

OTTUMWA COMMUNITY SCHOOL DISTRICT  
OTTUMWA, IOWA

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

JUNE 30, 2008

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OTTUMWA COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2007 Election)		
Mark Zeller	President	(Resigned 10-23-06) 2007
Carol Mitchell	President	(Elected 11-13-06) 2009
R. Payson Moreland	Vice President	(Elected 11-13-06) 2009
Bob Warren	Board Member	2007
Pat Curran	Board Member	2007
Cindy Kurtz-Hopkins	Board Member	2007
Ron Oswalt	Board Member	2008
Doug Mathias	Board Member	(Appointed 11-13-06) 2007

<u>Board of Education</u>		
(After September 2007 Election)		
Carol Mitchell	President	2009
R. Payson Moreland	Vice President	2009
Ron Oswalt	Board Member	2008
Pat Curran	Board Member	2008
Jeff Strunk	Board Member	2009
Cindy Kurtz-Hopkins	Board Member	2011
Doug Mathias	Board Member	2011

<u>School Officials</u>		
Dr. Jon Sheldahl	Superintendent	2011
John Donner	Business Manager District Secretary/Treasurer	2008
Richard Gaumer	Attorney	Indefinite

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Ottumwa 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 Ottumwa Community School District, Iowa, 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. These financial statements are the responsibility of the District's officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 Ottumwa 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 accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2008 on our consideration of Ottumwa Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 19 and 56 through 57 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, 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 Ottumwa 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 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 the 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.

Oskaloosa, Iowa  
December 1, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Ottumwa 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.

### **Financial Highlights**

- The District's financial status continued to improve during the 2008 fiscal year with net assets increasing by 22% to \$16.7 million.
- The District's General Fund Undesignated Fund Balance increased to \$2,130,588 or a \$405,796 increase from 2007. The District's solvency ratio increased to 5.5%.
- The District just completed the fourth year of collecting a one percent sales tax, with funds to be used for school infrastructure and property tax reduction. The District used the funds for an addition to one of our elementary schools that was completed in the fall of 2007 and broke ground on a \$14 million addition/renovation at our middle school that is scheduled for completion in the fall of 2009. The addition to the middle school will allow the addition of 6<sup>th</sup> grade at the middle school, freeing up space at the elementary buildings. The District issued \$10,000,000 of bonds to finance this project which will be paid back over a seven year period with sales tax revenue. An additional \$2,000,000 of bonds will be issued in the fall of 2008.
- The District's self-funded insurance fund ended the year with net assets of \$594,387 after accounting for \$325,000 of incurred but not reported claims.

## Overview of the Financial Statements

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

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District’s operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

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

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

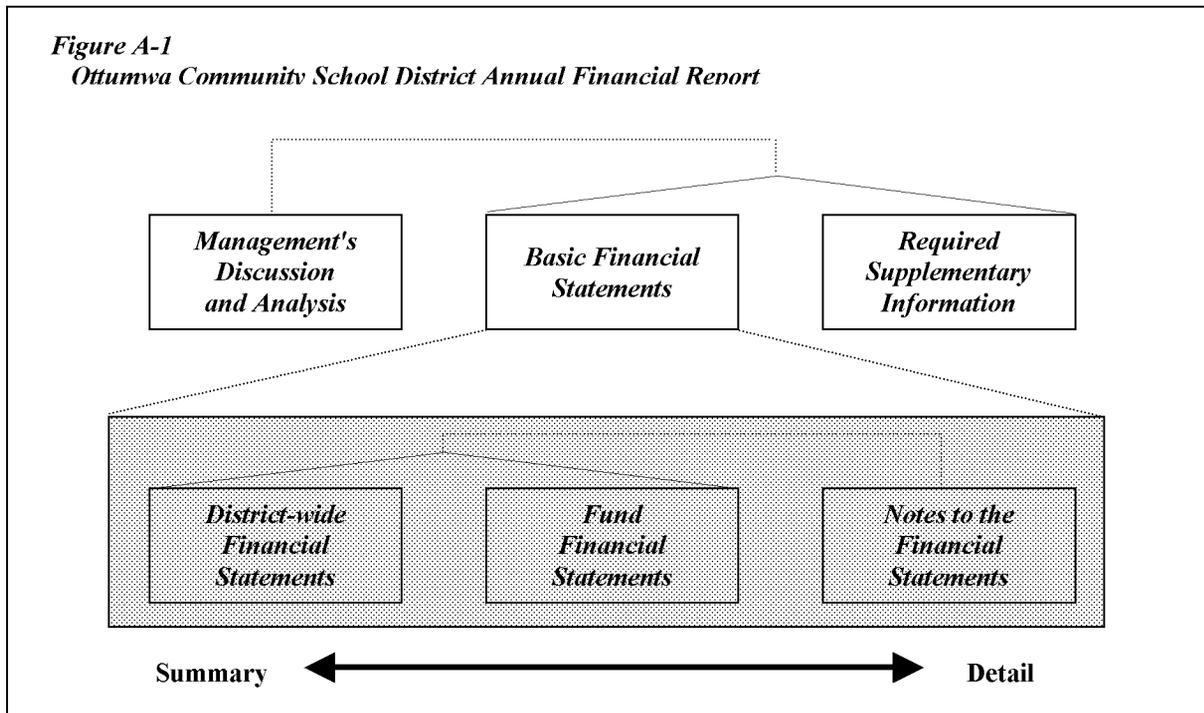


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

<b>Figure A-2 Major Features of the District-Wide and Fund Financial Statements</b>				
	District-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 and student activities monies
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 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, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due 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

## **District-wide Statements**

The District-wide statements report information about the District as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

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

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

In the District-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, Student Construction and Child Care Programs are included here.

## **Fund Financial Statements**

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

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

The District has three kinds of funds:

- *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. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *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 District-wide 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 three enterprise funds, the School Nutrition Fund Student Construction and Prime Time Youth Care.
- *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.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

## Financial Analysis of the District as a Whole

**Net assets** - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2008 compared to June 30, 2007.

**Figure A-3 Condensed Statement of Net assets (in thousands of dollars)**

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>School District</u>		<u>Total</u> <u>Change</u>
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	
Current and other assets	17,629	24,067	840	898	18,468	24,965	35.2%
Capital assets	14,906	23,355	260	223	15,167	23,578	55.5%
Total Assets	32,535	47,422	1,100	1,121	33,635	48,543	44.3%
Long-term obligations	6,794	16,023			6,794	16,023	135.8%
Other liabilities	12,993	15,697	158	165	13,151	15,862	20.6%
Total Liabilities	19,787	31,720	158	165	19,945	31,885	59.9%
Net assets							
Invested in capital assets, net of debt	8,791	9,269	260	223	9,052	9,492	4.9%
Restricted	2,246	3,931			2,246	3,931	75.0%
Unrestricted	1,711	2,502	682	733	2,393	3,235	35.2%
Total Net Assets	12,748	15,702	942	956	13,690	16,658	21.7%

The District's combined net assets increased by \$2,967,679 or 21.7% during the fiscal year. Governmental activities total net assets increased by \$2,953,611 with Business type activities increasing by \$14,068. Total assets increased by \$14,907,186, of which \$8,411,335 was from increases to capital assets. Total liabilities increased by \$11,939,497, of which \$10,000,000 of the increase is due to the issuance of bonds to finance construction projects.

## Statement of Activities and Changes to Net Assets

**Figure A-4 Statement of Activities**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total School District</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Revenues</b>						
Program Revenues						
Charges for services	1,859,587	1,797,581	875,717	1,052,107	2,735,304	2,849,688
Operating grants and contributions	6,789,748	5,959,905	1,168,492	1,191,703	7,958,240	7,151,608
Capital grants and contributions	463,722	202,886			463,722	202,886
General Revenues						
Property and other taxes	8,746,524	8,335,192			8,746,524	8,335,192
Local option sales tax	2,657,165	2,882,207			2,657,165	2,882,207
State foundation aid	22,713,392	21,976,905			22,713,392	21,976,905
Other	647,314	405,354	13,763	17,621	661,077	422,975
Total Revenues	<u>43,877,452</u>	<u>41,560,030</u>	<u>2,057,973</u>	<u>2,261,431</u>	<u>45,935,425</u>	<u>43,821,461</u>
<b>Expenses</b>						
Instruction	25,854,791	25,512,355			25,854,791	25,512,355
Pupil and instructional services	3,037,646	2,602,300			3,037,646	2,602,300
Administrative and business services	3,952,061	3,901,729	95,214		4,047,275	3,901,729
Maintenance and operations	3,501,415	3,569,178			3,501,415	3,569,178
Transportation	1,225,644	1,175,278			1,225,644	1,175,278
Other	3,339,475	2,743,848	15,964		3,355,439	2,743,848
Non instructional	12,809	16,473	1,932,726	2,088,748	1,945,535	2,105,221
Total Expenses	<u>40,923,841</u>	<u>39,521,161</u>	<u>2,043,904</u>	<u>2,088,748</u>	<u>42,967,745</u>	<u>41,609,909</u>
Change in net assets	2,953,611	2,038,869	14,068	172,683	2,967,679	2,211,552
Net assets beginning of year	12,747,908	10,709,039	942,228	769,545	13,690,136	11,478,584
Net assets end of year	15,701,519	12,747,908	956,296	942,228	16,657,815	13,690,136

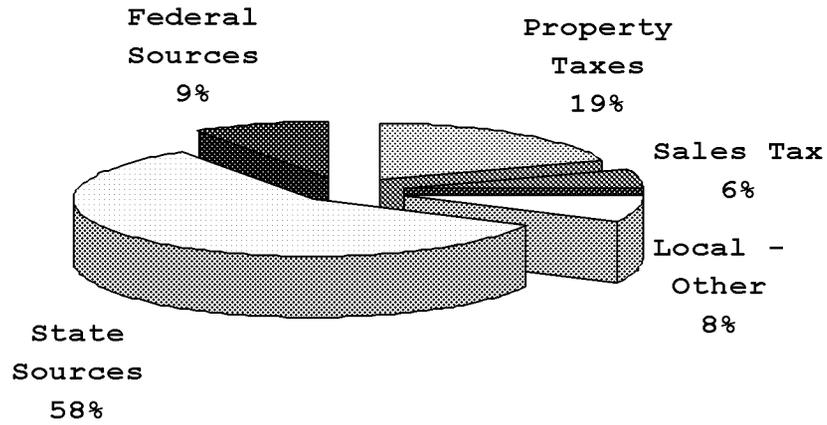
District revenues rose by 4.8% or a \$2.1 million increase from the previous year. Expenses grew by \$1.4 million to \$43 million, a 3.3% increase with revenue exceeding expenses by \$3 million. The rise in expenses was due to an overall increase in supplies, fuel and labor costs. The increase in revenue was due to an overall increase in state aid and property taxes.

Governmental Activities received 4.2% of their revenues from charges for services, 15.5% from various State and Federal program operating grants 51.8% from the State of Iowa for unrestricted grants, 20% from local property taxes, 6% from local option sales and services taxes and 2.5% from other sources. Governmental activities accounted for 96% of total district expenditures. Within the governmental activities the largest expenditures were for instructional programs (63%), maintenance and operations (8.6%), and administrative and business services (9.7%).

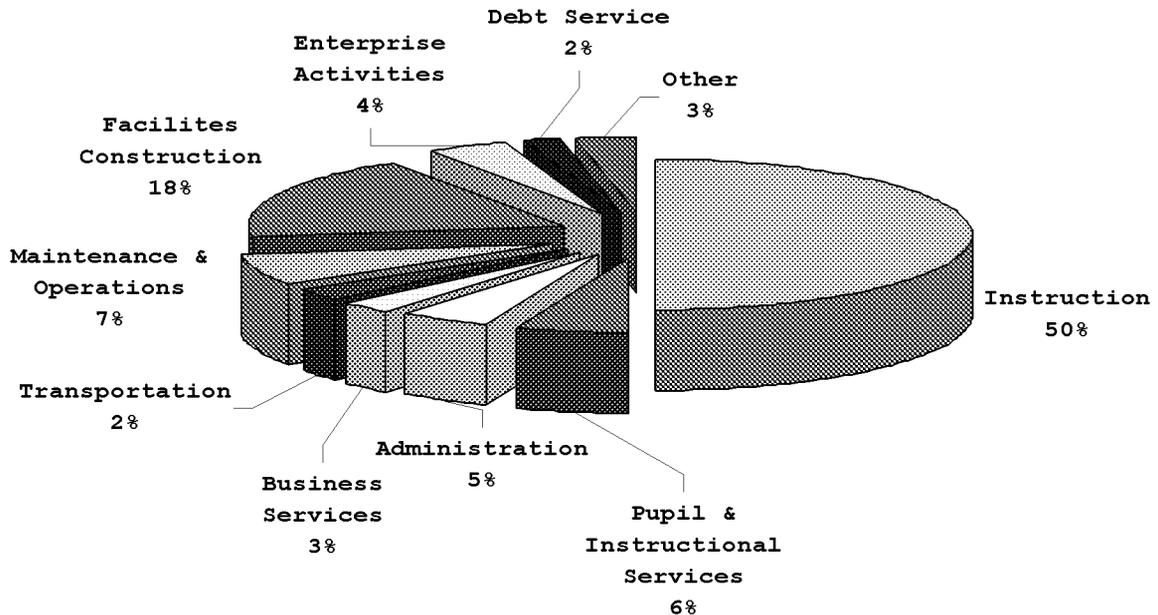
Statement of Revenues, Expenditures and Changes in Fund Balances.  
Figure A-5

	<u>Governmental Funds</u>		<u>Enterprise Funds</u>		<u>Total</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
<b>Revenues</b>						
Local Sources- Other	2,296,571	2,603,968	1,069,728	889,480	3,366,299	3,493,448
Property Tax	8,325,870	8,737,190			8,325,870	8,737,190
Sales Tax	2,882,207	2,657,165			2,882,207	2,657,165
Intermediate Sources	17,871	21,065			17,871	21,065
State Sources	25,428,811	26,767,932	21,117	19,879	25,449,928	26,798,811
Federal Sources	<u>2,608,625</u>	<u>3,070,534</u>	<u>1,170,586</u>	<u>1,148,613</u>	<u>3,779,211</u>	<u>4,219,147</u>
Total Revenues	<u>41,559,955</u>	<u>43,857,854</u>	<u>2,261,431</u>	<u>2,057,972</u>	<u>43,821,386</u>	<u>45,915,826</u>
<b>Expenditures</b>						
Instruction	25,424,111	26,056,421			25,424,111	26,056,421
Pupil and Instructional Services	2,603,928	3,035,374			2,603,928	3,035,374
Administrative and Business	3,877,697	3,976,802		95,214	3,877,697	4,072,016
Services						
Maintenance and Operations	3,595,889	3,538,876			3,595,889	3,538,876
Transportation	1,175,279	1,225,644			1,175,279	1,225,644
Non Instructional	16,473	12,810	2,088,748	1,932,726	2,105,221	1,945,536
Other Expenditures						
Facilities Acquisition	3,224,850	9,597,229		15,964	3,224,850	9,613,193
Debt Service	924,443	1,105,068			924,443	1,105,068
AEA Flowthrough	<u>1,480,592</u>	<u>1,559,499</u>			<u>1,480,592</u>	<u>1,559,499</u>
Total Expenditures	<u>42,323,262</u>	<u>50,107,723</u>	<u>2,088,748</u>	<u>2,043,904</u>	<u>44,412,010</u>	<u>52,151,627</u>
Excess Revenue over expenditures	(763,307)	(6,249,869)	172,683	14,068	(590,624)	(6,235,801)
Other Financing Sources						
Sale of Equipment	75	5,750			75	5,750
Bonds Issued		10,000,000				10,000,000
Net Change in Fund Balance	<u>(763,232)</u>	<u>3,755,881</u>	<u>172,683</u>	<u>14,068</u>	<u>(590,549)</u>	<u>3,769,949</u>
Fund Balance Beginning of Year	4,998,258	4,235,026	769,545	942,228	5,767,803	5,177,254
Fund Balance End of Year	4,235,026	7,990,907	942,228	956,296	5,177,254	8,947,203

## Sources of District Revenue for FY 2008



## Expenditures for FY 2008



## **Financial Analysis of the District's Funds**

As previously noted, the Ottumwa Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Fund Highlights**

- The District's General Fund unreserved fund balance increased to \$2,130,588 and has a positive 5.5% solvency ratio.
- Of the other funds that make up governmental funds, the following showed increases in fund balance from the previous year: Management \$190,635, an increase of \$74,470, Debt Service \$660,141 an increase of \$23,046. The Student Activities fund had a \$33,430 decline in fund balance ending the year at \$544,679. Capital Projects increased by \$3,118,596, to \$4,048,728 as the District has major construction projects in progress.
- The District completed a four classroom and media center addition at Eisenhower Elementary in time for class in the fall of 2007. A \$14 million addition and renovation to Evans Middle School was started in June 2007 with completion scheduled for the fall of 2009.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased \$14,195 to \$695,897. Revenue declined by 1.1% with expenditures increasing 4.9%. Food prices increased drastically during the year causing expenditures to exceed budget. The decline of revenue was expected as the District lost 4.0% of its enrollment from the previous year.

The District's before-and-after School Child Care Program showed a net profit of \$15,837 for the fiscal year leaving a positive balance of \$49,078 or 24% of annual operating expenses.

### **Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget, following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared in accordance with generally accepted accounting principles. Over the course of the year, the District amended its annual operating budget one time to reflect additional revenue and expenditures associated with federal grants and a building improvement project. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

### **Legal Budgetary Highlights**

- The District's total actual receipts were approximately \$246,508 more than the total budgeted receipts, a variance of less than .5%. Total expenditures were approximately \$1,600,000 less than budgeted, a variance of 3.0%. This variance in expenditures was due mainly to construction projects budgeted but not completed by year end.
- The District did not exceed its certified budget at year end, but did exceed the amount budgeted for other expenditures prior to the District amending the Budget.

## Capital Asset and Debt Administration

### Capital Assets

	Governmental Activities		Business- Type		District Total;
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Land	472,677	472,677			472,677
Construction in Progress	9,677,626	2,033,526			9,677,626
Buildings	29,668,553	27,983,595			29,668,553
Improvements non Bldgs	779,752	658,733			779,752
Furniture and Equipment	<u>718,213</u>	<u>720,885</u>	<u>609,790</u>	<u>605,840</u>	<u>1,328,003</u>
Total Capital Assets	41,316,821	31,869,416	609,790	605,840	41,926,611
Accumulated Depreciation	<u>17,961,761</u>	<u>16,963,101</u>	<u>386,905</u>	<u>345,545</u>	<u>18,348,666</u>
Capital Net Assets	23,355,060	14,906,315	222,885	260,295	23,577,945

The District completed at \$1.6 million classroom addition during the year and has completed \$9.7 million of a \$14 million addition/renovation of our middle school.

### Long-Term Debt

	Outstanding <u>2007</u>	Net Change <u>2008</u>	Outstanding <u>2008</u>
Early Retirement & Compensated Absence	678,849	-136,149	542,700
General Obligation Bonds 1998	6,115,000	-635,000	5,480,000
Sales and Service Tax Bonds	<u>                    </u>	<u>10,000,000</u>	<u>10,000,000</u>
Total	6,793,849	9,228,851	16,022,700

The District issued \$10 million in sales and service tax bonds to finance a \$14 million addition/renovation project during the year. Repayment of these bond will being in 2009 and be completed in 2014. The District did not offer an early retirement option for 2007-08.

### Factors Bearing on the District's Future

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

- The District's primary source of revenue is the State of Iowa's school aid formula, under which the 2008-09 and 2009-10 is set at 4%.
- The other key element of the state foundation formula is certified enrollment, for 2007 the District experienced a 4.1% decline in enrollment, but 2008 showed an increase in enrollment of 38.2 or .8%.
- The District began a \$14 million addition and remodeling project at Evans Middle School in the summer of 2007, which is expected to be completed in the fall of 2009. The addition at Evans Middle School will allow adding 6<sup>th</sup> grade to this site.
- The District issued \$10 million of School Infrastructure Local Option Sales and Service Tax Revenue Bonds in 2007 to finance the Evans Middle School project. U.S. Bank, National Association was the purchaser with principal repayments starting July of 2009 and the final payment due June of 2014. An additional \$2 million worth of bonds will be issued in

December 2008 to the same purchaser with a final payment date of June 2014. Bond payment will be made from one cent Local Options Sales Tax.

- The State of Iowa enacted a one cent state wide sales tax that will replace the country wide sales tax and adjusted the amount per pupil the District will receive from this funding source. This will allow the District to borrow against the funding source for up to 20 years and increase the per pupil funding available for 2008-09 by \$187 resulting in an additional \$858,000 for 2008-09.
- Salaries and benefits constitute 79% of the District's general fund expenditures, contract settlements for 2008-09 averaged about 3.85%. Only one of the five union contracts (Teachers Associates) will be up for negotiation in June 2009. Multi-year agreements are in place for the following groups for 2009-10: Teachers (4.0%), Custodial Maintenance, Food Service (minimum 2.5% maximum 4%) and Office Personnel (2.75%).

### **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 John Donner, Business Manager, Ottumwa Community School District, 422 McCarroll Drive, Ottumwa, Iowa, 52501.

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## Basic Financial Statements

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
June 30, 2008

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 13,827,116	\$ 615,890	\$ 14,443,006
Receivables:			
Property tax:			
Current year	169,261	-	169,261
Succeeding year	8,628,000	-	8,628,000
Accrued interest	11,874	-	11,874
Accounts	16,824	-	16,824
Due from other governments	1,348,435	8,300	1,356,735
Inventories	65,151	273,889	339,040
Capital assets, net of accumulated depreciation (note 4)	23,355,060	222,885	23,577,945
<b>Total assets</b>	<b>47,421,721</b>	<b>1,120,964</b>	<b>48,542,685</b>
<b>Liabilities</b>			
Accounts payable	2,472,852	45,045	2,517,897
Salaries and benefits payable	4,041,667	119,623	4,161,290
Claims incurred but not reported	325,000	-	325,000
Accrued interest payable	229,983	-	229,983
Deferred revenue:			
Succeeding year property tax	8,628,000	-	8,628,000
Long-term liabilities (note 5):			
Portion due within one year:			
Early retirement	139,051	-	139,051
Bonds payable	680,000	-	680,000
Compensated absences	188,742	-	188,742
Portion due after one year:			
Early retirement	214,907	-	214,907
Bonds payable	14,800,000	-	14,800,000
<b>Total liabilities</b>	<b>31,720,202</b>	<b>164,668</b>	<b>31,884,870</b>

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
June 30, 2008

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 9,268,738	\$ 222,885	\$ 9,491,623
Restricted for:			
State grants	300,880	-	300,880
Other special revenue purposes	544,679	-	544,679
Debt service	430,158	-	430,158
Capital projects	2,655,050	-	2,655,050
Unrestricted	<u>2,502,014</u>	<u>733,411</u>	<u>3,235,425</u>
Total net assets	<u>\$ 15,701,519</u>	<u>\$ 956,296</u>	<u>\$ 16,657,815</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Governmental Activities:</b>				
Instruction:				
Regular instruction	\$ 17,515,784	\$ 645,880	\$ 2,885,253	\$ -
Special instruction	4,579,321	255,345	1,260,477	-
Other instruction	3,759,686	908,855	158,067	-
	<u>25,854,791</u>	<u>1,810,080</u>	<u>4,303,797</u>	<u>-</u>
Support services:				
Student services	1,260,146	-	565,640	-
Instructional staff services	1,777,500	-	339,983	-
Administration services	3,952,061	35,689	2,117	-
Operation and maintenance of plant services	3,501,415	13,818	9,828	-
Transportation services	1,225,644	-	8,884	-
	<u>11,716,766</u>	<u>49,507</u>	<u>926,452</u>	<u>-</u>
Non-instructional programs	<u>12,809</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	87,152	-	-	463,722
Long-term debt interest and fiscal charges	676,687	-	-	-
AEA flowthrough	1,559,499	-	1,559,499	-
Depreciation (unallocated) *	1,016,137	-	-	-
	<u>3,339,475</u>	<u>-</u>	<u>1,559,499</u>	<u>463,722</u>
Total governmental activities	<u>40,923,841</u>	<u>1,859,587</u>	<u>6,789,748</u>	<u>463,722</u>
<b>Business-Type Activities:</b>				
Support services:				
Food service operations	79,758	-	-	-
Other programs	15,456	-	-	-
	<u>95,214</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-instructional programs:				
Food service operations	1,742,839	686,904	1,138,193	-
Other programs	189,887	188,813	30,299	-
	<u>1,932,726</u>	<u>875,717</u>	<u>1,168,492</u>	<u>-</u>

Net (Expense) Revenue  
and Changes in Net Assets

---

Governmental Activities	Business-Type Activities	Total
\$ (13,984,651)	\$ -	\$ (13,984,651)
(3,063,499)	-	(3,063,499)
(2,692,764)	-	(2,692,764)
(19,740,914)	-	(19,740,914)
(694,506)	-	(694,506)
(1,437,517)	-	(1,437,517)
(3,914,255)	-	(3,914,255)
(3,477,769)	-	(3,477,769)
(1,216,760)	-	(1,216,760)
(10,740,807)	-	(10,740,807)
(12,809)	-	(12,809)
376,570	-	376,570
(676,687)	-	(676,687)
-	-	-
(1,016,137)	-	(1,016,137)
(1,316,254)	-	(1,316,254)
(31,810,784)	-	(31,810,784)
-	(79,758)	(79,758)
-	(15,456)	(15,456)
-	(95,214)	(95,214)
-	82,258	82,258
-	29,225	29,225
-	111,483	111,483

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Business-Type Activities (continued):				
Other expenses:				
Other programs	\$ 15,964	\$ -	\$ -	\$ -
Total business-type activities	<u>2,043,904</u>	<u>875,717</u>	<u>1,168,492</u>	<u>-</u>
Total	<u>\$ 42,967,745</u>	<u>\$ 2,735,304</u>	<u>\$ 7,958,240</u>	<u>\$ 463,722</u>

General Revenues:

Property tax levied for:  
    General purposes  
    Debt service  
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 included in the direct expenses of the various programs.

See notes to financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

---

Governmental Activities	Business-Type Activities	Total
\$ -	\$ (15,964)	\$ (15,964)
-	305	305
(31,810,784)	305	(31,810,479)
8,436,366	-	8,436,366
310,158	-	310,158
2,657,165	-	2,657,165
22,713,392	-	22,713,392
603,138	13,763	616,901
44,176	-	44,176
34,764,395	13,763	34,778,158
2,953,611	14,068	2,967,679
12,747,908	942,228	13,690,136
\$ 15,701,519	\$ 956,296	\$ 16,657,815

OTTUMWA COMMUNITY SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and pooled investments	\$ 6,407,473	\$ 5,024,388	\$ 1,434,007	\$ 12,865,868
Receivables:				
Property tax:				
Current year	154,486	-	14,775	169,261
Succeeding year	7,854,000	-	774,000	8,628,000
Accrued interest	11,874	-	-	11,874
Accounts	16,824	-	-	16,824
Due from other governments	913,765	434,670	-	1,348,435
Inventories	65,151	-	-	65,151
	<hr/>			
Total assets	<u>\$ 15,423,573</u>	<u>\$ 5,459,058</u>	<u>\$ 2,222,782</u>	<u>\$ 23,105,413</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 983,925	\$ 1,410,330	\$ 52,233	\$ 2,446,488
Salaries and benefits payable	4,025,076	-	1,094	4,026,170
Deferred revenue:				
Succeeding year property tax	7,854,000	-	774,000	8,628,000
Other	13,848	-	-	13,848
Total liabilities	<u>12,876,849</u>	<u>1,410,330</u>	<u>827,327</u>	<u>15,114,506</u>
 Fund balance:				
Reserved for:				
Inventories	65,151	-	-	65,151
State grants	300,880	-	-	300,880
Debt service	-	-	660,141	660,141
Unreserved:				
Designated:				
Stevens Educational Trust	50,105	-	-	50,105
Undesignated:				
Reported in nonmajor Special Revenue Funds	-	-	735,314	735,314
Undesignated	2,130,588	4,048,728	-	6,179,316
Total fund balances	<u>2,546,724</u>	<u>4,048,728</u>	<u>1,395,455</u>	<u>7,990,907</u>
 Total liabilities and fund balances	 <u>\$ 15,423,573</u>	 <u>\$ 5,459,058</u>	 <u>\$ 2,222,782</u>	 <u>\$ 23,105,413</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 June 30, 2008

Total fund balances of governmental funds	\$ 7,990,907
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
The Internal Service Fund balance is incorporated into governmental activity net assets due to the integral nature of the services performed.	594,387
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	23,355,060
Other long-term assets, including local grants receivable, are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	13,848
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.	(229,983)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(16,022,700)</u>
Net assets of governmental activities	<u>\$ 15,701,519</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2008

	General	Capital Projects	Nonmajor Governmental Funds	Total
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 7,967,909	\$ 2,657,165	\$ 769,281	\$ 11,394,355
Tuition	706,636	-	-	706,636
Other	514,825	385,038	997,469	1,897,332
Intermediate sources	21,065	-	-	21,065
State sources	26,767,115	-	817	26,767,932
Federal sources	2,608,812	461,722	-	3,070,534
Total revenues	<u>38,586,362</u>	<u>3,503,925</u>	<u>1,767,567</u>	<u>43,857,854</u>
<b>Expenditures:</b>				
Current:				
Instruction	<u>24,889,627</u>	-	1,166,794	<u>26,056,421</u>
Support services:				
Student services	1,260,144	-	2,739	1,262,883
Instructional staff services	1,772,491	-	-	1,772,491
Administration services	3,960,499	-	16,303	3,976,802
Operation and maintenance of plant services	3,362,960	-	175,916	3,538,876
Transportation services	1,204,007	-	21,637	1,225,644
	<u>11,560,101</u>	-	216,595	<u>11,776,696</u>
Non-instructional programs	<u>9,686</u>	-	3,124	<u>12,810</u>
Other expenditures:				
Facilities acquisition	-	9,597,229	-	9,597,229
Long term debt:				
Principal	-	-	635,000	635,000
Interest and fiscal charges	-	-	470,068	470,068
AEA flowthrough	1,559,499	-	-	1,559,499
	<u>1,559,499</u>	<u>9,597,229</u>	<u>1,105,068</u>	<u>12,261,796</u>
Total expenditures	<u>38,018,913</u>	<u>9,597,229</u>	<u>2,491,581</u>	<u>50,107,723</u>
Excess (deficiency) of revenues over (under) expenditures	<u>567,449</u>	<u>(6,093,304)</u>	<u>(724,014)</u>	<u>(6,249,869)</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2008

	General	Capital Projects	Nonmajor Governmental Funds	Total
Other financing sources (uses):				
Sale of equipment	\$ 5,750	\$ -	\$ -	\$ 5,750
Interfund transfers in (note 3)	-	-	788,100	788,100
Interfund transfers out (note 3)	-	(788,100)	-	(788,100)
Local option sales and services tax revenue bonds issued	-	10,000,000	-	10,000,000
Total other financing sources (uses)	<u>5,750</u>	<u>9,211,900</u>	<u>788,100</u>	<u>10,005,750</u>
Net change in fund balances	573,199	3,118,596	64,086	3,755,881
Fund balances beginning of year	<u>1,973,525</u>	<u>930,132</u>	<u>1,331,369</u>	<u>4,235,026</u>
Fund balances end of year	<u>\$ 2,546,724</u>	<u>\$ 4,048,728</u>	<u>\$ 1,395,455</u>	<u>\$ 7,990,907</u>

See notes to financial statements.

## OTTUMWA 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

Net change in fund balances - total governmental funds \$ 3,755,881

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

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

Expenditures for capital assets	\$ 9,552,727	
Depreciation expense	<u>(1,103,982)</u>	8,448,745

The change in net assets of the Internal Service Fund represents an  
overcharge for services performed for governmental activities. Expenses  
for governmental activities are adjusted to reflect this overcharge. 170,607

Local grant revenues received but not expended before the  
fiscal year ends is not considered available revenue in the governmental  
funds and is deferred. It is, however, recorded as revenue in the  
Statement of Activities. 13,848

Proceeds from issuing long-term liabilities provide current financial resources  
to governmental funds but issuing debt increases long-term liabilities in the  
Statement of Net Assets and does not affect the Statement of Activities. (10,000,000)

Repayment of long-term liabilities is an expenditure in the governmental  
funds, but it reduces long-term liabilities in the Statement of Net Assets. 635,000

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,  
however, interest expense is recognized as the interest accrues, regardless  
of when it is due. (206,619)

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. 136,149

Change in net assets of governmental activities \$ 2,953,611

See notes to financial statements.

## OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
June 30, 2008

	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
Assets		
Cash and cash equivalents	\$ 615,890	\$ 961,248
Due from other governments	8,300	-
Inventories	273,889	-
Capital assets, net of accumulated depreciation (note 4)	<u>222,885</u>	<u>-</u>
Total assets	<u>1,120,964</u>	<u>961,248</u>
Liabilities		
Accounts payable	45,045	26,364
Salaries and benefits payable	119,623	15,497
Claims incurred but not reported	<u>-</u>	<u>325,000</u>
Total liabilities	<u>164,668</u>	<u>366,861</u>
Net Assets		
Invested in capital assets	222,885	-
Unrestricted	<u>733,411</u>	<u>594,387</u>
Total net assets	<u>\$ 956,296</u>	<u>\$ 594,387</u>

See notes to financial statements.

## OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
Year Ended June 30, 2008

	Enterprise Funds	Internal Service Fund
Operating revenues:		
Local sources:		
Charges for services	\$ 875,717	\$ 2,557,820
Operating expenses:		
Support services:		
Salaries	68,282	-
Benefits	8,059	-
Purchased services	18,873	-
	<u>95,214</u>	<u>-</u>
Non-instructional programs:		
Salaries	667,216	-
Benefits	106,794	-
Purchased services	45,772	2,412,940
Supplies	1,071,584	-
Depreciation	41,360	-
	<u>1,932,726</u>	<u>2,412,940</u>
Facilities acquisition and construction:		
Salaries	8,067	-
Benefits	839	-
Purchased services	3,127	-
Supplies	3,931	-
	<u>15,964</u>	<u>-</u>
Total expenses	<u>2,043,904</u>	<u>2,412,940</u>
Operating income (loss)	<u>(1,168,187)</u>	<u>144,880</u>
Non-operating revenues:		
Interest on investments	13,763	25,727
State sources	19,879	-
Federal sources	1,148,613	-
Total non-operating revenues	<u>1,182,255</u>	<u>25,727</u>
Change in net assets	14,068	170,607
Net assets beginning of year	<u>942,228</u>	<u>423,780</u>
Net assets end of year	<u>\$ 956,296</u>	<u>\$ 594,387</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended June 30, 2008

	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 659,464	\$ -
Cash received from miscellaneous operating activities	207,953	2,576,499
Cash payments to employees for services	(850,053)	-
Cash payments to suppliers for goods or services	<u>(1,200,194)</u>	<u>(2,394,783)</u>
Net cash provided by (used in) operating activities	<u>(1,182,830)</u>	<u>181,716</u>
Cash flows from non-capital financing activities:		
State grants received	19,879	-
Federal grants received	<u>1,050,822</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>1,070,701</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(3,950)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>13,763</u>	<u>25,727</u>
Net increase (decrease) in cash and cash equivalents	(102,316)	207,443
Cash and cash equivalents beginning of year	<u>718,206</u>	<u>753,805</u>
Cash and cash equivalents end of year	<u>\$ 615,890</u>	<u>\$ 961,248</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
Year Ended June 30, 2008

	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (1,168,187)	\$ 144,880
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	41,360	-
Commodities used	97,791	-
Decrease in accounts receivable	-	18,679
Increase in due from other governments	(8,300)	-
(Increase) in inventories	(151,678)	-
Increase in accounts payable	13,505	2,660
(Decrease) in salaries and benefits payable	<u>(7,321)</u>	<u>15,497</u>
Net cash provided by (used in) operating activities	<u>\$ (1,182,830)</u>	<u>\$ 181,716</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2008, the District received \$97,791 of federal commodities.

See notes to financial statements.

## OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2008

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Assets:	
Cash and pooled investments	\$ <u>80,304</u>
Liabilities:	
Accounts payable	<u>116</u>
Net assets:	
Reserved for scholarships	\$ <u><u>80,188</u></u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 Year Ended June 30, 2008

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
Additions:		
Local sources:		
Gifts and contributions	\$	358
Interest		<u>1,481</u>
Total additions		<u>1,839</u>
Deductions:		
Non-instructional programs:		
Community services operations		<u>1,760</u>
Change in net assets		79
Net assets beginning of year		<u>80,109</u>
Net assets end of year	\$	<u><u>80,188</u></u>
See notes to financial statements.		

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

Ottumwa Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Ottumwa, Iowa, and agricultural territory in Wapello County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Ottumwa 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. Ottumwa Community School District has no component units which 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 Wapello County Assessor's Conference Board.

B. Basis of Presentation

District-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.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

The District reports three nonmajor enterprise funds: the School Nutrition Fund, used to account for the food service operations of the District, the Youth Care, used to account for daycare operations, and the Career Academy House, used to account for the student-built house activities. The District also reports one internal service fund: the self-funded insurance fund, used to account for the District's self-funded health and dental insurance activity.

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 with restrictions of income earned to be used to benefit individuals through scholarship awards.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 funds of the District apply 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.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies (continued)

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.

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 that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. 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 District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes 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.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-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 repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 4,000
Buildings	4,000
Improvements other than buildings	4,000
Furniture and equipment:	
School Nutrition Fund equipment	300
Other furniture and equipment	4,000

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

Asset Class	Estimated Useful Lives
Buildings	20-50 years
Improvements other than buildings	15 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable – Payroll and related expenses 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 collectible 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 represents 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, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Long-term Liabilities – In the District-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.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

Invested in capital assets, net of related debt – In the District-wide Statement of Net Assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Net assets restricted through enabling legislation as of June 30, 2008 consists of \$3,930,767.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amount budgeted prior to the amendment of the District's budget.

Note 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.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 2. Cash and Pooled Investments (continued)

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 40,236
Collateralized Certificate of Deposit	4,949,354
Total	\$ 4,989,590

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

Credit Risk – The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

Note 3. Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 788,100

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 4. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 472,677	\$ -	\$ -	\$ 472,677
Construction in progress	2,033,526	8,910,586	1,266,486	9,677,626
Total capital assets not being depreciated	2,506,203	8,910,586	1,266,486	10,150,303
Capital assets being depreciated:				
Buildings	27,983,595	1,744,958	60,000	29,668,553
Improvements other than buildings	658,733	121,019	-	779,752
Furniture and equipment	720,885	42,650	45,322	718,213
Total capital assets being depreciated	29,363,213	1,908,627	105,322	31,166,518
Less accumulated depreciation for:				
Buildings	16,230,618	1,015,242	60,000	17,185,860
Improvements other than buildings	76,713	51,983	-	128,696
Furniture and equipment	655,770	36,757	45,322	647,205
Total accumulated depreciation	16,963,101	1,103,982	105,322	17,961,761
Total capital assets being depreciated, net	12,400,112	804,645	-	13,204,757
Governmental activities capital assets, net	\$ 14,906,315	\$ 9,715,231	\$ 1,266,486	\$ 23,355,060

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 4. Capital Assets (continued)

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Furniture and equipment	\$ 605,840	\$ 3,950	\$ -	\$ 609,790
Less accumulated depreciation	<u>345,545</u>	<u>41,360</u>	<u>-</u>	<u>386,905</u>
Business-type activities capital assets, net	<u>\$ 260,295</u>	<u>\$ (37,410)</u>	<u>\$ -</u>	<u>\$ 222,885</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction:

Regular

\$ 46,832

Support services:

Administration

20,099

Operation and maintenance of plant services

20,914

87,845

Unallocated depreciation

1,016,137

Total governmental activities depreciation expense

\$ 1,103,982

Business-type activities:

Food service operations

\$ 41,360

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Early Retirement	General Obligation Bonds	Local Option Sales and Services Tax Revenue Bonds	Compensated Absences	Total
Balance beginning of year	\$ 501,995	\$ 6,115,000	\$ -	\$ 176,854	\$ 6,793,849
Additions	-	-	10,000,000	188,742	10,188,742
Reductions	148,037	635,000	-	176,854	959,891
Balance end of year	<u>\$ 353,958</u>	<u>\$ 5,480,000</u>	<u>\$ 10,000,000</u>	<u>\$ 188,742</u>	<u>\$ 16,022,700</u>
Due within one year	<u>\$ 139,051</u>	<u>\$ 680,000</u>	<u>\$ -</u>	<u>\$ 188,742</u>	<u>\$ 1,007,793</u>

Early Retirement

The District offered a voluntary early retirement plan to its certified employees in prior years. Eligible employees had to be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees had to complete an application which was required to be approved by the Board of Education.

The early retirement incentive for each eligible certified employee was equal to \$3,500 annual payments for up to five years, until the employee reaches age 65, or until the employee becomes eligible for Medicare, whichever comes first. The early retirement plan was not offered to certified employees in the 2007-2008 fiscal year.

Eligible non-certified employees must be at least age fifty-five and have been employed by the District for seven to ten years (depending on their employee group) or more. The early retirement incentive for non-certified employees is employee single health insurance for the next three years, or until the retiree qualifies for Medicare or reaches age 65.

At June 30, 2008, the District has obligations to 41 participants with a total liability of \$353,958. Actual early retirement expenditures for the year ended June 30, 2008 totaled \$148,037. Early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 5. Long-Term Liabilities (continued)

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Issue dated September 1, 1998		
		Principal	Interest	Total
2009	4.500 %	\$ 680,000	\$ 251,793	\$ 931,793
2010	4.500	710,000	221,193	931,193
2011	4.600	745,000	189,242	934,242
2012	4.600	795,000	154,973	949,973
2013	4.600	810,000	118,402	928,402
2014	4.625	850,000	81,143	931,143
2015	4.700	890,000	41,830	931,830
		<u>\$ 5,480,000</u>	<u>\$ 1,058,576</u>	<u>\$ 6,538,576</u>

During the year ended June 30, 2008, the District retired \$635,000 in general obligation bonds.

Local Option Sales and Services Tax Revenue Bonds Payable

During the year ended June 30, 2008, the District issued \$10,000,000 in local option sales and services tax revenue bonds. The bonds have an interest rate of 4.18 percent and are payable through June 30, 2015.

Details of the District's revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Issue dated July 19, 2007		
		Principal	Interest	Total
2009	4.18 %	\$ -	\$ 418,000	\$ 418,000
2010	4.18	1,025,000	396,577	1,421,577
2011	4.18	1,685,000	339,939	2,024,939
2012	4.18	1,735,000	268,460	2,003,460
2013	4.18	1,790,000	194,788	1,984,788
2014	4.18	1,850,000	118,712	1,968,712
2015	4.18	1,915,000	40,024	1,955,024
		<u>\$ 10,000,000</u>	<u>\$ 1,776,500</u>	<u>\$ 11,776,500</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 5. Long-Term Liabilities (continued)

Local Option Sales and Services Tax Revenue Bonds Payable (continued)

The District pledged future local option sales and services tax revenues to repay the \$10,000,000 bonds issued in 2008. The bonds were issued for the purpose of financing a portion of the costs of renovating the middle school. 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 2015. 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 approximately 75 percent of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$11,776,500. For the current year, \$188,100 of interest was paid on the bonds and total local option sales and services tax revenues were \$2,657,165.

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

- a) A reserve fund is not required for the bonds.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Note 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 year ended June 30, 2008. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$1,578,550, \$1,492,317, and \$1,372,935, respectively, equal to the required contributions for each year.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 7. Risk Management

Self-Funded Health and Dental Insurance

Health – The District has a self-funded insurance plan for employee medical coverage. The District contributes to the self-insurance plan an amount equal to 125% of regular insurance coverage plus an amount for terminal funding. The fund reinsures for stop-loss insurance for individual claims in excess of \$40,000 per year and aggregate total claims of 125% of expected claims. A third party administrator is paid a fee to process the claims.

Dental – The District has a self-funded dental insurance plan for employee dental coverage. District employees contribute to the insurance plan and the plan reimburses the insurance carrier monthly for the claims paid plus pays an administrative fee. Professional services through the plan for the participants are limited to a combined maximum payment of \$750 per member per benefit period.

Payments are made to the plans based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for incurred but unpaid claims. The reserve for the Self-Funded Health and Self-Funded Dental plans was \$594,387 at June 30, 2008 and is recorded in the Internal Service Fund. The incurred but not reported claims liability of \$325,000 is reported as a liability of the Internal Service Fund at June 30, 2008.

Self-Funded Health and Dental Insurance (continued)

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

Note 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 \$1,559,499 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.

Note 9. Construction Commitments

The District has entered into various contracts totaling \$12,101,661, including change orders, for a middle school renovation and various other projects. As of June 30, 2008, costs of \$8,727,124 had been incurred against the contracts. The balance of \$3,374,537 remaining at June 30, 2008 will be paid as work on the project progresses.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 10. Employee Theft

During the year ended June 30, 2008, the District discovered and documented a fraud perpetrated by an employee. Relating to daycare receipts, the employee would take cash payments from parents and credit the childcare account for that amount. However, the cash would not be turned into the District. An estimated \$6,412 in cash was stolen by the employee as well as sixty Adventureland tickets with an estimated value of \$1,050. The employee's contract was terminated by the District and the person faces possible charges related to the theft.

Note 11. Subsequent Event

In October 2009, the District approved the issuance of \$2,000,000 in local option sales and services tax revenue bonds to be dated December 1, 2008 which are to be repaid over the next 6 years at 3.88% interest.

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Required Supplementary Information

OTTUMWA 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	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds - Actual	Fund - Actual		Original	Final	
<b>REVENUES:</b>						
Local sources	\$ 13,998,323	\$ 889,480	\$ 14,887,803	\$ 15,203,006	\$ 15,203,006	\$ (315,203)
Intermediate sources	21,065	-	21,065	42,000	42,000	(20,935)
State sources	26,767,932	19,879	26,787,811	26,583,312	26,583,312	204,499
Federal sources	3,070,534	1,148,613	4,219,147	3,841,000	3,841,000	378,147
<b>Total revenues</b>	<b>43,857,854</b>	<b>2,057,972</b>	<b>45,915,826</b>	<b>45,669,318</b>	<b>45,669,318</b>	<b>246,508</b>
<b>EXPENDITURES/EXPENSES:</b>						
Instruction	26,056,421	-	26,056,421	26,947,611	26,947,611	891,190
Support services	11,776,696	95,214	11,871,910	11,960,000	11,960,000	88,090
Non-instructional programs	12,810	1,932,726	1,945,536	2,025,000	2,125,000	179,464
Other expenditures	12,261,796	15,964	12,277,760	6,127,707	12,715,000	437,240
<b>Total expenditures/expenses</b>	<b>50,107,723</b>	<b>2,043,904</b>	<b>52,151,627</b>	<b>47,060,318</b>	<b>53,747,611</b>	<b>1,595,984</b>
Excess (deficiency) of revenues over (under) expenditures/ expenses	(6,249,869)	14,068	(6,235,801)	(1,391,000)	(8,078,293)	1,842,492
Other financing sources, net	10,005,750	-	10,005,750	-	-	10,005,750
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses	3,755,881	14,068	3,769,949	(1,391,000)	(8,078,293)	11,848,242
Balance beginning of year	4,235,026	942,228	5,177,254	4,928,804	4,928,804	248,450
Balance end of year	\$ <u>7,990,907</u>	\$ <u>956,296</u>	\$ <u>8,947,203</u>	\$ <u>3,537,804</u>	\$ <u>(3,149,489)</u>	\$ <u>12,096,692</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary 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 the accrual basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$6,687,293.

During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amount budgeted prior to the District amending the budget.

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## Other Supplementary Information

## OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2008

	<u>Special Revenue</u>			<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Debt Service</u>	
Assets				
Cash and pooled investments	\$ 183,514	\$ 596,219	\$ 654,274	\$ 1,434,007
Receivables:				
Property tax:				
Current year	8,908	-	5,867	14,775
Succeeding year	325,000	-	449,000	774,000
Total assets	<u>\$ 517,422</u>	<u>\$ 596,219</u>	<u>\$ 1,109,141</u>	<u>\$ 2,222,782</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 1,787	\$ 50,446	\$ -	\$ 52,233
Salaries and benefits payable	-	1,094	-	1,094
Deferred revenue:				
Succeeding year property tax	325,000	-	449,000	774,000
Total liabilities	<u>326,787</u>	<u>51,540</u>	<u>449,000</u>	<u>827,327</u>
Fund equity:				
Fund balances:				
Reserved for:				
Debt service	-	-	660,141	660,141
Unreserved:				
Undesignated	190,635	544,679	-	735,314
Total fund equity	<u>190,635</u>	<u>544,679</u>	<u>660,141</u>	<u>1,395,455</u>
Total liabilities and fund equity	<u>\$ 517,422</u>	<u>\$ 596,219</u>	<u>\$ 1,109,141</u>	<u>\$ 2,222,782</u>

See accompanying independent auditor's report.

## OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2008

	Special Revenue		Debt Service	Total
	Management Levy	Student Activity		
Revenues:				
Local sources:				
Local tax	\$ 459,449	\$ -	\$ 309,832	\$ 769,281
Other	36,768	930,845	29,856	997,469
State sources	491	-	326	817
Total revenues	<u>496,708</u>	<u>930,845</u>	<u>340,014</u>	<u>1,767,567</u>
Expenditures:				
Current:				
Instruction	226,895	939,899	-	1,166,794
Support services:				
Student services	-	2,739	-	2,739
Administration services	16,303	-	-	16,303
Operation and maintenance of plant services	175,916	-	-	175,916
Transportation services	-	21,637	-	21,637
Non instructional programs	3,124	-	-	3,124
Other expenditures:				
Long term debt:				
Principal	-	-	635,000	635,000
Interest and fiscal charges	-	-	470,068	470,068
Total expenditures	<u>422,238</u>	<u>964,275</u>	<u>1,105,068</u>	<u>2,491,581</u>
Excess (deficiency) of revenues over (under) expenditures	74,470	(33,430)	(765,054)	(724,014)
Other financing sources:				
Interfund transfers in	-	-	788,100	788,100
Net change in fund balances	74,470	(33,430)	23,046	64,086
Fund balances beginning of year	<u>116,165</u>	<u>578,109</u>	<u>637,095</u>	<u>1,331,369</u>
Fund balances end of year	<u>\$ 190,635</u>	<u>\$ 544,679</u>	<u>\$ 660,141</u>	<u>\$ 1,395,455</u>

See accompanying independent auditor's report.

## OTTUMWA COMMUNITY SCHOOL DISTRICT

 COMBINING SCHEDULE OF NET ASSETS  
 ENTERPRISE FUNDS  
 June 30, 2008

	School Nutrition	Youth Care	Career Academy House	Total
Assets				
Cash and pooled investments	\$ 511,743	\$ 79,672	\$ 24,475	\$ 615,890
Due from other governments	-	8,300	-	8,300
Inventories	86,631	-	187,258	273,889
Capital assets, net of accumulated depreciation	218,935	-	3,950	222,885
Total assets	<u>817,309</u>	<u>87,972</u>	<u>215,683</u>	<u>1,120,964</u>
Liabilities				
Accounts payable	28,504	12,179	4,362	45,045
Salaries and benefits payable	92,908	26,715	-	119,623
Total liabilities	<u>121,412</u>	<u>38,894</u>	<u>4,362</u>	<u>164,668</u>
Net Assets				
Invested in capital assets, net of related debt	218,935	-	3,950	222,885
Unrestricted	476,962	49,078	207,371	733,411
Total net assets	<u>\$ 695,897</u>	<u>\$ 49,078</u>	<u>\$ 211,321</u>	<u>\$ 956,296</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS  
 ENTERPRISE FUNDS  
 Year Ended June 30, 2008

	School Nutrition	Youth Care	Career Academy House	Total
Operating revenues:				
Local sources:				
Charges for services	\$ 686,904	\$ 188,813	\$ -	\$ 875,717
Operating expenses:				
Support services:				
Salaries	68,282	-	-	68,282
Benefits	8,059	-	-	8,059
Purchased services	3,417	15,456	-	18,873
	<u>79,758</u>	<u>15,456</u>	<u>-</u>	<u>95,214</u>
Non-instructional programs:				
Salaries	540,855	126,361	-	667,216
Benefits	92,652	14,142	-	106,794
Purchased services	33,995	11,777	-	45,772
Supplies	1,033,977	37,607	-	1,071,584
Depreciation	41,360	-	-	41,360
	<u>1,742,839</u>	<u>189,887</u>	<u>-</u>	<u>1,932,726</u>
Facilities acquisition and construction:				
Salaries	-	-	8,067	8,067
Benefits	-	-	839	839
Purchased services	-	-	3,127	3,127
Supplies	-	-	3,931	3,931
	<u>-</u>	<u>-</u>	<u>15,964</u>	<u>15,964</u>
Total operating expenses	<u>1,822,597</u>	<u>205,343</u>	<u>15,964</u>	<u>2,043,904</u>
Operating loss	<u>(1,135,693)</u>	<u>(16,530)</u>	<u>(15,964)</u>	<u>(1,168,187)</u>
Non-operating revenues:				
Interest on investments	11,695	2,068	-	13,763
State sources	19,879	-	-	19,879
Federal sources	1,118,314	30,299	-	1,148,613
Total non-operating revenues	<u>1,149,888</u>	<u>32,367</u>	<u>-</u>	<u>1,182,255</u>
Change in net assets	14,195	15,837	(15,964)	14,068
Net assets beginning of year	<u>681,702</u>	<u>33,241</u>	<u>227,285</u>	<u>942,228</u>
Net assets end of year	<u>\$ 695,897</u>	<u>\$ 49,078</u>	<u>\$ 211,321</u>	<u>\$ 956,296</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS  
ENTERPRISE FUNDS  
Year Ended June 30, 2008

	School Nutrition	Youth Care	Career Academy House	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 659,464	\$ -	\$ -	\$ 659,464
Cash received from miscellaneous operating activities	27,440	180,513	-	207,953
Cash payments to employees for services	(712,514)	(137,539)	-	(850,053)
Cash payments to suppliers for goods or services	(931,416)	(61,010)	(207,768)	(1,200,194)
Net cash used in operating activities	<u>(957,026)</u>	<u>(18,036)</u>	<u>(207,768)</u>	<u>(1,182,830)</u>
Cash flows from non-capital financing activities:				
State grants received	19,879	-	-	19,879
Federal grants received	1,020,523	30,299	-	1,050,822
Net cash provided by non-capital financing activities	<u>1,040,402</u>	<u>30,299</u>	<u>-</u>	<u>1,070,701</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	-	-	(3,950)	(3,950)
Cash flows from investing activities:				
Interest on investments	11,695	2,068	-	13,763
Net increase (decrease) in cash and cash equivalent	95,071	14,331	(211,718)	(102,316)
Cash and cash equivalents at beginning of year	416,672	65,341	236,193	718,206
Cash and cash equivalents at end of year	<u>\$ 511,743</u>	<u>\$ 79,672</u>	<u>\$ 24,475</u>	<u>\$ 615,890</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS  
ENTERPRISE FUNDS  
Year Ended June 30, 2008

	<u>School Nutrition</u>	<u>Youth Care</u>	<u>Career Academy House</u>	<u>Total</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	\$ (1,135,693)	\$ (16,530)	\$ (15,964)	\$ (1,168,187)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	41,360	-	-	41,360
Commodities used	97,791	-	-	97,791
(Increase) in due from other governments	-	(8,300)	-	(8,300)
(Increase) decrease in inventories	15,110	-	(166,788)	(151,678)
Increase (decrease) in accounts payable	27,072	3,830	(17,397)	13,505
Increase (decrease) in salaries and benefits payable	(2,666)	2,964	(7,619)	(7,321)
Net cash used in operating activities	<u>\$ (957,026)</u>	<u>\$ (18,036)</u>	<u>\$ (207,768)</u>	<u>\$ (1,182,830)</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 Year Ended June 30, 2008

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
District-Wide:				
Interest	\$ 69,042	\$ 21,989	\$ 20,308	\$ 70,723
Musical Fees	41,132	11,911	50,236	2,807
Administration	3,911	-	150	3,761
Trips	217,008	350,212	348,146	219,074
Other	16,890	22,122	23,040	15,972
Agassiz	2,734	4,823	5,377	2,180
Douma	8,983	19,977	23,655	5,305
Eisenhower	10,316	24,626	25,320	9,622
Horace Mann	7,559	37,210	30,785	13,984
James Team	2,019	14,202	11,785	4,436
Pickwick	32,348	18,529	21,808	29,069
Wildwood	11,796	19,491	17,657	13,630
Wilson	6,835	11,392	9,622	8,605
Evans	56,421	19,405	27,538	48,288
High School	89,609	426,208	420,327	95,490
Alternative High School	1,506	2,061	1,834	1,733
Less: Intrafund Transfers	-	(73,313)	(73,313)	-
 Total	 <u>\$ 578,109</u>	 <u>\$ 930,845</u>	 <u>\$ 964,275</u>	 <u>\$ 544,679</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS  
FOR THE LAST FIVE YEARS

	Modified Accrual Basis Years Ended June 30,				
	2008	2007	2006	2005	2004
<b>Revenues:</b>					
Local sources:					
Local tax	\$ 11,394,355	\$ 11,208,076	\$ 11,164,979	\$ 10,981,439	\$ 9,154,683
Tuition	706,636	707,458	703,647	674,413	656,652
Other	1,897,332	1,589,114	1,496,771	1,468,688	1,947,936
Intermediate sources	21,065	17,871	19,195	44,665	7,193
State sources	26,767,932	25,428,811	23,539,622	22,598,252	22,286,299
Federal sources	3,070,534	2,608,625	2,682,677	3,321,783	3,349,311
<b>Total revenues</b>	<b><u>\$ 43,857,854</u></b>	<b><u>\$ 41,559,955</u></b>	<b><u>\$ 39,606,891</u></b>	<b><u>\$ 39,089,240</u></b>	<b><u>\$ 37,402,074</u></b>
<b>Expenditures:</b>					
Instruction	\$ 26,056,421	\$ 25,424,111	\$ 24,393,086	\$ 23,843,305	\$ 23,014,703
Support services:					
Student services	1,262,883	1,209,650	1,489,444	1,576,887	1,180,904
Instructional staff services	1,772,491	1,394,278	1,398,523	1,163,541	952,636
Administration services	3,976,802	3,877,697	3,394,586	3,052,393	3,010,152
Operation and maintenance					
of plant services	3,538,876	3,595,889	3,512,685	3,240,112	3,381,279
Transportation services	1,225,644	1,175,279	1,148,380	1,032,484	987,835
Non-instructional programs	12,810	16,473	54,216	18,886	96,537
Other expenditures:					
Facilities acquisition	9,597,229	3,224,850	991,970	1,187,999	1,159,943
Long-term debt:					
Principal	635,000	615,000	550,000	525,000	500,000
Interest and fiscal charges	470,068	309,443	339,318	364,242	763,052
AEA flowthrough	1,559,499	1,480,592	1,395,915	1,341,364	1,345,454
<b>Total expenditures</b>	<b><u>\$ 50,107,723</u></b>	<b><u>\$ 42,323,262</u></b>	<b><u>\$ 38,668,123</u></b>	<b><u>\$ 37,346,213</u></b>	<b><u>\$ 36,392,495</u></b>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2008

<u>Grantor / Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 08	\$ 134,689
National School Lunch Program (non-cash)	10.555	FY 08	97,791
National School Lunch Program	10.555	FY 08	885,834
Summer Food Service Program for Children	10.559	FY 08	30,299
			<u>1,148,613</u>
U. S. Department of Education:			
Iowa Department of Education:			
Migrant Education - State Grant Program	84.011	FY 08	<u>181,030</u>
Title 1 Grants to Local Educational Agencies	84.010	5049-GC-08	61,706
Title 1 Grants to Local Educational Agencies	84.010	5049-G-08	955,842
			<u>1,017,548</u>
Grants for State Assessments and Related Activities	84.369	FY 08	<u>32,900</u>
State Grants for Innovative Programs	84.298	FY 08	<u>9,419</u>
Improving Teacher Quality State Grants	84.367	FY 07	83,216
Improving Teacher Quality State Grants	84.367	FY 08	231,077
			<u>314,293</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 08	<u>26,055</u>
Tech-Prep Education	84.243	FY 08	<u>74,150</u>
Fund for the Improvement of Education	84.215	FY 06	<u>461,722</u>
Reading First State Grants	84.357	FY 08	<u>224,708</u>
Education for Homeless Children and Youth	84.196	FY 08	<u>12,339</u>
Comprehensive School Reform Demonstration	84.332	FY 08	<u>50,000</u>
Teacher Quality Enhancement Grants	84.336	FY 08	<u>20,931</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2008

Grantor / Program	CFDA Number	Grant Number	Expenditures
Indirect (continued):			
U. S. Department of Education (continued):			
Southern Prairie Area Education Agency:			
Special Education - Grants to States	84.027	FY 08	\$ <u>269,186</u>
Education Technology State Grants	84.318	FY 08	<u>11,907</u>
Iowa Department of Vocational Rehabilitation:			
Rehabilitation Services - Vocational Rehabilitation			
Grants to States	84.126	FY 08	<u>32,611</u>
			<u>2,738,799</u>
U. S. Department of Health and Human Services			
Iowa Department of Human Services:			
Medical Assistance Program	93.778	FY 08	<u>9,592</u>
Promoting Safe and Stable Families	93.556	FY 08	<u>25,568</u>
Iowa Department of Health:			
Cooperative Agreements to Support Comprehensive			
School Health Programs to Prevent the Spread of HIV			
and Other Important Health Problems			
	93.938	FY 08	<u>525</u>
			<u>35,685</u>
Total			\$ <u><u>3,923,097</u></u>

Basis of Presentation –

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Ottumwa Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

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  
Ottumwa 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 Ottumwa 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 December 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Ottumwa 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 an opinion on the effectiveness of Ottumwa Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ottumwa 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 the 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, including 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 Ottumwa Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of Ottumwa Community School District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs 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 Ottumwa 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. We noted no material weaknesses during the course of our audit.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ottumwa 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Ottumwa Community School 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.

Ottumwa Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Ottumwa 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 Ottumwa Community School District and other parties to whom Ottumwa Community School District may report, including federal awarding agencies and pass-through entities. 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 Ottumwa 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.

Oskaloosa, Iowa  
December 1, 2008

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133

To the Board of Education of  
Ottumwa Community School District:

Compliance

We have audited the compliance of Ottumwa Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Ottumwa Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Ottumwa Community School District's management. Our responsibility is to express an opinion on Ottumwa Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ottumwa Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ottumwa Community School District's compliance with those requirements.

In our opinion, Ottumwa Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Ottumwa Community School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Ottumwa Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in a District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We noted no material weaknesses during the course of our audit.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Ottumwa Community School District and other parties to whom Ottumwa Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Oskaloosa, Iowa  
December 1, 2008

OTTUMWA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2008

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements. None were material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
  - CFDA Number 84.215 – Fund for the Improvement of Education
  - CFDA Number 84.367 – Improving Teacher Quality State Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Ottumwa Community School District qualified as a low-risk auditee.

OTTUMWA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2008

Part II: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

II-A-08 Employee Theft – An employee in the District’s Prime Time Youth Care daycare program was discovered to be stealing from District funds. It was discovered that when clients paid in cash, the receipt was entered into the daycare books as paid but the money was never turned over to the District for deposit. The total approximate cash receipts taken by the employee totaled \$6,412. The employee is also suspected of stealing tickets to Adventureland Park valued at approximately \$1,050.

Recommendation – The District should implement controls for Prime Time Youth Care receipts whereby the entries to parents’ accounts are reconciled to the total receipts on a daily basis, and receipts are reconciled to the daily deposits made to the bank. These reconciliations should be prepared by an individual independent of the cash receipting process.

Response – We have now implemented such controls for the 2009 fiscal year. We terminated the employee’s contract and the employee is facing prosecution for theft.

Conclusion – Response accepted.

OTTUMWA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2008

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Significant Deficiency:

No matters were reported.

OTTUMWA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2008

Part IV: Other Findings Related to Statutory Reporting:

IV-A-08 Certified Budget – Expenditures for the year ended June 30, 2008, exceeded the amount budgeted in the other expenditures function prior to amendment of the budget by the District.

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

Response – We will amend our budget before expenditures exceed the budget.

Conclusion – Response accepted.

IV-B-08 Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-08 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-08 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Larry Northup, Teacher Owner of Ottumwa Coaches, Inc.	Student activity transportation	\$169,976

In accordance with an Attorney General’s opinion dated November 9, 1976, the transaction with Mr. Northup does not appear to represent a conflict of interest.

IV-E-08 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-08 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

IV-G-08 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

IV-H-08 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.

IV-I-08 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.