

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

June 30, 2009

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Odebolt-Arthur Community School District, Odebolt, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Odebolt-Arthur Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated May 4, 2010, on our consideration of Odebolt-Arthur Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 13 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Odebolt-Arthur Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

May 4, 2010

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Odebolt-Arthur Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2009 Financial Highlights**

- General Fund revenues increased from \$3,075,524 in fiscal 2008 to \$3,189,340 in fiscal 2009, while General Fund expenditures increased from \$3,342,614 in fiscal 2008 to \$3,582,530 in fiscal 2009. The District's General Fund balance decreased from \$420,451 in fiscal 2008 to \$27,362 in fiscal 2009, a 93% decrease.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2009. The increase in expenditures was due primarily to the increase in salaries and benefits.

### USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Odebolt-Arthur Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Odebolt-Arthur Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Sample Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

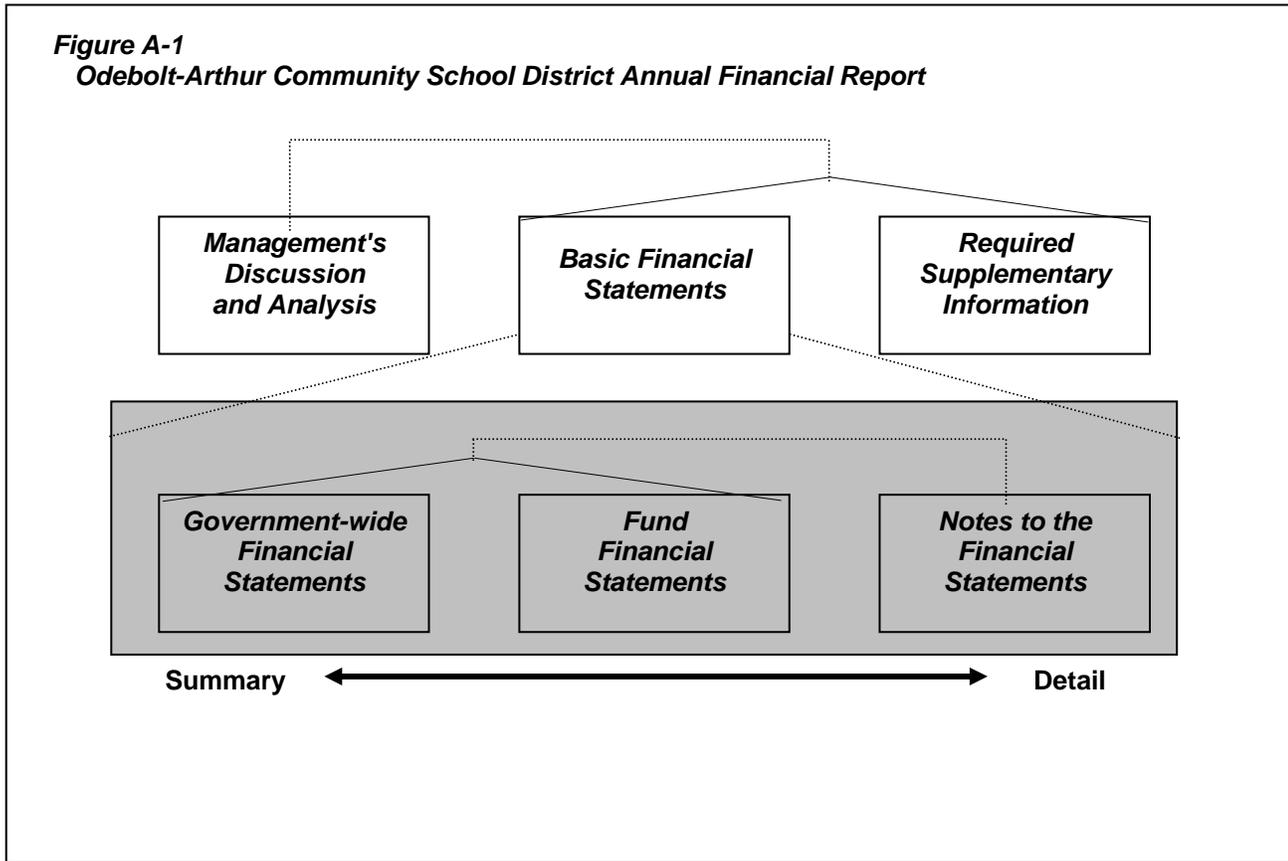


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

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

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

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

## Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District's net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2008-2009
	Governmental Activities		Business-type Activities		Total School District		
	2009	2008	2009	2008	2009	2008	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,232,027	3,016,968	34,750	30,404	3,266,777	3,047,372	7%
Capital assets	1,439,593	1,436,494	11,078	13,919	1,450,671	1,450,413	<1%
<b>Total assets</b>	<b>4,671,620</b>	<b>4,453,462</b>	<b>45,828</b>	<b>44,323</b>	<b>4,717,448</b>	<b>4,497,785</b>	<b>5%</b>
Long-term liabilities	130,250	171,500	-	-	130,250	171,500	-24%
Other liabilities	2,382,845	1,737,840	6,825	6,896	2,389,670	1,744,736	37%
<b>Total liabilities</b>	<b>2,513,095</b>	<b>1,909,340</b>	<b>6,825</b>	<b>6,896</b>	<b>2,519,920</b>	<b>1,916,236</b>	<b>32%</b>
Net Assets:							
Invested in capital assets, net of related debt	1,389,593	1,311,494	11,078	13,919	1,400,671	1,325,413	6%
Restricted	675,431	754,837	-	-	675,431	754,837	-11%
Unrestricted	93,501	477,791	27,925	23,508	121,426	501,299	-76%
<b>TOTAL NET ASSETS</b>	<b>2,158,525</b>	<b>2,544,122</b>	<b>39,003</b>	<b>37,427</b>	<b>2,197,528</b>	<b>2,581,549</b>	<b>-15%</b>

The District's combined net assets decreased by \$384,021, over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$79,406 or 11% over the prior year. The decrease was primarily a result of physical plant and equipment property tax and sales tax that were collected in a prior year, but not spent until fiscal year 2009.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$379,873, or 76%.

Figure A-4 shows the change in net assets for the years ended June 30, 2008 and 2009.

Figure A-4

	Change in Net Assets						Percentage Change 2008-2009
	Governmental Activities		Business-type Activities		Total School District		
	2009	2008	2009	2008	2009	2008	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	282,153	288,584	71,105	66,000	353,258	354,584	<-1%
Operating grants & contributions	555,808	480,869	71,535	71,260	627,343	552,129	14%
Capital grants & contributions	-	25,000	-	-	-	25,000	-100%
General Revenues:							
Property taxes	1,385,773	1,335,744	-	-	1,385,773	1,335,744	4%
Income Surtax	121,692	99,145	-	-	121,692	99,145	23%
Local option sales tax	197,323	195,631	-	-	197,323	195,631	1%
Unrestricted state grants	1,194,229	1,213,517	-	-	1,194,229	1,213,517	-2%
ARRA Stabilization	27,771	-	-	-	27,873	-	100%
Unrestricted investment earnings	13,831	56,993	102	414	13,831	57,407	-76%
Other revenue	4,610	283	-	-	4,610	283	1529%
<b>Total Revenues</b>	<b>3,783,190</b>	<b>3,695,766</b>	<b>142,742</b>	<b>137,674</b>	<b>3,925,932</b>	<b>3,833,440</b>	<b>2%</b>
Expenses:							
Instruction	2,612,354	2,335,076	-	-	2,612,354	2,335,076	12%
Support services	1,134,379	1,112,078	-	-	1,134,379	1,112,078	2%
Non-instructional programs	5,394	5,153	141,166	140,316	146,560	145,469	1%
Other expenditures	416,660	209,592	-	-	416,660	209,592	99%
<b>Total expenses</b>	<b>4,168,787</b>	<b>3,661,899</b>	<b>1,41,166</b>	<b>140,316</b>	<b>4,309,953</b>	<b>3,802,215</b>	<b>13%</b>
<b>CHANGE IN NET ASSETS</b>	<b>(385,597)</b>	<b>33,867</b>	<b>1,576</b>	<b>(2,642)</b>	<b>(384,021)</b>	<b>31,225</b>	<b>-1330%</b>
Net assets beginning of year	2,544,122	2,510,255	37,427	40,069	2,581,549	2,550,324	1%
Net assets end of year	2,158,525	2,544,122	39,003	37,427	2,197,528	2,581,549	-15%

Property tax and unrestricted state grants account for 66% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87% of the total expenses.

**Governmental Activities**

Revenues for governmental activities were \$3,783,190 and expenses were \$4,168,787.

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

Figure A-5

**Total and Net Cost of Governmental Activities**

	<b>Total Cost of Services 2009 \$</b>	<b>Total Cost of Services 2008 \$</b>	<b>Net Cost of Services 2009 \$</b>	<b>Net Cost of Services 2008 \$</b>
Instruction	2,612,354	2,335,076	2,024,556	1,808,030
Support Services	1,134,379	1,112,078	1,011,129	992,962
Non-instructional Programs	5,394	5,153	5,394	5,153
Other Expenses	416,660	209,592	289,747	61,301
<b>TOTAL</b>	<u>4,168,787</u>	<u>3,661,899</u>	<u>3,330,826</u>	<u>2,867,446</u>

- The cost financed by users of the District's programs was \$282,153
- Federal and state governments subsidized certain programs with grants and contributions totaling \$555,808.
- The net cost of governmental activities was financed with \$1,704,788 in property and other taxes and \$1,194,229 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$142,742 and expenses were \$141,166. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$746,201, well below last year's ending fund balances of \$1,189,600.

## **Governmental Fund Highlights**

- The District's General Fund financial position is the result of many factors. The increase in revenues was not enough to offset the increase in expenditures.
- The General Fund balance decreased from \$420,451 to \$27,362, due in part to the negotiated salary and benefits settlement and the State Across the Board Cuts.
- The Capital Projects Fund balance decreased due to the purchase of Geo Thermal units. The District ended fiscal 2008 with a balance of \$262,418, and fiscal 2009 ended with a balance of \$176,531.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$161,960 in fiscal 2008 to \$128,588 in fiscal 2009. This fund is used for capital improvements and equipment purchases.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$37,427 at June 30, 2008 to \$39,003 at June 30, 2009 representing an increase of approximately 4%.

## **BUDGETARY HIGHLIGHTS**

The District's receipts were \$360,975 less than budgeted receipts, a variance of 8%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2009, the District had invested \$1,450,671, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$143,707.

The largest change in capital asset activity during the year occurred in the improvement category. The District's improvements totaled \$152,009 at June 30, 2009, compared to \$157,603, reported at June 30, 2008. This significant increase resulted from the completion of Geo Thermal Units.

**Figure A-6**

**Capital Assets (net of depreciation)**

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2007-2008
	2009	2008	2009	2008	2009	2008	
	\$	\$	\$	\$	\$	\$	
Land	10,850	10,850	-	-	10,850	10,850	0%
Buildings	1,091,184	1,090,344	-	-	1,091,184	1,090,344	<-1%
Improvements	157,603	152,009	-	-	157,603	152,009	4%
Equipment & Furniture	179,956	183,291	11,078	13,919	191,034	197,210	-3%
<b>TOTAL</b>	<b>1,439,593</b>	<b>1,436,494</b>	<b>11,078</b>	<b>13,919</b>	<b>1,450,671</b>	<b>1,450,413</b>	<b>&lt;1%</b>

**Long-Term Debt**

At June 30, 2009 the District had \$130,250 in long-term debt outstanding.

**Figure A-7**

**Outstanding Long-Term Obligations**

	Total School District		Percentage Change 2009-2008
	2009	2008	
	\$	\$	
Revenue bonds	50,000	125,000	-60%
Termination benefits	80,250	46,500	73%
	<u>130,250</u>	<u>171,500</u>	<u>-24%</u>

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

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

- School financing is highly dependent upon student enrollment. The District's September 2007 enrollment increased by four students. This increase in enrollment will increase the District's funding for the fiscal year 2008-09. However, the district received a 1.5% Across the Board cut in state aid.
- The District has evaluated the elementary school curriculum and has determined that the addition of a teacher would be beneficial for the students of Odebolt-Arthur.
- Sharing discussions have lead to a Whole Grade Sharing agreement with the Battle Creek-Ida Grove Community School District for fiscal year 2009/2010.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jann Murphy, District Secretary, Odebolt-Arthur Community School District, 600 South Maple St., Odebolt, IA 51458.

## BASIC FINANCIAL STATEMENTS

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	450,014	-	450,014
Other	1,006,204	27,932	1,034,136
Receivables:			
Property tax:			
Delinquent	27,492	-	27,492
Succeeding year	1,550,278	-	1,550,278
Accounts	1,991	941	2,932
Accrued interest - ISCAP	56	-	56
Due from other governments	195,992	-	195,992
Inventories	-	5,877	5,877
Capital assets, net of accumulated depreciation	1,439,593	11,078	1,450,671
	<u>4,671,620</u>	<u>45,828</u>	<u>4,717,448</u>
<b>Liabilities</b>			
Accounts payable	34,590	-	34,590
Salaries and benefits payable	332,259	6,076	338,335
Accrued interest payable	167	-	167
Deferred revenue:			
Succeeding year property tax	1,550,278	-	1,550,278
Other	13,823	749	14,572
ISCAP warrants payable	443,000	-	443,000
ISCAP accrued interest payable	152	-	152
ISCAP premium	8,576	-	8,576
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	50,000	-	50,000
Termination benefits	24,900	-	24,900
Portion due after one year:			
Termination benefits	55,350	-	55,350
	<u>2,513,095</u>	<u>6,825</u>	<u>2,519,920</u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,389,593	11,078	1,400,671
Restricted for:			
Management levy	205,023	-	205,023
Physical plant and equipment levy	165,597	-	165,597
Other special revenue purposes	128,447	-	128,447
Sales tax capital projects	156,531	-	156,531
Debt service	19,833	-	19,833
Unrestricted	<u>93,501</u>	<u>27,925</u>	<u>121,426</u>
<b>Total net assets</b>	<u><u>2,158,525</u></u>	<u><u>39,003</u></u>	<u><u>2,197,528</u></u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

<b>Functions/Programs</b>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,976,749	135,597	366,118	-
Special	337,717	23,306	17,567	-
Other	297,888	-	45,210	-
	<u>2,612,354</u>	<u>158,903</u>	<u>428,895</u>	<u>-</u>
Support services:				
Student	169,202	122,678	-	-
Instructional staff	128,771	-	-	-
Administration	404,520	-	-	-
Operation and maintenance of plant	278,256	88	-	-
Transportation	153,630	484	-	-
	<u>1,134,379</u>	<u>123,250</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>5,394</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	203,362	-	-	-
Long-term debt interest	3,250	-	-	-
AEA flowthrough	126,913	-	126,913	-
Depreciation (unallocated)*	83,135	-	-	-
	<u>416,660</u>	<u>-</u>	<u>126,913</u>	<u>-</u>
Total governmental activities	<u>4,168,787</u>	<u>282,153</u>	<u>555,808</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>141,166</u>	<u>71,105</u>	<u>71,535</u>	<u>-</u>
Total	<u>4,309,953</u>	<u>353,258</u>	<u>627,343</u>	<u>-</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
ARRA stabilization				
Unrestricted investment earnings				
Other				
Total general revenues				

**Change in net assets**

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$	\$	\$
(1,475,034)	-	(1,475,034)
(296,844)	-	(296,844)
<u>(252,678)</u>	<u>-</u>	<u>(252,678)</u>
<u>(2,024,556)</u>	<u>-</u>	<u>(2,024,556)</u>
(46,524)	-	(46,524)
(128,771)	-	(128,771)
(404,520)	-	(404,520)
(278,168)	-	(278,168)
<u>(153,146)</u>	<u>-</u>	<u>(153,146)</u>
<u>(1,011,129)</u>	<u>-</u>	<u>(1,011,129)</u>
<u>(5,394)</u>	<u>-</u>	<u>(5,394)</u>
(203,362)	-	(203,362)
(3,250)	-	(3,250)
-	-	-
<u>(83,135)</u>	<u>-</u>	<u>(83,135)</u>
<u>(289,747)</u>	<u>-</u>	<u>(289,747)</u>
(3,330,826)	-	(3,330,826)
<u>-</u>	<u>1,474</u>	<u>1,474</u>
<u>(3,330,826)</u>	<u>1,474</u>	<u>(3,329,352)</u>
1,315,135	-	1,315,135
70,638	-	70,638
121,692	-	121,692
197,323	-	197,323
1,194,229	-	1,194,229
27,771	-	27,771
13,831	102	13,933
4,610	-	4,610
<u>2,945,229</u>	<u>102</u>	<u>2,945,331</u>
(385,597)	1,576	(384,021)
<u>2,544,122</u>	<u>37,427</u>	<u>2,581,549</u>
<u>2,158,525</u>	<u>39,003</u>	<u>2,197,528</u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2009

<b>Assets</b>	General Fund \$	Management Levy \$	Nonmajor Governmental Funds \$	Total \$
Cash and pooled investments:				
ISCAP	450,014	-	-	450,014
Other	334,180	279,256	388,310	1,001,746
Receivables:				
Property tax:				
Delinquent	24,429	1,777	1,286	27,492
Succeeding year	1,374,837	100,000	75,441	1,550,278
Accounts	25	-	1,966	1,991
Accrued interest - ISCAP	56	-	-	56
Interfund receivable	-	4,240	-	4,240
Due from other governments	116,053	-	79,939	195,992
<b>Total assets</b>	<b>2,299,594</b>	<b>385,273</b>	<b>546,942</b>	<b>3,231,809</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	33,664	-	926	34,590
Salaries and benefits payable	332,259	-	-	332,259
Interfund payable	4,240	-	-	4,240
ISCAP warrants payable	443,000	-	-	443,000
ISCAP accrued interest payable	152	-	-	152
ISCAP premium	8,576	-	-	8,576
Deferred revenue:				
Succeeding year property tax	1,374,837	100,000	75,441	1,550,278
Income surtax	61,681	-	37,009	98,690
Other	13,823	-	-	13,823
Total liabilities	2,272,232	100,000	113,376	2,485,608
Fund balances:				
Reserved for:				
Debt service	-	-	20,000	20,000
Unreserved reported in:				
General fund	27,362	-	-	27,362
Special revenue funds	-	285,273	257,035	542,308
Capital projects funds	-	-	156,531	156,531
Total fund balances	27,362	285,273	433,566	746,201
<b>Total liabilities and fund balances</b>	<b>2,299,594</b>	<b>385,273</b>	<b>546,942</b>	<b>3,231,809</b>

See notes to financial statements.

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

June 30, 2009

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	746,201
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,439,593
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	98,690
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.	(167)
An internal service fund is used by the District's management to charge the costs of the self-funded health insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	4,458
Long-term liabilities, including revenue bonds and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(130,250)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>2,158,525</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	General Fund	Management Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,245,760	137,543	309,742	1,693,045
Tuition	113,085	-	-	113,085
Other	52,687	6,867	127,854	187,408
State sources	1,603,274	-	-	1,603,274
Federal sources	174,534	-	-	174,534
Total revenues	<u>3,189,340</u>	<u>144,410</u>	<u>437,596</u>	<u>3,771,346</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,896,651	26,973	4,983	1,928,607
Special	337,717	-	-	337,717
Other	295,625	-	2,263	297,888
	<u>2,529,993</u>	<u>26,973</u>	<u>7,246</u>	<u>2,564,212</u>
Support services:				
Student	55,187	5,124	108,891	169,202
Instructional staff	128,771	-	-	128,771
Administration	387,434	17,086	-	404,520
Operation and maintenance of plant	248,069	24,277	2,005	274,351
Transportation	106,163	9,493	30,410	146,066
	<u>925,624</u>	<u>55,980</u>	<u>141,306</u>	<u>1,122,910</u>
Non-instructional programs	-	5,394	-	5,394
Other expenditures:				
Facilities acquisition	-	-	316,917	316,917
Long-term debt:				
Principal	-	-	75,000	75,000
Interest and fiscal charges	-	-	3,500	3,500
AEA flowthrough	126,913	-	-	126,913
	<u>126,913</u>	<u>-</u>	<u>395,417</u>	<u>522,330</u>
Total expenditures	<u>3,582,530</u>	<u>88,347</u>	<u>543,969</u>	<u>4,214,846</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(393,190)</u>	<u>56,063</u>	<u>(106,373)</u>	<u>(443,500)</u>
Other financing sources (uses):				
Sales of equipment and real property	101	-	-	101
Operating transfers in	-	-	78,500	78,500
Operating transfers out	-	-	(78,500)	(78,500)
Total other financing sources (uses)	<u>101</u>	<u>-</u>	<u>-</u>	<u>101</u>
Net change in fund balances	<u>(393,089)</u>	<u>56,063</u>	<u>(106,373)</u>	<u>(443,399)</u>
Fund balances beginning of year	<u>420,451</u>	<u>229,210</u>	<u>539,939</u>	<u>1,189,600</u>
Fund balances end of year	<u>27,362</u>	<u>285,273</u>	<u>433,566</u>	<u>746,201</u>

See notes to financial statements.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds to the  
Statement of Activities

Year ended June 30, 2009

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		(443,399)
<b>Amounts reported for governmental activities in the Statement of Activities are different because:</b>		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:</p>		
Expenditures for capital assets	143,965	
Depreciation expense	<u>(140,866)</u>	3,099
<p>Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.</p>		
		11,743
<p>Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>		
		75,000
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
		250
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:</p>		
Termination benefits		(33,750)
<p>An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.</p>		
		<u>1,460</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>(385,597)</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2009

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
<b>Assets</b>		
Cash and cash equivalents	27,932	4,458
Accounts receivable	941	-
Inventories	5,877	-
Capital assets, net of accumulated depreciation	<u>11,078</u>	<u>-</u>
<b>Total assets</b>	<u>45,828</u>	<u>4,458</u>
<b>Liabilities</b>		
Salaries and benefits payable	6,076	-
Deferred revenue	<u>749</u>	<u>-</u>
<b>Total liabilities</b>	<u>6,825</u>	<u>-</u>
<b>Net assets</b>		
Invested in capital assets	11,078	-
Unrestricted	<u>27,925</u>	<u>4,458</u>
<b>Total net assets</b>	<u><u>39,003</u></u>	<u><u>4,458</u></u>

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

Year ended June 30, 2009

	Enterprise Fund Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
Operating revenues:		
Local sources:		
Charges for service	71,105	3,960
Operating expenses:		
Non-instructional programs:		
Salaries	49,147	-
Benefits	7,428	-
Purchased services	3,692	-
Supplies	78,058	-
Depreciation	2,841	-
Other	-	2,500
Total operating expenses	141,166	2,500
Operating gain (loss)	(70,061)	1,460
Non-operating revenues:		
State sources	2,103	-
Federal sources	69,432	-
Interest income	102	-
Total non-operating revenues	71,637	-
Change in net assets	1,576	1,460
Net assets beginning of year	37,427	2,998
Net assets end of year	39,003	4,458

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2009

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sales	69,730	3,960
Cash payments to employees for services	(56,192)	-
Cash payments to suppliers for goods or services	(72,269)	(2,500)
Net cash (used by) provided by operating activities	<u>(58,731)</u>	<u>1,460</u>
Cash flows from non-capital financing activities:		
State grants received	2,103	-
Federal grants received	58,817	-
Net cash provided by non-capital financing activities	<u>60,920</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	102	-
Net increase (decrease) in cash and cash equivalents	2,291	1,460
Cash and cash equivalents at beginning of year	<u>25,641</u>	<u>2,998</u>
Cash and cash equivalents at end of year	<u><u>27,932</u></u>	<u><u>4,458</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(70,061)	1,460
Adjustments to reconcile operating gain (loss) to net cash (used by) provided by operating activities:		
Commodities used	10,615	-
Depreciation	2,841	-
Decrease (increase) in inventories	(1,134)	-
Decrease (increase) in accounts receivable	(921)	-
(Decrease) increase in salaries and benefits payable	383	-
(Decrease) increase in deferred revenue	(454)	-
Net cash (used by) provided by operating activities	<u>(58,731)</u>	<u>1,460</u>

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

During the year ended June 30, 2009, the District received \$10,615 of federal commodities.

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2009

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
<b>Assets</b>		
Cash and pooled investments	<u>171,836</u>	<u>35,322</u>
<b>Liabilities</b>		
Accounts payable	-	192
Other payables	<u>-</u>	<u>35,130</u>
<b>Total liabilities</b>	<u>-</u>	<u>35,322</u>
<b>Net Assets</b>		
Reserved for scholarships	<u><u>171,836</u></u>	<u><u>-</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2009

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	1,175
Interest	<u>8,062</u>
Total additions	9,237
Deductions:	
Support services:	
Scholarships awarded	<u>6,090</u>
Change in net assets	3,147
Net assets beginning of year	<u>168,689</u>
Net assets end of year	<u><u>171,836</u></u>

# ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2009

### 1. Summary of Significant Accounting Policies

Odebolt-Arthur Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Odebolt and Arthur, Iowa and the predominately agricultural territory in a portion of Sac, Ida and Crawford Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

#### A. Reporting Entity

For financial reporting purposes, Odebolt-Arthur Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Odebolt-Arthur Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

#### B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

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

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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

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

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

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

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

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

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures did not exceed the amounts budgeted.

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

The District's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2009, the District had the following investments:

	Fair Value
	\$
Private Purpose Trust Fund:	
New York Life Annuity	<u>23,092</u>

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

### 3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2009 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Management Fund	General Fund	4,240

During fiscal year 2009, \$4,240 of Management Fund revenue was receipted to General Fund cash in error.

### 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer To	Transfer From	Amount
		\$
Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	78,500

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

### 5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2009 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments \$	Accrued Interest Receivable \$	Warrants Payable \$	Accrued Interest Payable \$
2009-10A	6/25/09	6/23/10	<u>450,014</u>	<u>56</u>	<u>443,000</u>	<u>152</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2009, is as follows:

Balance Beginning of Year \$	Advances Received \$	Advances Repaid \$	Balance End of Year \$
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants %	Interest Rates on Investments %
2009-10A	2.500	0.902

## 6. Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance Beginning of Year \$	Increases \$	Decreases \$	Balance End of Year \$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	<u>10,850</u>	<u>-</u>	<u>-</u>	<u>10,850</u>
Capital assets being depreciated:				
Buildings	2,496,530	70,759	-	2,567,289
Improvements other than buildings	355,914	18,810	15,000	359,724
Furniture and equipment	<u>903,222</u>	<u>54,396</u>	<u>8,270</u>	<u>949,348</u>
Total capital assets being deprec.	<u>3,755,666</u>	<u>143,965</u>	<u>23,270</u>	<u>3,876,361</u>

Less accumulated depreciation for:				
Buildings	1,406,186	69,919	-	1,476,105
Improvements other than buildings	203,905	13,216	15,000	202,121
Furniture and equipment	719,931	57,731	8,270	769,392
Total accumulated depreciation	<u>2,330,022</u>	<u>140,866</u>	<u>23,270</u>	<u>2,447,618</u>
Total capital assets being depreciated, net	<u>1,425,644</u>	<u>3,099</u>	<u>-</u>	<u>1,428,743</u>
Governmental activities capital assets, net	<u>1,436,494</u>	<u>3,099</u>	<u>-</u>	<u>1,439,593</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	47,531	-	-	47,531
Less accumulated depreciation	<u>33,612</u>	<u>2,841</u>	<u>-</u>	<u>36,453</u>
Business type activities capital assets, net	<u>13,919</u>	<u>(2,841)</u>	<u>-</u>	<u>11,078</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	15,852
Support services:	
Operation and maintenance	3,905
Transportation	<u>37,974</u>
	57,731
Unallocated depreciation	<u>83,135</u>
Total depreciation expense – governmental activities	<u>140,866</u>
Business type activities:	
Food services	<u>2,841</u>

## 7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2009, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Revenue bonds	125,000	-	75,000	50,000	50,000
Termination benefits	<u>46,500</u>	<u>60,000</u>	<u>26,250</u>	<u>80,250</u>	<u>24,900</u>
	<u>171,500</u>	<u>60,000</u>	<u>101,250</u>	<u>130,250</u>	<u>74,900</u>

### Termination Benefits

The District offered a voluntary early retirement plan to its employees during fiscal year 2009. Eligible employees must have completed at least twenty years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits consist of the District paying up to \$380 per month for health insurance, but not to exceed total premiums of \$20,000 per retiree.

At June 30, 2009, the District has obligations to seven participants with a total liability of \$80,250. Actual early retirement expenditures for the year ended June 30, 2009 totaled \$26,250.

### Revenue Bonds Payable

Details of the District's June 30, 2009 local option (statewide) sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Revenue Bond Issue May 2007			
	Interest Rates %	Principal \$	Interest \$	Total \$
2010	4.0	50,000	1,000	51,000

The District has pledged future local option (statewide) sales and services tax revenues to repay the \$200,000 bonds issued in May 2007. The bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option (statewide) sales and services tax revenues received by the District and are payable through 2010. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 26 percent of the local option (statewide) sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$51,000. For the current year \$78,500 principal and interest was paid on the bonds and total statewide sales and services tax revenues were \$197,323.

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

- The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the District and the bond holders hold a lien on the future revenues received.
- The bonds are not subject to redemption prior to maturity.

## **8. 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 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$147,256, \$133,391 and \$122,707 respectively, equal to the required contributions for each year.

## **9. Risk Management**

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

## **10. 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 \$126,913 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2009

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,993,538	71,207	2,064,745	2,261,823	2,261,823	(197,078)
State sources	1,603,274	2,103	1,605,377	1,831,240	1,831,240	(225,863)
Federal sources	174,534	69,432	243,966	182,000	182,000	61,966
Total revenues	<u>3,771,346</u>	<u>142,742</u>	<u>3,914,088</u>	<u>4,275,063</u>	<u>4,275,063</u>	<u>(360,975)</u>
Expenditures/Expenses:						
Instruction	2,564,212	-	2,564,212	2,759,960	2,759,960	195,748
Support services	1,122,910	-	1,122,910	1,459,605	1,459,605	336,695
Non-instructional programs	5,394	141,166	146,560	187,361	187,361	40,801
Other expenditures	522,330	-	522,330	677,476	677,476	155,146
Total expenditures/expenses	<u>4,214,846</u>	<u>141,166</u>	<u>4,356,012</u>	<u>5,084,402</u>	<u>5,084,402</u>	<u>728,390</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(443,500)	1,576	(441,924)	(809,339)	(809,339)	367,415
Other financing sources (uses) net	<u>101</u>	<u>-</u>	<u>101</u>	<u>5,000</u>	<u>5,000</u>	<u>(4,899)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(443,399)	1,576	(441,823)	(804,339)	(804,339)	362,516
Balance beginning of year	<u>1,189,600</u>	<u>37,427</u>	<u>1,227,027</u>	<u>1,009,959</u>	<u>1,009,959</u>	<u>217,068</u>
Balance end of year	<u>746,201</u>	<u>39,003</u>	<u>785,204</u>	<u>205,620</u>	<u>205,620</u>	<u>579,584</u>

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

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

OTHER SUPPLEMENTARY INFORMATION

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2009

	Special Revenue Funds			Total
	Student Activity Fund	Physical Plant and Equipment Levy	Capital Projects	
<b>Assets</b>	\$	\$	\$	\$
Cash and pooled investments	126,585	127,302	134,423	388,310
Receivables:				
Property tax:				
Delinquent	-	1,286	-	1,286
Succeeding year	-	75,441	-	75,441
Accounts	1,966	-	-	1,966
Due from other governments	-	37,009	42,930	79,939
<b>Total assets</b>	<b>128,551</b>	<b>241,038</b>	<b>177,353</b>	<b>546,942</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	104	-	822	926
Deferred revenue:				
Succeeding year property tax	-	75,441	-	75,441
Income surtax	-	37,009	-	37,009
Total liabilities	104	112,450	822	113,376
Fund balances:				
Reserved for debt service	-	-	20,000	20,000
Unreserved reported in:				
Special revenue funds	128,447	128,588	-	257,035
Capital projects funds	-	-	156,531	156,531
Total fund balances	128,447	128,588	176,531	433,566
<b>Total liabilities and fund balances</b>	<b>128,551</b>	<b>241,038</b>	<b>177,353</b>	<b>546,942</b>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	Special Revenue Funds				Total
	Student Activity Fund	Physical Plant and Equipment Levy	Capital Projects	Debt Service	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	-	112,419	197,323	-	309,742
Other	124,040	1,149	2,665	-	127,854
Total revenues	<u>124,040</u>	<u>113,568</u>	<u>199,988</u>	<u>-</u>	<u>437,596</u>
Expenditures:					
Current:					
Instruction:					
Regular	-	4,983	-	-	4,983
Other	2,263	-	-	-	2,263
Support services:					
Student	108,891	-	-	-	108,891
Operation and maintenance of plant	-	2,005	-	-	2,005
Transportation	-	19,960	10,450	-	30,410
Other expenditures:					
Facilities acquisition	-	119,992	196,925	-	316,917
Long-term debt:					
Principal	-	-	-	75,000	75,000
Interest and fiscal charges	-	-	-	3,500	3,500
Total expenditures	<u>111,154</u>	<u>146,940</u>	<u>207,375</u>	<u>78,500</u>	<u>543,969</u>
Excess (deficiency) of revenues over (under) expenditures	<u>12,886</u>	<u>(33,372)</u>	<u>(7,387)</u>	<u>(78,500)</u>	<u>(106,373)</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	78,500	78,500
Operating transfers out	-	-	(78,500)	-	(78,500)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(78,500)</u>	<u>78,500</u>	<u>-</u>
Net change in fund balance	12,886	(33,372)	(85,887)	-	(106,373)
Fund balances beginning of year	<u>115,561</u>	<u>161,960</u>	<u>262,418</u>	<u>-</u>	<u>539,939</u>
Fund balances end of year	<u><u>128,447</u></u>	<u><u>128,588</u></u>	<u><u>176,531</u></u>	<u><u>-</u></u>	<u><u>433,566</u></u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Athletics	72,237	10,965	-	83,202
Baseball/softball	190	9,331	8,505	1,016
Football	4,696	4,641	5,081	4,256
Volleyball	4,607	5,925	6,307	4,225
Basketball	5,147	8,369	7,605	5,911
Wrestling	(1,911)	1,911	-	-
Track	369	4,220	3,412	1,177
Golf	(269)	269	-	-
HS cheerleading	1,209	3,481	3,591	1,099
Dance/drill team	1,075	2,889	3,215	749
Yearbook	1,277	12,564	12,646	1,195
Greenhouse	(1,195)	4,008	4,008	(1,195)
Drama/speech	2,647	3,475	3,650	2,472
National Honor Society	650	374	688	336
Student council	(748)	1,248	500	-
FFA	10,699	18,879	15,706	13,872
TAG	3,645	2,775	4,430	1,990
Springbrook/DARE	3,037	3,240	3,574	2,703
Music	(117)	253	136	-
Class of 2008	1,379	2,178	2,178	1,379
Class of 2009	3,436	2,111	4,852	695
Class of 2010	3,341	8,542	11,601	282
Class of 2011	160	9,642	8,956	846
Class of 2012	-	784	409	375
Ending accrual entries	-	1,966	104	1,862
	<u>115,561</u>	<u>124,040</u>	<u>111,154</u>	<u>128,447</u>

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2009

	Elementary Projects	Middle School	High School	Staff Projects	European Travel	Music Boosters	We're for Kids	District Projects	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance beginning of year	(495)	17,759	1,526	3,029	2,114	11,511	650	119	36,213
Additions:									
Collections	495	7,996	22,938	1,853	-	499	-	-	33,781
Deductions:									
Miscellaneous	-	7,240	23,934	2,591	-	-	452	455	34,672
Balance end of year	-	18,515	530	2,291	2,114	12,010	198	(336)	35,322

## ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

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

For the Last Six Years

	Modified Accrual Basis					
	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	1,693,045	1,629,344	1,632,394	1,532,409	1,532,608	1,498,587
Tuition	113,085	123,304	96,803	101,939	112,921	92,243
Other	187,408	222,556	278,168	261,244	188,383	141,410
State sources	1,603,274	1,585,495	1,663,299	1,600,539	1,623,410	1,555,753
Federal sources	174,534	133,891	119,915	148,856	188,481	153,804
Total revenues	<u>3,771,346</u>	<u>3,694,590</u>	<u>3,790,579</u>	<u>3,644,987</u>	<u>3,645,803</u>	<u>3,441,797</u>
Expenditures:						
Instruction:						
Regular	1,928,607	1,716,314	1,710,894	1,663,598	1,541,939	1,533,265
Special	337,717	334,673	304,965	308,843	346,517	364,932
Other	297,888	307,305	289,789	150,975	295,333	294,894
Support services:						
Student	169,202	164,187	146,882	185,298	76,651	64,853
Instructional staff	128,771	119,399	137,384	126,761	100,015	99,886
Administration	404,520	400,792	396,834	383,621	290,063	354,064
Operation and maintenance	274,351	267,036	298,827	237,283	295,936	290,187
Transportation	146,066	125,634	174,208	116,751	103,095	203,063
Non-instructional programs	5,394	5,153	-	-	9,978	-
Other expenditures:						
Facilities acquisition	316,917	403,923	181,496	186,138	55,927	-
Long-term debt:						
Principal	75,000	75,000	-	-	-	-
Interest and other charges	3,500	6,856	-	-	-	-
AEA flowthrough	126,913	123,291	122,773	118,773	119,259	122,356
Total expenditures	<u>4,214,846</u>	<u>4,049,563</u>	<u>3,764,052</u>	<u>3,478,041</u>	<u>3,234,713</u>	<u>3,327,500</u>

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Odebolt-Arthur Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated May 4, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Odebolt-Arthur Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Odebolt-Arthur Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Odebolt-Arthur Community School District's internal control over financial reporting.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 09-I-A and 09-I-B are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Odebolt-Arthur Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Odebolt-Arthur Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

May 4, 2010

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

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

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

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

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part II: Other Findings Related to Statutory Reporting:

09-II-A Certified Budget: Expenditures for the year ended June 30, 2009 did not exceed the amounts budgeted.

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

09-II-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

09-II-D Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Paul Neumann, board member, Owner of Neumann Construction	Tuck-pointing	2,390

The transaction does not appear to represent a conflict of interest since the dollar amount was less than \$2,500.

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

09-II-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.

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

09-II-H Deposits and Investments: We noted an instance of what appears to be noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. The District has \$23,092 of Private Purpose Trust Fund monies invested in a New York Life Insurance Company annuity.

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

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

Conclusion: Response accepted.

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

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

09-II-J Categorical Funding: Except as noted, no instances were noted of categorical funding being used to supplant rather than supplement other funds.

The District allocated 100% of the guidance counselor salary and benefits to the District's Returning Dropout and Dropout prevention program. Only the portion of the guidance salary and benefits for time spent directly working on the Returning Dropout and Dropout Prevention program are an allowable cost for the program in accordance with Chapter 256D.2 of the Code of Iowa and Iowa Department of Education administrative rules.

Also, we noted three payments totaling \$1,396 to parents of home schooled students. Payments or reimbursements to parents are not allowed for the Home School Assistance Program.

According to administrative rules, "Categorical funding shall not be commingled with other funding. School districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year some categorical funding expenditures were commingled with other General Fund expenditures, then were reclassified as categorical spending at the end of the year.

Recommendation: The District should not be making payments to parents. The District may purchase education supplies for the home school assistance program directly from the vendors. Any supplies purchased for the home school program must be the type of supplies that the District could purchase for use in the public school.

The District should contact the Iowa Department of Education regarding corrective action required. Also, all categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred.

District Response: As recommended, we will contact the Iowa Department of Education to determine the corrective action required. We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts as incurred.

Conclusion: Response accepted.

09-II-K Statewide Sales and Services Tax: No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

	\$	\$
Beginning balance		-
Statewide sales and services tax revenue		197,323
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements	108,373	
Equipment	10,450	
Debt service for school infrastructure:		
Revenue debt	<u>78,500</u>	<u>197,323</u>
Ending balance		<u>-</u>

09-II-L Deficit Balances: The Student Activity Fund has one account with a deficit balance at June 30, 2009.

Recommendation: The District should continue to monitor this account and investigate alternatives to eliminate the deficit.

District Response: We are working on ways to eliminate the deficit.

Conclusion: Response accepted.