

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

June 30, 2008

## Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	15
Statement of Activities	B	16-17
Governmental Fund Financial Statements:		
Balance Sheet	C	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	21
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets	H	23
Statement of Cash Flows	I	24
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	25
Statement of Changes in Fiduciary Net Assets	K	26
Notes to Financial Statements		27-35
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		37
Notes to Required Supplementary Information - Budgetary Reporting		38
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	40
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	41
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	42
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	44
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		45-46
Schedule of Findings and Responses		47-51



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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, 2008, 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, 2008, 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 23, 2009, on our consideration of Odebolt-Arthur Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 37 through 38 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, 2007, (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

April 23, 2009

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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, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2008 Financial Highlights

- General Fund revenues decreased from \$3,160,116 in fiscal 2007 to \$3,075,524 in fiscal 2008, while General Fund expenditures increased from \$3,333,726 in fiscal 2007 to \$3,342,614 in fiscal 2008. The District's General Fund balance decreased from \$687,541 in fiscal 2007 to \$420,451 in fiscal 2008, a 39% decrease.
- The decrease in General Fund revenues was attributable to a decrease in property tax and state and federal grant revenue in fiscal 2007. 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.

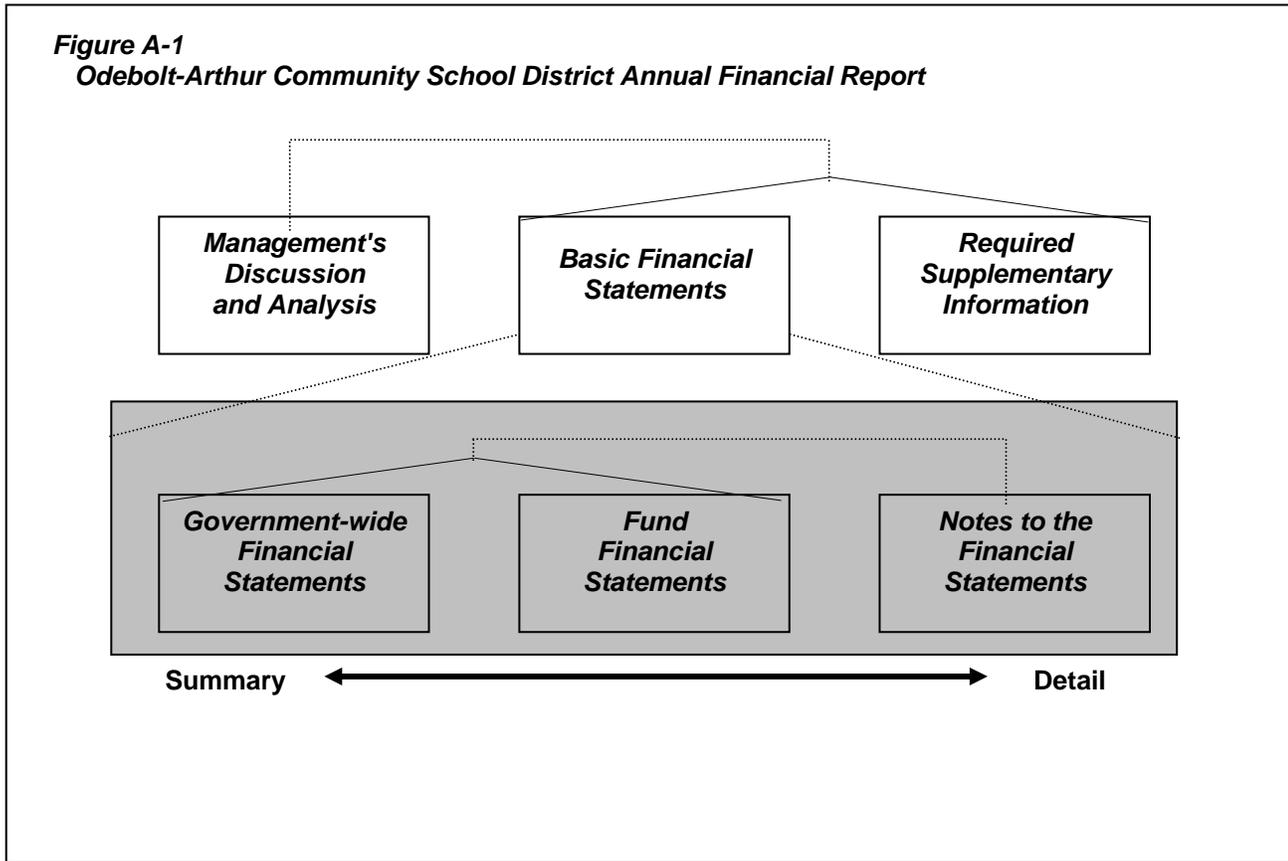


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<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, 2008 compared to June 30, 2007.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2007-2008
	Governmental Activities		Business-type Activities		Total School District		
	2007	2008	2007	2008	2007	2008	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,346,275	3,016,968	38,025	30,404	3,384,300	3,047,372	-10%
Capital assets	1,152,690	1,436,494	8,574	13,919	1,161,264	1,450,413	25%
<b>Total assets</b>	<b>4,498,965</b>	<b>4,453,462</b>	<b>46,599</b>	<b>44,323</b>	<b>4,545,564</b>	<b>4,497,785</b>	<b>-1%</b>
Long-term liabilities	275,928	171,500	-	-	275,928	171,500	-38%
Other liabilities	1,712,782	1,737,840	6,530	6,896	1,719,312	1,744,736	1%
<b>Total liabilities</b>	<b>1,988,710</b>	<b>1,909,340</b>	<b>6,530</b>	<b>6,896</b>	<b>1,995,240</b>	<b>1,916,236</b>	<b>-4%</b>
Net Assets:							
Invested in capital assets, net of related debt	1,152,690	1,311,494	8,574	13,919	1,161,264	1,325,413	14%
Restricted	613,268	754,837	-	-	613,268	754,837	23%
Unrestricted	744,297	477,791	31,495	23,508	775,792	501,299	-35%
<b>TOTAL NET ASSETS</b>	<b>2,510,255</b>	<b>2,544,122</b>	<b>40,069</b>	<b>37,427</b>	<b>2,550,324</b>	<b>2,581,549</b>	<b>1%</b>

The District's combined net assets increased by \$31,225, 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 \$141,569 or 23% over the prior year. The increase was primarily a result of physical plant and equipment property tax and management property tax that were collected, but not spent in fiscal year 2008.

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 – decreased approximately \$274,493, or 35%.

Figure A-4 shows the change in net assets for the years ended June 30, 2008 and 2007.

Figure A-4

	Change in Net Assets						Percentage Change 2007-2008
	Governmental Activities		Business-type Activities		Total School District		
	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	
Revenues							
Program Revenues:							
Charges for services	270,124	288,584	63,025	66,000	333,149	354,584	6%
Operating grants & contributions	428,622	480,869	67,020	71,260	495,642	552,129	11%
Capital grants & contributions	-	25,000	-	-	-	25,000	100%
General Revenues:							
Property taxes	1,343,377	1,335,744	-	-	1,343,377	1,335,744	-1%
Income Surtax	85,771	99,145	-	-	85,771	99,145	16%
Local option sales tax	218,450	195,631	-	-	218,450	195,631	-10%
Unrestricted state grants	1,354,592	1,213,517	-	-	1,354,592	1,213,517	-10%
Unrestricted investment earnings	76,926	56,993	747	414	77,673	57,407	-26%
Other revenue	31,656	283	-	-	31,656	283	-99%
<b>Total Revenues</b>	<b>3,809,518</b>	<b>3,695,766</b>	<b>130,792</b>	<b>137,674</b>	<b>3,940,310</b>	<b>3,833,440</b>	<b>-3%</b>
Expenses:							
Instruction	2,346,158	2,335,076	-	-	2,346,158	2,335,076	-1%
Support services	1,108,831	1,112,078	-	-	1,108,831	1,112,078	<-1%
Non-instructional programs	-	5,153	132,617	140,316	132,617	145,469	10%
Other expenditures	268,899	209,592	-	-	268,899	209,592	-22%
<b>Total expenses</b>	<b>3,723,888</b>	<b>3,661,899</b>	<b>132,617</b>	<b>140,316</b>	<b>3,856,505</b>	<b>3,802,215</b>	<b>-1%</b>
<b>Change in net assets before Transfers</b>	<b>85,630</b>	<b>33,867</b>	<b>(1,825)</b>	<b>(2,642)</b>	<b>83,805</b>	<b>31,225</b>	<b>-63%</b>
Transfers	-	-	-	-	-	-	0%
<b>CHANGE IN NET ASSETS</b>	<b>85,630</b>	<b>33,867</b>	<b>(1,825)</b>	<b>(2,642)</b>	<b>83,805</b>	<b>31,225</b>	<b>-63%</b>
Net assets beginning of year	2,424,625	2,510,255	41,894	40,069	2,466,519	2,550,324	3%
Net assets end of year	2,510,255	2,544,122	40,069	37,427	2,550,324	2,581,549	1%

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

## Governmental Activities

Revenues for governmental activities were \$3,695,766 and expenses were \$3,661,899. 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 2007 \$</b>	<b>Total Cost of Services 2008 \$</b>	<b>Net Cost of Services 2007 \$</b>	<b>Net Cost of Services 2008 \$</b>
Instruction	2,346,158	2,335,076	1,788,588	1,808,030
Support Services	1,108,831	1,112,078	1,090,428	992,962
Non-instructional Programs	-	5,153	-	5,153
Other Expenses	268,899	209,592	146,126	61,301
<b>TOTAL</b>	<b>3,723,888</b>	<b>3,661,899</b>	<b>3,025,142</b>	<b>2,867,446</b>

- The cost financed by users of the District's programs was \$288,584
- Federal and state governments subsidized certain programs with grants and contributions totaling \$480,869.
- The net cost of governmental activities was financed with \$1,630,520 in property and other taxes and \$1,213,517 in unrestricted state grants.

## Business Type Activities

Revenues for business type activities were \$137,674 and expenses were \$140,316. 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 \$1,189,600, well below last year's ending fund balances of \$1,544,573.

## **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.
- The General Fund balance decreased from \$687,541 to \$420,451, due in part to the negotiated salary and benefits settlement.
- The Capital Projects Fund balance decreased due to the Construction of a new Science addition. The District ended fiscal 2007 with a balance of \$482,823, and fiscal 2008 ended with a balance of \$262,418.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$91,105 in fiscal 2007 to \$161,960 in fiscal 2008. Due to the tax levy being reduced for the FY 2007/08 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.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$40,069 at June 30, 2007 to \$37,427 at June 30, 2008 representing a decrease of approximately 7%.

## **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.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2008, the District had invested \$1,450,413, 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 \$132,708.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$1,090,344 at June 30, 2008, compared to \$683,649, reported at June 30, 2007. This significant increase resulted from the completion of the new science addition.

**Figure A-6**

**Capital Assets (net of depreciation)**

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2007-2008
	2007	2008	2007	2008	2007	2008	
	\$	\$	\$	\$	\$	\$	
Land	10,850	10,850	-	-	10,850	10,850	0%
Construction in progress	123,369	-	-	-	123,369	-	-100%
Buildings	683,649	1,090,344	-	-	683,649	1,090,344	59%
Improvements	110,440	152,009	-	-	110,440	152,009	38%
Equipment & Furniture	224,382	183,291	8,574	13,919	232,956	197,210	-15%
<b>TOTAL</b>	<b>1,152,690</b>	<b>1,436,494</b>	<b>8,574</b>	<b>13,919</b>	<b>1,161,264</b>	<b>1,450,413</b>	<b>25%</b>

**Long-Term Debt**

At June 30, 2008 the District had \$171,500 in long-term debt outstanding.

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

	Total School District		Percentage Change 2007-2006
	2007	2008	
	\$	\$	
Revenue bonds	200,000	125,000	-38%
Termination benefits	75,928	46,500	-39%
	<u>275,928</u>	<u>171,500</u>	-38%

**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 2006 enrollment decreased by thirty-five students. This drop in enrollment will decrease the District's funding for the fiscal year 2007-08.
- The District has evaluated the elementary school curriculum and has determined that the addition of a teacher would be beneficial for the students of Odebolt-Arthur.
- Sharing discussions have lead to a Whole Grade Sharing agreement with the Battle Creek-Ida Grove Community School District for fiscal year 2009/2010.

## **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 Jann Murphy, District Secretary, 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, 2008

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	1,432,213	25,641	1,457,854
Receivables:			
Property tax:			
Delinquent	24,215	-	24,215
Succeeding year	1,390,985	-	1,390,985
Accounts	212	20	232
Due from other governments	169,343	-	169,343
Inventories	-	4,743	4,743
Capital assets, net of accumulated depreciation	1,436,494	13,919	1,450,413
	<u>4,453,462</u>	<u>44,323</u>	<u>4,497,785</u>
<b>Liabilities</b>			
Accounts payable	16,090	-	16,090
Salaries and benefits payable	330,348	5,693	336,041
Accrued interest payable	417	-	417
Deferred revenue:			
Succeeding year property tax	1,390,985	-	1,390,985
Other	-	1,203	1,203
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	75,000	-	75,000
Termination benefits	25,950	-	25,950
Portion due after one year:			
Revenue bonds payable	50,000	-	50,000
Termination benefits	20,550	-	20,550
	<u>1,909,340</u>	<u>6,896</u>	<u>1,916,236</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,311,494	13,919	1,325,413
Restricted for:			
Management levy	182,710	-	182,710
Physical plant and equipment levy	194,565	-	194,565
Other special revenue purposes	115,561	-	115,561
Local option sales tax capital projects	242,418	-	242,418
Debt service	19,583	-	19,583
Unrestricted	477,791	23,508	501,299
	<u>2,544,122</u>	<u>37,427</u>	<u>2,581,549</u>

<b>Functions/Programs</b>	<b>Program Revenues</b>			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,693,098	147,323	278,251	-
Special	334,673	22,145	29,145	-
Other	307,305	-	50,182	-
	<u>2,335,076</u>	<u>169,468</u>	<u>357,578</u>	<u>-</u>
Support services:				
Student	164,187	118,851	-	-
Instructional staff	119,399	-	-	-
Administration	400,792	-	-	-
Operation and maintenance of plant	270,941	15	-	-
Transportation	156,759	250	-	-
	<u>1,112,078</u>	<u>119,116</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>5,153</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	-	-	-	25,000
Long-term debt interest	7,273	-	-	-
AEA flowthrough	123,291	-	123,291	-
Depreciation (unallocated)*	79,028	-	-	-
	<u>209,592</u>	<u>-</u>	<u>123,291</u>	<u>25,000</u>
Total governmental activities	3,661,899	288,584	480,869	25,000
Business type activities:				
Non-instructional programs:				
Food service operations	140,316	66,000	71,260	-
Total	<u>3,802,215</u>	<u>354,584</u>	<u>552,129</u>	<u>25,000</u>
<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				
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.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,267,524)	-	(1,267,524)
(283,383)	-	(283,383)
(257,123)	-	(257,123)
<u>(1,808,030)</u>	<u>-</u>	<u>(1,808,030)</u>
(45,336)	-	(45,336)
(119,399)	-	(119,399)
(400,792)	-	(400,792)
(270,926)	-	(270,926)
(156,509)	-	(156,509)
<u>(992,962)</u>	<u>-</u>	<u>(992,962)</u>
<u>(5,153)</u>	<u>-</u>	<u>(5,153)</u>
25,000	-	25,000
(7,273)	-	(7,273)
-	-	-
<u>(79,028)</u>	<u>-</u>	<u>(79,028)</u>
<u>(61,301)</u>	<u>-</u>	<u>(61,301)</u>
(2,867,446)	-	(2,867,446)
-	(3,056)	(3,056)
<u>(2,867,446)</u>	<u>(3,056)</u>	<u>(2,870,502)</u>
1,273,205	-	1,273,205
62,539	-	62,539
99,145	-	99,145
195,631	-	195,631
1,213,517	-	1,213,517
56,993	414	57,407
283	-	283
<u>2,901,313</u>	<u>414</u>	<u>2,901,727</u>
33,867	(2,642)	31,225
<u>2,510,255</u>	<u>40,069</u>	<u>2,550,324</u>
<u>2,544,122</u>	<u>37,427</u>	<u>2,581,549</u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2008

<b>Assets</b>	General Fund \$	Management \$	Nonmajor Governmental Funds \$	Total \$
Cash and pooled investments	727,256	226,705	475,254	1,429,215
Receivables:				
Property tax:				
Delinquent	20,595	2,505	1,115	24,215
Succeeding year	1,179,864	138,000	73,121	1,390,985
Accounts	22	-	190	212
Due from other governments	72,257	-	97,086	169,343
<b>Total assets</b>	<b>1,999,994</b>	<b>367,210</b>	<b>646,766</b>	<b>3,013,970</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	14,989	-	1,101	16,090
Salaries and benefits payable	330,348	-	-	330,348
Deferred revenue:				
Succeeding year property tax	1,179,864	138,000	73,121	1,390,985
Other	54,342	-	32,605	86,947
Total liabilities	1,579,543	138,000	106,827	1,824,370
Fund balances:				
Reserved for:				
Debt service	-	-	20,000	20,000
Unreserved reported in:				
General fund	420,451	-	-	420,451
Special revenue funds	-	229,210	277,521	506,731
Capital projects funds	-	-	242,418	242,418
Total fund balances	420,451	229,210	539,939	1,189,600
<b>Total liabilities and fund balances</b>	<b>1,999,994</b>	<b>367,210</b>	<b>646,766</b>	<b>3,013,970</b>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

June 30, 2008

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	1,189,600
<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.	1,436,494
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	86,947
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.	(417)
An internal service fund is used by the District's management to charge the costs of the self-funded health insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	2,998
Long-term liabilities, including revenue bonds and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(171,500)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>2,544,122</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	General Fund	Management	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,180,816	138,074	310,454	1,629,344
Tuition	123,304	-	-	123,304
Other	77,018	7,285	138,253	222,556
State sources	1,585,495	-	-	1,585,495
Federal sources	108,891	-	25,000	133,891
Total revenues	<u>3,075,524</u>	<u>145,359</u>	<u>473,707</u>	<u>3,694,590</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,669,006	33,037	14,271	1,716,314
Special	334,673	-	-	334,673
Other	305,719	-	1,586	307,305
	<u>2,309,398</u>	<u>33,037</u>	<u>15,857</u>	<u>2,358,292</u>
Support services:				
Student	53,791	4,895	105,501	164,187
Instructional staff	119,399	-	-	119,399
Administration	382,673	18,119	-	400,792
Operation and maintenance of plant	237,604	29,432	-	267,036
Transportation	116,458	9,176	-	125,634
	<u>909,925</u>	<u>61,622</u>	<u>105,501</u>	<u>1,077,048</u>
Non-instructional programs	-	5,153	-	5,153
Other expenditures:				
Facilities acquisition	-	-	403,923	403,923
Long-term debt:				
Principal	-	-	75,000	75,000
Interest and fiscal charges	-	-	6,856	6,856
AEA flowthrough	123,291	-	-	123,291
	<u>123,291</u>	<u>-</u>	<u>485,779</u>	<u>609,070</u>
Total expenditures	<u>3,342,614</u>	<u>99,812</u>	<u>607,137</u>	<u>4,049,563</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(267,090)</u>	<u>45,547</u>	<u>(133,430)</u>	<u>(354,973)</u>
Other financing sources (uses):				
Operating transfers in	-	-	81,856	81,856
Operating transfers out	-	-	(81,856)	(81,856)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(267,090)</u>	<u>45,547</u>	<u>(133,430)</u>	<u>(354,973)</u>
Fund balances beginning of year	<u>687,541</u>	<u>183,663</u>	<u>673,369</u>	<u>1,544,573</u>
Fund balances end of year	<u><u>420,451</u></u>	<u><u>229,210</u></u>	<u><u>539,939</u></u>	<u><u>1,189,600</u></u>

See notes to financial statements.

## 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, 2008

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		(354,973)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of 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	414,857	
Depreciation expense	<u>(131,053)</u>	283,804
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.		1,176
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		75,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(417)
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		29,428
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>(151)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>33,867</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2008

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal <u>Service Fund</u> \$
<b>Assets</b>		
Cash and cash equivalents	25,641	2,998
Accounts receivable	20	-
Inventories	4,743	-
Capital assets, net of accumulated depreciation	<u>13,919</u>	<u>-</u>
<b>Total assets</b>	<u>44,323</u>	<u>2,998</u>
<b>Liabilities</b>		
Salaries and benefits payable	5,693	-
Deferred revenue	<u>1,203</u>	<u>-</u>
<b>Total liabilities</b>	<u>6,896</u>	<u>-</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	13,919	-
Unrestricted	<u>23,508</u>	<u>2,998</u>
<b>Total net assets</b>	<u><u>37,427</u></u>	<u><u>2,998</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
Operating revenues:		
Local sources:		
Charges for service	<u>66,000</u>	<u>4,080</u>
Operating expenses:		
Non-instructional programs:		
Salaries	45,700	-
Benefits	6,917	-
Purchased services	1,952	-
Supplies	84,092	-
Depreciation	1,655	-
Other	-	4,231
Total operating expenses	<u>140,316</u>	<u>4,231</u>
Operating gain (loss)	<u>(74,316)</u>	<u>(151)</u>
Non-operating revenues:		
State sources	2,099	-
Federal sources	69,161	-
Interest income	414	-
Total non-operating revenues	<u>71,674</u>	<u>-</u>
Change in net assets	(2,642)	(151)
Net assets beginning of year	<u>40,069</u>	<u>3,149</u>
Net assets end of year	<u><u>37,427</u></u>	<u><u>2,998</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2008

	Enterprise Funds	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sales	66,804	4,080
Cash payments to employees for services	(52,562)	-
Cash payments to suppliers for goods or services	(74,960)	(4,231)
Net cash used by operating activities	<u>(60,718)</u>	<u>(151)</u>
Cash flows from non-capital financing activities:		
State grants received	2,099	-
Federal grants received	59,355	-
Net cash provided by non-capital financing activities	<u>61,454</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(7,000)	-
Cash flows from investing activities:		
Interest on investments	414	-
Net increase (decrease) in cash and cash equivalents	(5,850)	(151)
Cash and cash equivalents at beginning of year	31,491	3,149
Cash and cash equivalents at end of year	<u>25,641</u>	<u>2,998</u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(74,316)	(151)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	9,806	-
Depreciation	1,655	-
Decrease (increase) in inventories	1,278	-
Decrease (increase) in accounts receivable	493	-
(Decrease) increase in salaries and benefits payable	55	-
(Decrease) increase in deferred revenue	311	-
Net cash used by operating activities	<u>(60,718)</u>	<u>(151)</u>

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

During the year ended June 30, 2008, the District received \$9,806 of federal commodities.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2008

	Private Purpose Trust <u>Scholarship</u> \$	<u>Agency</u> \$
<b>Assets</b>		
Cash and pooled investments	<u>168,689</u>	<u>36,213</u>
<b>Liabilities</b>		
Accounts payable	-	188
Other payables	<u>-</u>	<u>36,025</u>
<b>Total liabilities</b>	<u>-</u>	<u>36,213</u>
<b>Net Assets</b>		
Reserved for scholarships	<u><u>168,689</u></u>	<u><u>-</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2008

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	10,375
Interest	<u>4,271</u>
Total additions	14,646
Deductions:	
Support services:	
Scholarships awarded	<u>7,755</u>
Change in net assets	6,891
Net assets beginning of year	<u>161,798</u>
Net assets end of year	<u><u>168,689</u></u>

# ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2008

### 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 attributable 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 instructional, support and other costs.

The Management Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the management property tax levy.

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.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and 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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

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 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, 2008, expenditures did not exceed the amounts budgeted.

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

The District's deposits in banks at June 30, 2008 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, 2008, the District had the following investments:

	Fair Value
	\$
Private Purpose Trust Fund:	
New York Life Annuity	<u>22,979</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 Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer To	Transfer From	Amount
		\$
Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	81,856

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### 4. Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	10,850	-	-	10,850
Construction in progress	123,369	-	123,369	-
Total capital assets not being depr.	<u>134,219</u>	<u>-</u>	<u>123,369</u>	<u>10,850</u>
Capital assets being depreciated:				
Buildings	2,023,082	473,448	-	2,496,530
Improvements other than buildings	302,070	53,844	-	355,914
Furniture and equipment	892,288	10,934	-	903,222
Total capital assets being deprec.	<u>3,217,440</u>	<u>538,226</u>	<u>-</u>	<u>3,755,666</u>

Less accumulated depreciation for:				
Buildings	1,339,433	66,753	-	1,406,186
Improvements other than buildings	191,630	12,275	-	203,905
Furniture and equipment	<u>667,906</u>	<u>52,025</u>	-	<u>719,931</u>
Total accumulated depreciation	<u>2,198,969</u>	<u>131,053</u>	-	<u>2,330,022</u>
Total capital assets being depreciated, net	<u>1,018,471</u>	<u>407,173</u>	-	<u>1,425,644</u>
Governmental activities capital assets, net	<u>1,152,690</u>	<u>407,173</u>	<u>123,369</u>	<u>1,436,494</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Business type activities:</b>				
Furniture and equipment	40,531	7,000	-	47,531
Less accumulated depreciation	<u>31,957</u>	<u>1,655</u>	-	<u>33,612</u>
Business type activities capital assets, net	<u>8,574</u>	<u>5,345</u>	-	<u>13,919</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	16,995
Support services:	
Operation and maintenance	3,905
Transportation	<u>31,125</u>
	52,025
Unallocated depreciation	<u>79,028</u>
Total depreciation expense – governmental activities	<u>131,053</u>
Business type activities:	
Food services	<u>1,655</u>

## 5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Revenue bonds	200,000	-	75,000	125,000	75,000
Termination benefits	<u>75,928</u>	<u>5,000</u>	<u>34,428</u>	<u>46,500</u>	<u>25,950</u>
	<u>275,928</u>	<u>5,000</u>	<u>109,428</u>	<u>171,500</u>	<u>100,950</u>

### Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least ten 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.

Early retirement benefits are equal to the difference between the base salary and their current salary.

At June 30, 2008, the District has obligations to seven participants with a total liability of \$46,500. Actual early retirement expenditures for the year ended June 30, 2008 totaled \$34,428.

### Revenue Bonds Payable

Details of the District's June 30, 2008 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Revenue Bond Issue May 2007			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2009	4.0	75,000	3,500	78,500
2010	4.0	50,000	1,000	51,000
		<u>125,000</u>	<u>4,500</u>	<u>129,500</u>

The District has pledged future local option sales and services tax revenues to repay the \$200,000 bonds issued in May 2007. The 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 and are payable through 2010. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 40 percent of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$129,500. For the current year \$81,856 principal and interest was paid on the bonds and total local option sales and services tax revenues were \$195,631.

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.
- The bonds are not subject to redemption prior to maturity.

## **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 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007, and 2006. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$133,391, \$122,707 and \$115,133 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 \$123,291 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,975,204	66,414	2,041,618	2,157,130	2,157,130	(115,512)
State sources	1,585,495	2,099	1,587,594	1,591,395	1,591,395	(3,801)
Federal sources	133,891	69,161	203,052	212,000	212,000	(8,948)
Total revenues	<u>3,694,590</u>	<u>137,674</u>	<u>3,832,264</u>	<u>3,960,525</u>	<u>3,960,525</u>	<u>(128,261)</u>
Expenditures/Expenses:						
Instruction	2,358,292	-	2,358,292	2,697,000	2,697,000	338,708
Support services	1,077,048	-	1,077,048	1,432,447	1,432,447	355,399
Non-instructional programs	5,153	140,316	145,469	211,395	211,395	65,926
Other expenditures	609,070	-	609,070	787,554	787,554	178,484
Total expenditures/expenses	<u>4,049,563</u>	<u>140,316</u>	<u>4,189,879</u>	<u>5,128,396</u>	<u>5,128,396</u>	<u>938,517</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(354,973)	(2,642)	(357,615)	(1,167,871)	(1,167,871)	810,256
Other financing sources (uses) net	-	-	-	11,000	11,000	(11,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(354,973)	(2,642)	(357,615)	(1,156,871)	(1,156,871)	799,256
Balance beginning of year	<u>1,544,573</u>	<u>40,069</u>	<u>1,584,642</u>	<u>1,618,499</u>	<u>1,618,499</u>	<u>(33,857)</u>
Balance end of year	<u><u>1,189,600</u></u>	<u><u>37,427</u></u>	<u><u>1,227,027</u></u>	<u><u>461,628</u></u>	<u><u>461,628</u></u>	<u><u>765,399</u></u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2008

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 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.

OTHER SUPPLEMENTARY INFORMATION

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2008

Assets	Special Revenue Funds			Total
	Student Activity Fund	Physical Plant and Equipment Levy	Capital Projects	
	\$	\$	\$	\$
Cash and pooled investments	115,372	160,845	199,037	475,254
Receivables:				
Property tax:				
Delinquent	-	1,115	-	1,115
Succeeding year	-	73,121	-	73,121
Accounts	190	-	-	190
Due from other governments	-	32,605	64,481	97,086
<b>Total assets</b>	<b>115,562</b>	<b>267,686</b>	<b>263,518</b>	<b>646,766</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	1	-	1,100	1,101
Deferred revenue:				
Succeeding year property tax	-	73,121	-	73,121
Other	-	32,605	-	32,605
Total liabilities	<u>1</u>	<u>105,726</u>	<u>1,100</u>	<u>106,827</u>
Fund balances:				
Reserved for debt service	-	-	20,000	20,000
Unreserved reported in:				
Special revenue funds	115,561	161,960	-	277,521
Capital projects funds	-	-	242,418	242,418
Total fund balances	<u>115,561</u>	<u>161,960</u>	<u>262,418</u>	<u>539,939</u>
<b>Total liabilities and fund balances</b>	<b>115,562</b>	<b>267,686</b>	<b>263,518</b>	<b>646,766</b>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	Special Revenue Funds				Total
	Student Activity Fund	Physical Plant and Equipment Levy	Capital Projects	Debt Service	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	-	114,823	195,631	-	310,454
Other	123,207	4,605	10,441	-	138,253
Federal sources	-	25,000	-	-	25,000
Total revenues	<u>123,207</u>	<u>144,428</u>	<u>206,072</u>	<u>-</u>	<u>473,707</u>
Expenditures:					
Current:					
Instruction:					
Regular	-	14,271	-	-	14,271
Other	1,586	-	-	-	1,586
Support services:					
Student	105,501	-	-	-	105,501
Other expenditures:					
Facilities acquisition	-	59,302	344,621	-	403,923
Long-term debt:					
Principal	-	-	-	75,000	75,000
Interest and fiscal charges	-	-	-	6,856	6,856
Total expenditures	<u>107,087</u>	<u>73,573</u>	<u>344,621</u>	<u>81,856</u>	<u>607,137</u>
Excess (deficiency) of revenues over (under) expenditures	<u>16,120</u>	<u>70,855</u>	<u>(138,549)</u>	<u>(81,856)</u>	<u>(133,430)</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	81,856	81,856
Operating transfers out	-	-	(81,856)	-	(81,856)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(81,856)</u>	<u>81,856</u>	<u>-</u>
Net change in fund balance	16,120	70,855	(220,405)	-	(133,430)
Fund balances beginning of year	<u>99,441</u>	<u>91,105</u>	<u>482,823</u>	<u>-</u>	<u>673,369</u>
Fund balances end of year	<u>115,561</u>	<u>161,960</u>	<u>262,418</u>	<u>-</u>	<u>539,939</u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Athletics	57,775	34,910	20,448	-	72,237
Baseball/softball	280	4,562	4,652	-	190
Football	1,766	7,933	5,003	-	4,696
Volleyball	3,728	3,555	2,676	-	4,607
Basketball	3,690	5,925	4,468	-	5,147
Wrestling	(1,869)	-	42	-	(1,911)
Track	(585)	2,294	1,340	-	369
Golf	(317)	48	-	-	(269)
HS cheerleading	1,060	2,024	1,875	-	1,209
Dance/drill team	1,777	2,438	3,140	-	1,075
Yearbook	1,961	9,305	9,989	-	1,277
Greenhouse	(999)	116	312	-	(1,195)
Drama/speech	3,458	1,758	2,569	-	2,647
National Honor Society	923	101	374	-	650
Student council	(165)	880	1,463	-	(748)
FFA	10,475	25,676	25,452	-	10,699
TAG	4,503	728	1,586	-	3,645
Springbrook/DARE	3,514	449	926	-	3,037
Music	(131)	15	1	-	(117)
Class of 2007	197	-	-	(197)	-
Class of 2008	2,424	420	1,465	-	1,379
Class of 2009	5,683	10,533	12,780	-	3,436
Class of 2010	361	9,335	6,355	-	3,341
Class of 2011	-	202	42	-	160
Class of 2012	-	-	197	197	-
Beginning accrual entries	(68)	-	(68)	-	-
	<u>99,441</u>	<u>123,207</u>	<u>107,087</u>	<u>-</u>	<u>115,561</u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2008

	Elementary School	Middle School	High School	Staff Projects	European Travel	Music Boosters	We're for Kids	District Projects	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance beginning of year	(495)	17,908	(842)	3,871	2,114	5,869	645	-	29,070
Additions:									
Collections	-	7,361	14,536	1,751	-	5,878	750	385	30,661
Deductions:									
Miscellaneous	-	7,510	12,168	2,593	-	236	745	266	23,518
Balance end of year	<u>(495)</u>	<u>17,759</u>	<u>1,526</u>	<u>3,029</u>	<u>2,114</u>	<u>11,511</u>	<u>650</u>	<u>119</u>	<u>36,213</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			
	2008	2007	2006	2005
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,629,344	1,632,394	1,532,409	1,532,608
Tuition	123,304	96,803	101,939	112,921
Other	222,556	278,168	261,244	188,383
State sources	1,585,495	1,663,299	1,600,539	1,623,410
Federal sources	133,891	119,915	148,856	188,481
Total revenues	<u>3,694,590</u>	<u>3,790,579</u>	<u>3,644,987</u>	<u>3,645,803</u>
Expenditures:				
Instruction:				
Regular	1,716,314	1,710,894	1,663,598	1,541,939
Special	334,673	304,965	308,843	346,517
Other	307,305	289,789	150,975	295,333
Support services:				
Student	164,187	146,882	185,298	76,651
Instructional staff	119,399	137,384	126,761	100,015
Administration	400,792	396,834	383,621	290,063
Operation and maintenance of plant	267,036	298,827	237,283	295,936
Transportation	125,634	174,208	116,751	103,095
Non-instructional programs	5,153	-	-	9,978
Other expenditures:				
Facilities acquisition	403,923	181,496	186,138	55,927
Long-term debt:				
Principal	75,000	-	-	-
Interest and other charges	6,856	-	-	-
AEA flowthrough	123,291	122,773	118,773	119,259
Total expenditures	<u>4,049,563</u>	<u>3,764,052</u>	<u>3,478,041</u>	<u>3,234,713</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, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 23, 2009. 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 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 Odebolt-Arthur Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Odebolt-Arthur 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 Odebolt-Arthur 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 Odebolt-Arthur Community School District's financial statements that is more than inconsequential will not be prevented or detected by Odebolt-Arthur 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 Odebolt-Arthur 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 08-I-A, 08-I-B and 08-I-C 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 and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 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.

Odebolt-Arthur 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 Odebolt-Arthur 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 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

April 23, 2009

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

08-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 increase monitoring procedures to obtain the maximum internal control possible under the circumstances.

District Response: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

08-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.

08-I-C Financial Reporting: During the audit, we identified material amounts of Capital Projects Fund payables from the prior year that had not been reversed and current year receivables that were understated. We also noted that Nutrition Fund inventory, equipment, accumulated depreciation, and deferred revenue had not been adjusted to June 30, 2008 amounts. Adjustments were subsequently made by the District to properly correct these amounts in the financial statements.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

Part I: Findings Related to the Financial Statements (continued):

Recommendation: The District should implement procedures to ensure all entries required to convert cash basis accounting to accrual basis accounting are posted at year-end.

District Response: We will double check these in the future to avoid missing any entries.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

- 08-II-A Certified Budget: Expenditures for the year ended June 30, 2008 did not exceed the amounts budgeted.
- 08-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.
- 08-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.
- 08-II-D Business Transactions: No business transactions between the District and District officials or employees were noted.
- 08-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.
- 08-II-F Board Minutes: We noted that disbursements from the Internal Service Flexible Benefit Plan Fund were not on the lists of bills approved by the board of directors. We also noted that the District's policy on payment for goods and services needs to be updated.

Recommendation: Chapter 179.29 of the Code of Iowa provides that "the Board shall audit all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed." Chapter 279.30 of the Code of Iowa allows payment of specific items, such as utilities, postage, printing, and salaries without prior Board approval. This Board may approve a resolution designating certain other disbursements that may be paid prior to a Board Meeting with the approval of the Superintendent or other appointee. The Board's written policy should comply with Chapter 279.30 of the Code of Iowa. Then, except as expressly permitted, no checks should be prepared for claims that have not been properly audited and allowed. All bills and salaries for which checks are issued prior to audit and allowance by the board must be passed upon by the board of directors at the next meeting and be entered in the regular minutes of the secretary.

District Response: We will revise our policy on payment of bills prior to board approval. We will also include all disbursements on the lists of bills for board approval

Conclusion: Response accepted.

- 08-II-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 1 of the Certified Enrollment Certification Form for October 2007, was overstated by 2.1 students. Line 1 included open enrollment in home school assistance/dual enrolled students. Also the calculations for line 12 supplemental weighting included one open enrollment in student.

Recommendation: The District should review its procedures for compiling the lists of resident students for preparing the certified enrollment

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

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

District Response: We will review our procedures for preparing the certified enrollment form.

Conclusion: Response accepted.

08-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 \$22,979 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.

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

08-II-J Deficit Balances: The Student Activity Fund has several accounts with deficit balances at June 30, 2008.

Recommendation: The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

District Response: We are working on ways to eliminate these deficits.

Conclusion: Response accepted.

08-II-K Interest Rate on Certificates of Deposit: We noted one certificate of deposit that had an interest rate below the minimum rate set by the State of Iowa.

Recommendation: The District should contact the bank to get the rate adjusted.

District Response: We have already done this.

Conclusion: Response accepted.

08-II-L Construction Contract Change Orders: We noted that the Board of Directors did not approve change orders.

Recommendation: All contract changes should be approved by the Board and documented in the minutes.

District Response: All future contract changes will be documented in the minutes.

Conclusion: Response accepted.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

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

08-II-M Home School Assistance Program Expenditures: We reviewed expenditures of State monies received for the home school assistance program. Iowa schools may purchase educational supplies for the home school assistance program. The supplies must be the same type of supplies that would be purchased for use in the public school and must be purchased directly from the vendor. We noted \$1,098 that was reimbursed to an individual and it appeared to contain some materials that would not have been purchased for use in the public school.

Recommendation: The District should not be making reimbursements to parents. The District may purchase education supplies for the home school assistance program directly from the vendors. 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 are no longer reimbursing parents for supplies. We will monitor the types of supplies that are purchased for the home school assistance program.

Conclusion: Response accepted.