323

5. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer To	Transfer From	Amount
		\$
Debt Service Fund	Capital Projects Fund	28,223

This transfer moved revenues from the fund statutorily required to collect the resources to the Debt Service Fund.

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Revenue bonds	-	900,000	-	900,000	55,000
Termination benefits	1,516	-	1,516	-	-
Total	1,516	900,000	1,516	900,000	55,000

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, 2007, the District has no obligations for early retirement. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$1,516.

Revenue Bonds Payable

Details of the District's June 30, 2007 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July, 2006			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2008	3.80	55,000	36,585	91,585
2009	3.90	75,000	34,078	109,078
2010	4.00	65,000	31,316	96,316
2011	4.05	65,000	28,699	93,699
2012	4.10	70,000	25,947	95,947
2013-2017	4.15-4.35	390,000	82,958	472,958
2018-2019	4.40	180,000	7,920	187,920
		<u>900,000</u>	<u>247,503</u>	<u>1,147,503</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services revenue bonds include the following provisions:

- The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the District and the bond holders hold a lien on the future revenues received.
- \$90,000 of the proceeds from the bond issue have been placed in a reserve account with a trustee. The reserve account may be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The reserve account is part of the District's Local Option Sales Tax Capital Projects Fund.
- Proceeds from the local option sales and services tax shall be placed in a revenue account with a trustee. The trustee will make monthly transfers from the revenue account to the sinking account. Money in the sinking account shall be used to pay the interest and principal on the bonds. Any surplus monies remaining in the revenue fund at the end of a quarter may be used for any lawful purpose for which the local option sales tax may be used or may be used to redeem the bonds in accordance with their terms. The sinking fund is part of the Local Option Sales Tax Capital Projects Fund.

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, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$88,264, \$78,973, and \$79,565 respectively, equal to the required contributions for each year.

8. Risk Management

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

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 \$93,813 for the year ended June 30, 2007, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ANTHON-OTO 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, 2007

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,464,842	48,228	2,513,070	2,352,392	2,352,392	160,678
State sources	1,343,195	1,744	1,344,939	1,342,671	1,342,671	2,268
Federal sources	141,296	69,873	211,169	262,000	262,000	(50,831)
Total revenues	<u>3,949,333</u>	<u>119,845</u>	<u>4,069,178</u>	<u>3,957,063</u>	<u>3,957,063</u>	<u>112,115</u>
Expenditures:						
Instruction	2,483,669	-	2,483,669	3,354,173	3,354,173	870,504
Support services	1,020,317	-	1,020,317	1,052,724	1,052,724	32,407
Non-instructional programs	2,921	166,337	169,258	268,260	268,260	99,002
Other expenditures	1,553,938	-	1,553,938	749,098	749,098	(804,840)
Total expenditures	<u>5,060,845</u>	<u>166,337</u>	<u>5,227,182</u>	<u>5,424,255</u>	<u>5,424,255</u>	<u>197,073</u>
Excess (deficiency) of revenues over (under) expenditures	(1,111,512)	(46,492)	(1,158,004)	(1,467,192)	(1,467,192)	309,188
Other financing sources (uses) net	<u>900,000</u>	<u>-</u>	<u>900,000</u>	<u>-</u>	<u>-</u>	<u>900,000</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	(211,512)	(46,492)	(258,004)	(1,467,192)	(1,467,192)	1,209,188
Balance beginning of year	<u>1,707,171</u>	<u>53,693</u>	<u>1,760,864</u>	<u>1,467,192</u>	<u>1,467,192</u>	<u>293,672</u>
Balance end of year	<u><u>1,495,659</u></u>	<u><u>7,201</u></u>	<u><u>1,502,860</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,502,860</u></u>

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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 function level, not by the fund. The Code of Iowa also provides 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, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	
	\$	\$	\$	
Cash and pooled investments	164,505	17,865	31,634	214,004
Receivables:				
Property tax:				
Delinquent	738	-	468	1,206
Succeeding year	100,000	-	25,271	125,271
Due from other governments	-	-	22,445	22,445
Total assets	265,243	17,865	79,818	362,926
Liabilities & Fund Balances				
Liabilities:				
Salaries and benefits payable	1	-	-	1
Deferred revenue:				
Succeeding year property tax	100,000	-	25,271	125,271
Total liabilities	100,001	-	25,271	125,272
Unreserved fund balance reported in:				
Special revenue funds	165,242	17,865	54,547	237,654
Total liabilities and fund balances	265,243	17,865	79,818	362,926

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Special Revenue Funds				Total
	Management	Student	Physical	Debt	
	Levy	Activity	Plant and	Service	
		Equipment			
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	40,029	-	25,388	-	65,417
Other	6,351	31,653	1,280	-	39,284
Federal sources	-	-	22,445	-	22,445
Total revenues	<u>46,380</u>	<u>31,653</u>	<u>49,113</u>	<u>-</u>	<u>127,146</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,509	-	-	-	1,509
Other instruction	-	32,397	-	-	32,397
Support services:					
Student services	159	-	-	-	159
Instructional staff services	1	-	-	-	1
Administration services	6,621	-	-	-	6,621
Operation and maintenance of plant services	10,640	-	-	-	10,640
Transportation services	15,160	-	-	-	15,160
Non-instructional programs	2,921	-	-	-	2,921
Other expenditures:					
Facilities acquisition	-	-	22,445	-	22,445
Interest and fiscal charges	-	-	-	28,223	28,223
Total expenditures	<u>37,011</u>	<u>32,397</u>	<u>22,445</u>	<u>28,223</u>	<u>120,076</u>
Excess (deficiency) of revenues over (under) expenditures	9,369	(744)	26,668	(28,223)	7,070
Other financing sources (uses):					
Operating transfers in	-	-	-	28,223	28,223
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing	9,369	(744)	26,668	-	35,293
Fund balances beginning of year	<u>155,873</u>	<u>18,609</u>	<u>27,879</u>	<u>-</u>	<u>202,361</u>
Fund balances end of year	<u><u>165,242</u></u>	<u><u>17,865</u></u>	<u><u>54,547</u></u>	<u><u>-</u></u>	<u><u>237,654</u></u>

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Drama	191	-	-	(191)	-
Swing choir	1,214	85	542	-	757
Instrumental	547	5,355	4,830	-	1,072
Pep club	1,464	-	-	(1,464)	-
Junior high activity	6,046	24,441	26,057	2,149	6,579
Res for activity athletic director	1,310	650	-	-	1,960
Student council	-	492	848	537	181
Art club	1,070	-	-	(1,070)	-
Interest	61	630	-	(691)	-
Elementary activities	6,706	-	120	730	7,316
	<u>18,609</u>	<u>31,653</u>	<u>32,397</u>	<u>-</u>	<u>17,865</u>
Totals	<u>18,609</u>	<u>31,653</u>	<u>32,397</u>	<u>-</u>	<u>17,865</u>

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,408,422	1,279,473	1,227,086	1,317,439
Tuition	855,075	1,299,271	702,991	643,481
Other	201,345	152,339	123,932	79,597
State sources	1,343,195	1,390,175	1,228,711	1,163,985
Federal sources	141,296	128,848	130,233	147,489
Total revenues	<u>3,949,333</u>	<u>4,250,106</u>	<u>3,412,953</u>	<u>3,351,991</u>
Expenditures:				
Instruction:				
Regular instruction	1,789,081	2,071,862	1,648,378	1,610,368
Special instruction	524,570	434,832	510,793	461,575
Other instruction	170,018	184,081	66,749	67,291
Support services:				
Student services	46,774	33,804	30,824	42,480
Instructional staff services	45,514	313,912	98,295	112,507
Administration services	358,870	312,796	320,174	262,634
Operation and maintenance of plant services	283,389	241,076	206,743	184,564
Transportation services	285,770	225,938	173,016	222,870
Non-instructional programs	2,921	885	3,348	6,525
Other expenditures:				
Facilities acquisition	1,431,902	146,444	27,695	11,746
Long-term debt:				
Interest and other charges	28,223	-	-	-
AEA flowthrough	93,813	91,809	87,133	88,773
Total expenditures	<u>5,060,845</u>	<u>4,057,439</u>	<u>3,173,148</u>	<u>3,071,333</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
Anthon-Oto 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 Anthon-Oto Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 10, 2008. 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 Anthon-Oto Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Anthon-Oto Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Anthon-Oto Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Anthon-Oto Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Anthon-Oto Community School District's financial statements that is more than inconsequential will not be prevented or detected by Anthon-Oto Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Anthon-Oto Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-I-A and 07-I-B are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Anthon-Oto 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 and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

Anthon-Oto Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Anthon-Oto Community School District's responses and, accordingly, we express no opinion on them.

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

April 10, 2008

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

07-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, preparing and posting general journal entries, 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 investigate methods to increase monitoring activities 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.

07-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

07-II-A Certified Budget: Expenditures for the year ended June 30, 2007, exceeded the amount budgeted in the other expenditures 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.

07-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.

07-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.

07-II-D Business Transactions: We noted no transactions between the District and District officials or employees.

07-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.

07-II-F Board Minutes: We noted no transactions requiring board approval that had not been approved by the board.

07-II-G Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.

07-II-H Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

07-II-I Certified Annual Report (CAR): The Certified Annual Report was certified timely to the Department of Education.

07-II-J Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extracurricular student activity program. We noted accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend these be reviewed and transferred to the proper fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.