

OTTUMWA COMMUNITY SCHOOL DISTRICT
OTTUMWA, IOWA

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

JUNE 30, 2010

TABLE OF CONTENTS

	Page
OFFICIALS	4
INDEPENDENT AUDITOR’S REPORT	5-6
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)	7-15
BASIC FINANCIAL STATEMENTS	
Exhibit	
District-Wide Financial Statements:	
A Statement of Net Assets	18-19
B Statement of Activities	20-23
Governmental Fund Financial Statements:	
C Balance Sheet	24
D Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	25
E Statement of Revenues, Expenditures and Changes in Fund Balances	26-27
F Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	28
Proprietary Fund Financial Statements:	
G Statement of Net Assets	29
H Statement of Revenues, Expenses and Changes in Net Assets	30
I Statement of Cash Flows	31-32
Fiduciary Fund Financial Statements:	
J Statement of Fiduciary Net Assets	33
K Statement of Changes in Fiduciary Net Assets	34
Notes to Financial Statements	35-49
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances – Budget and Actual – All Governmental Funds and Proprietary Fund	52
Notes to Required Supplementary Information – Budgetary Reporting	53
Schedule of Funding Progress for the Retiree Health Plan	54
OTHER SUPPLEMENTARY INFORMATION:	
Schedule	
Nonmajor Governmental Funds:	
1 Combining Balance Sheet	56
2 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	57
Nonmajor Enterprise Funds:	
3 Combining Schedule of Net Assets	58
4 Combining Schedule of Revenues, Expenses and Changes in Net Assets	59
5 Combining Schedule of Cash Flows	60-61
6 Schedule of Changes in Special Revenue Fund, Student Activity Accounts	62
7 Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	64-65
8 Schedule of Expenditures of Federal Awards	66-67
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	68-69

TABLE OF CONTENTS
(continued)

	Page
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	70-71
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	72-76

OTTUMWA COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2009 Election)		
Carol Mitchell	President	2009
R. Payson Moreland	Vice President	2009
Jeff Strunk	Board Member	2009
Cindy Kurtz-Hopkins	Board Member	2011
Doug Mathias	Board Member	2011
Ron Oswalt	Board Member	2011
Greg Riley	Board Member	2011
<u>Board of Education</u>		
(After September 2009 Election)		
Carol Mitchell	President	2013
R. Payson Moreland	Vice President	2013
Ron Oswalt	Board Member	2011
Greg Riley	Board Member	2011
Cindy Kurtz-Hopkins	Board Member	2011
Doug Mathias	Board Member	2011
Jeff Strunk	Board Member	2013
<u>School Officials</u>		
Dr. Jon Sheldahl	Superintendent	2013
John Donner	Business Manager District Secretary/Treasurer	2010
Richard Gaumer	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Ottumwa Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ottumwa Community School District, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ottumwa Community School District at June 30, 2010, 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 December 10, 2010 on our consideration of Ottumwa 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 52 through 54 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ottumwa Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of District management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This 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 as a whole.

Oskaloosa, Iowa
December 10, 2010

**Ottumwa Community School District
MANAGEMENT DISCUSSION AND ANALYSIS
For the fiscal year ended June 30, 2010**

Ottumwa Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

The State of Iowa cut state funding to the District during 2009-10 by \$4,556,744 of which \$2,139,007 was backfilled with Federal Stabilization Funds resulting in a \$2,417,737 net reduction in expected State funding.

The District is receiving Federal American Recovery and Reinvestment Act (ARRA) funds for Title I, \$385,653 of which was expended in 2009-10 and Special Education Part B funds, \$545,800 of which was expended in 2009-10.

The District's General Fund Unrestricted Fund Balance declined by \$408,625 to \$2,022,087 on June 30, 2010, making the District's solvency ratio 5.02%.

The District's property tax levy rate remained constant at approximately the average for the State of Iowa.

The District showed an increase in total net assets of \$1,297,586 for the year ended June 30, 2010, a 6.5% increase.

As of June 30, 2010 the District had a total government funds unrestricted fund balance of \$4,276,821 or 9% of 2009-10 expenditures. Unrestricted balances by fund are as follows: General Fund \$2,022,087, Capital Projects Fund \$1,453,730, Student Activities Fund \$588,256 and Management Fund \$212,748.

The District completed a \$14 million dollar addition and renovation project to the middle school and moved all sixth graders to that facility in the fall of 2009.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the Ottumwa Community School District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of Ottumwa Community School District's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Ottumwa Community School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the district-wide financial statements reflect functions of the Ottumwa Community School District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the district include instruction, support services, non-instructional programs, operation and maintenance of plant, student transportation and capital construction. Business-type activities are those that the District charges a fee to help cover the cost, such as school nutrition, before and after school child care and student construction.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same function reported as governmental activities in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the district's near-term financial requirements.

Because of the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. By doing so, readers may better understand the long-term impact of the district's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes to fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, and Capital Projects Funds which are considered to be major funds. Data from the other governmental funds is combined into a single, aggregated presentation.

Proprietary funds. Proprietary funds are used to account for activities that are the same as private business activities. Proprietary funds are reported in the same manner as the district-wide statements. The District has two types of proprietary funds: enterprise and internal service. The District has three enterprise funds: School Nutrition, Youth Care and Student Construction. The District maintains one internal service fund to account for the premium and claim payments for the self-funded health and dental plans of the District.

Fiduciary funds. The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds. The District has one Private-Purpose Trust Fund to account for outside donations for scholarships for individual students in this fund.

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

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

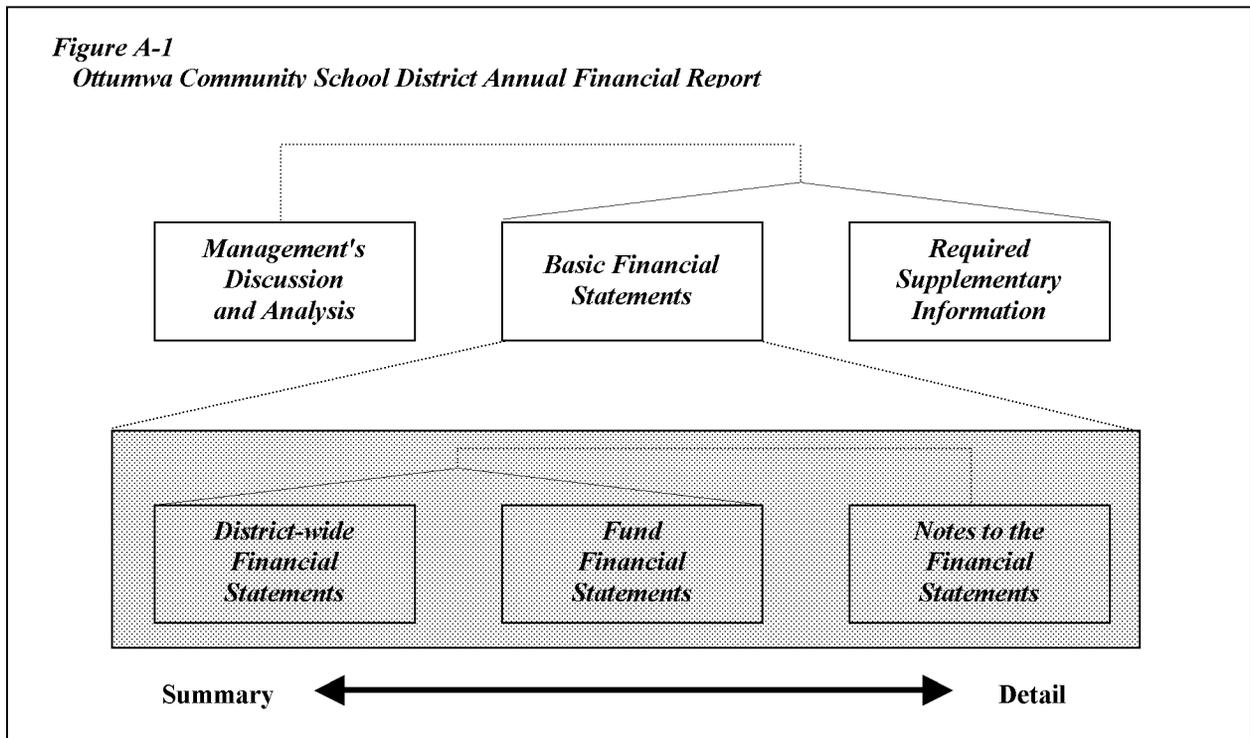


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Net Assets – Table 1 below provides a summary of the District’s net assets for the year ended June 30, 2010 compared to June 30, 2009.

Table 1-Net Assets

	<u>Governmental Activities</u>		<u>Business Type</u> <u>Activities</u>		<u>Total District</u>	
	<u>June 30</u>		<u>June 30</u>		<u>June 30</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
ASSETS						
Current and other assets	\$25,521,541	\$25,366,925	867,603	739,081	\$26,389,144	\$26,106,006
Capital assets	27,118,711	27,770,205	442,170	479,874	27,560,881	28,250,079
Total assets	<u>52,640,252</u>	<u>53,137,130</u>	<u>1,309,773</u>	<u>1,218,955</u>	<u>53,950,025</u>	<u>54,356,085</u>
LIABILITIES						
Long-term liabilities	16,047,771	17,446,604	6,050	6,050	16,053,821	17,452,654
Other liabilities	16,493,812	16,788,883	177,836	187,578	16,671,648	16,976,461
Total liabilities	<u>32,541,583</u>	<u>34,235,487</u>	<u>183,886</u>	<u>193,628</u>	<u>32,725,469</u>	<u>34,429,115</u>
NET ASSETS						
Invested in capital assets						
Net of debt	12,343,711	10,970,205	442,170	479,874	12,785,881	11,450,079
Restricted	5,536,891	4,994,888			5,536,891	4,994,888
Unrestricted	<u>2,218,067</u>	<u>2,936,550</u>	<u>683,717</u>	<u>545,453</u>	<u>2,901,784</u>	<u>3,482,003</u>
Total Net Assets	<u>20,098,669</u>	<u>18,901,643</u>	<u>1,125,887</u>	<u>1,025,327</u>	<u>21,224,556</u>	<u>19,926,970</u>

The District’s combined total net assets increased by \$1,297,586 or 6.5% for 2010. Restricted net assets are \$5,536,891 and are resources that are subject to external restrictions on how they may be used. The majority of restricted assets are for debt repayment \$2,377,921 and capital projects of \$1,783,730 . Unrestricted net assets are \$2,901,784 and may be used to meet the district’s ongoing obligations to students and creditors. Unrestricted assets declined during the year by \$580,219 due to State funds being reduced after the start of the fiscal year.

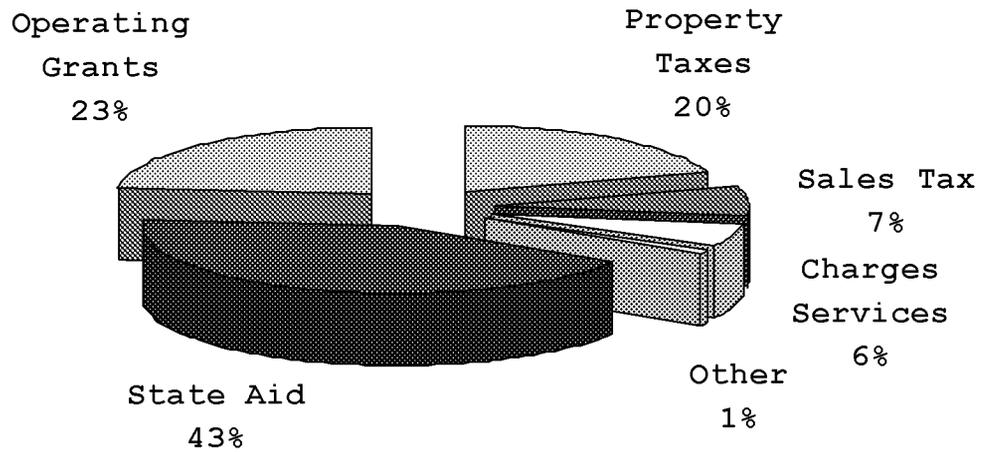
Statement of Activities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total School District</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program Revenues						
Charges for services	1,687,770	1,690,720	1,035,870	1,116,841	2,723,640	2,807,561
Operating grants and contributions	9,884,035	7,930,792	1,376,618	1,285,310	11,260,653	9,216,102
Capital grants and contributions	230,447	30,000			230,447	30,000
General Revenues						
Property and other taxes	9,772,054	9,536,076			9,772,054	9,536,076
Local option sales tax	3,450,457	3,466,778			3,450,457	3,466,778
State foundation aid	20,786,310	22,207,030			20,786,310	22,207,030
Other	172,748	349,888	3,064	5,104	175,812	354,992
Total Revenues	45,983,821	45,211,284	2,415,552	2,407,255	48,399,373	47,618,539
Expenditures						
Instruction	28,041,562	26,704,722			28,041,562	26,704,722
Pupil and instructional services	3,324,641	2,900,467			3,324,641	2,900,467
Administrative and business services	4,271,786	4,114,720	76,548	88,871	4,348,334	4,203,591
Maintenance and operations	3,615,199	3,615,561			3,615,199	3,615,561
Transportation	1,311,944	1,206,226	16,409		1,328,353	1,206,226
Other	4,193,848	3,455,558	177,718	224,598	4,371,566	3,680,156
Non instructional	27,815	13,906	2,044,317	2,024,755	2,072,132	2,038,661
Total Expenditures	44,786,795	42,011,160	2,314,992	2,338,224	47,101,787	44,349,384
Change in net assets	1,197,026	3,200,124	100,560	69,031	1,297,586	3,269,155
Net assets beginning of year	18,901,643	15,701,519	1,025,327	956,296	19,926,970	16,657,815
Net assets end of year	20,098,669	18,901,643	1,125,887	1,025,327	21,224,556	19,926,970

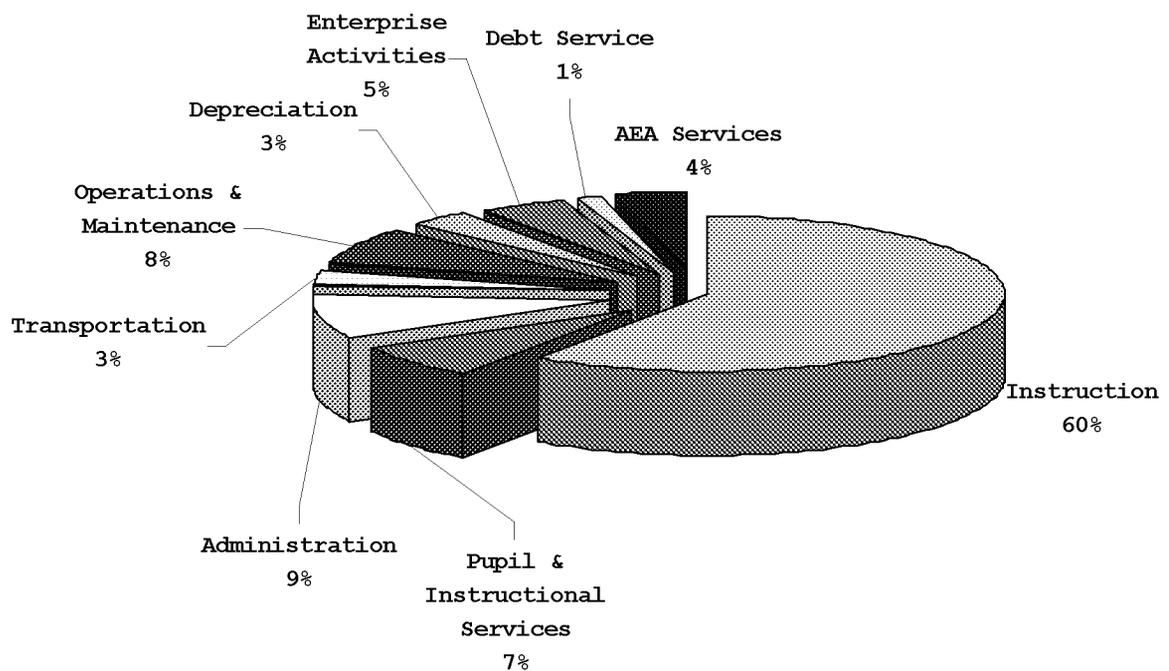
The District's net assets increased by \$1,297,586 for the year ended June 30, 2010, or 6.5%. District revenues rose by 1.6%, a \$780,834 increase from the previous year. Revenues from operating grants and contributions increased by \$2,044,551 or 22% as the District received more federal stimulus funds, some of which replaced state funds which declined by \$1,420,720 or 6.4%. Total expenditures increased by \$2,752,403 or 6.2%. This increase in expenditures was due in large part to federal funding in the area of instructional staff services which increased \$422,522 or 14.6%. Expenditures for instructional services increased by 5.0%, administrative services expenditures increased by 3.4%, transportation expenditures by 10.1% and other expenditures by 18.8%. The large increase in other expenditures was due to an approximate \$520,000 increase in depreciation as the addition and renovation to our Middle School was completed.

State foundation aid accounted for 45% of the revenue from Governmental Activities, with local property taxes 21.3% and operating grants and contributions 21.5% being the next largest sources of revenue. Governmental activities accounted for 95% of total district expenditures. Within the governmental activities the largest expenditures were for instructional programs (63%), pupil and instructional services (7%) maintenance and operations (8%), administrative and business services (9%).

Sources of District Revenue for FY 2010



Expenditures for FY 2010



Financial Analysis of the District's Funds

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

Governmental Fund Highlights

The focus of the Ottumwa Community School District's governmental funds is to provide information on the near-term inflows, outflows and balance of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

The District had a total government funds unreserved, undesignated fund balance of \$4,276,821 or 9% of 2009-10 expenditures. By fund, the unreserved, undesignated balances were as follows: General Fund \$2,022,087, Capital Projects Fund \$1,453,730 Student Activities Fund \$588,256 and Management Fund \$212,748.

The District had \$3,768,403 of reserved fund balance on June 30, 2010, \$2,614,442 in the Debt Service fund which will be used to make future bond payments.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased \$87,062 to \$803,876 on revenues of \$2,028,975 and expenditures of \$1,941,883. Revenue increased by 4.8% while expenditures increased 1.4%.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget, following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared in accordance with generally accepted accounting principles. Both revenues and expenditures were under budget in the General fund due to the reduction in state funding and corresponding reduction in expenditures. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

The District's total actual revenues were approximately \$1,800,000 or 3.7% less than the total budgeted receipts, this was due in most part to the reduction in state funds for 2009-10. Total expenditures were approximately \$3,600,000 less than budgeted, a variance of 7.1%. This variance in expenditures was due mainly to construction projects budgeted but actually completed in another fiscal year..

Capital Asset and Debt Administration

Capital Assets

	<u>Governmental Activities</u>		<u>Business- Type</u>		<u>District</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>Total</u> <u>2010</u>
Land	472,677	472,677			472,677
Construction in progress		14,817,418			
Buildings	45,617,528	30,038,316			45,617,528
Improvements non Bldgs	858,152	779,752			858,152
Furniture and Equipment	746,047	741,063	892,135	878,410	1,638,182
Total Capital Assets	47,694,404	46,849,226	892,135	878,410	48,586,539
Accumulated Depreciation	20,575,693	19,079,021	449,965	398,536	21,025,658
Capital Net Assets	27,118,711	27,770,205	442,170	479,874	27,560,881

The District completed an addition/renovation project at our middle school that was put into operation in the fall of 2010.

Long-Term Debt

	<u>Outstanding</u> <u>2009</u>	<u>Net Change</u> <u>2010</u>	<u>Outstanding</u> <u>2010</u>
Early Retirement & Compensated Absence	412,753	376,865	789,618
General Obligation Bonds 1998	4,800,000	-710,000	4,090,000
Sales and Service Tax Bonds	12,000,000	-1,315,000	10,685,000
Net OPEB Liability	233,851	249,302	483,153
Total	17,446,604	-1,398,833	16,047,771

Economic Factors Bearing on the District's Future

The State of Iowa has experienced a significant economic downturn that has severely hampered its ability to fund schools at the level set by legislation. For the year ended June 30, 2009 the Governor ordered a 1.5% across the board cut in state funds and used federal stimulus funds to replace state dollars for education. In the fall of 2010 the Governor ordered an additional 10% across the board cut for the 2009-10 fiscal year. For 2010-11 the State set allowable growth at 2% but underfunded the State share of this increase by \$1,447,500 for Ottumwa CSD.

The Revenue Estimation Conference report in December of 2010 estimated larger increases in state revenue for both this fiscal year and next than earlier estimates

The District's enrollment should be expected to continue to decrease at a 1-2% annual decline based on current trends. The District's decline in enrollment has been slightly less than that experienced by surrounding rural school districts.

Three of the District's labor contract will be open for 2011-12, Teachers, Custodial/Maintenance and Food Service.

Effective July 1st 2011 contributions to the Iowa Public Employees Retirement System (IPERS) will be increasing 2%, 1.12% for the District and .88% for the Employee. Future increases will be limited to maximum of 1% annually.

The District anticipates that it will refinance some of its long term debt obligations during 2010-11 to a more favorable interest rate.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John Donner, Business Manager, Ottumwa Community School District, 422 McCarroll Drive, Ottumwa, Iowa, 52501.

This page intentionally left blank

Basic Financial Statements

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2010

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 12,999,492	\$ 562,607	\$ 13,562,099
Receivables:			
Property tax:			
Current year	233,260	-	233,260
Succeeding year	10,440,053	-	10,440,053
Accounts	45,496	-	45,496
Due from other governments	1,436,264	-	1,436,264
Inventories	36,976	304,996	341,972
Prepaid expenses (note 4)	330,000	-	330,000
Capital assets, net of accumulated depreciation (note 5)	27,118,711	442,170	27,560,881
	<hr/>	<hr/>	<hr/>
Total assets	52,640,252	1,309,773	53,950,025
Liabilities			
Accounts payable	1,022,378	34,557	1,056,935
Salaries and benefits payable	4,283,033	131,804	4,414,837
Claims incurred but not reported	235,000	-	235,000
Accrued interest payable	236,522	-	236,522
Deferred revenue:			
Succeeding year property tax	10,440,053	-	10,440,053
Other	276,826	11,475	288,301
Long-term liabilities (notes 6 and 7):			
Portion due within one year:			
Early retirement	186,788	-	186,788
Bonds payable	2,715,000	-	2,715,000
Compensated absences	182,749	-	182,749
Portion due after one year:			
Early retirement	420,081	-	420,081
Bonds payable	12,060,000	-	12,060,000
Net OPEB liability	483,153	6,050	489,203
	<hr/>	<hr/>	<hr/>
Total liabilities	32,541,583	183,886	32,725,469

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 12,343,711	\$ 442,170	\$ 12,785,881
Restricted for:			
Categorical funding (note 11)	786,984	-	786,984
Other special revenue purposes	588,256	-	588,256
Debt service	2,377,921	-	2,377,921
Capital projects	1,783,730	-	1,783,730
Unrestricted	<u>2,218,067</u>	<u>683,717</u>	<u>2,901,784</u>
Total net assets	<u>\$ 20,098,669</u>	<u>\$ 1,125,887</u>	<u>\$ 21,224,556</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 28,041,562	\$ 1,660,706	\$ 7,776,060	\$ -
Support services:				
Student services	1,541,138	-	128,289	-
Instructional staff services	1,783,503	-	149,074	-
Administration services	4,271,786	27,064	-	-
Operation and maintenance of plant services	3,615,199	-	12,267	-
Transportation services	1,311,944	-	48,874	-
	<u>12,523,570</u>	<u>27,064</u>	<u>338,504</u>	<u>-</u>
Non-instructional programs	<u>27,815</u>	-	-	-
Other expenditures:				
Facilities acquisition	206,036	-	-	230,447
Long-term debt interest and fiscal charges	662,234	-	-	-
AEA flowthrough	1,769,471	-	1,769,471	-
Depreciation (unallocated) *	1,556,107	-	-	-
	<u>4,193,848</u>	<u>-</u>	<u>1,769,471</u>	<u>230,447</u>
Total governmental activities	<u>44,786,795</u>	<u>1,687,770</u>	<u>9,884,035</u>	<u>230,447</u>
Business-Type Activities:				
Support services:				
Food service operations	76,548	-	-	-
Other programs	16,409	-	-	-
	<u>92,957</u>	<u>-</u>	<u>-</u>	<u>-</u>

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (18,604,796)	\$ -	\$ (18,604,796)
(1,412,849)	-	(1,412,849)
(1,634,429)	-	(1,634,429)
(4,244,722)	-	(4,244,722)
(3,602,932)	-	(3,602,932)
(1,263,070)	-	(1,263,070)
(12,158,002)	-	(12,158,002)
(27,815)	-	(27,815)
24,411	-	24,411
(662,234)	-	(662,234)
-	-	-
(1,556,107)	-	(1,556,107)
(2,193,930)	-	(2,193,930)
(32,984,543)	-	(32,984,543)
-	(76,548)	(76,548)
-	(16,409)	(16,409)
-	(92,957)	(92,957)
-	(92,957)	(92,957)

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants and Contributions
Business-Type Activities (continued):				
Non-instructional programs:				
Food service operations	\$ 1,865,335	\$ 677,072	\$ 1,349,633	\$ -
Other programs	178,982	173,468	26,985	-
	<u>2,044,317</u>	<u>850,540</u>	<u>1,376,618</u>	<u>-</u>
Other expenses:				
Other programs	177,718	185,330	-	-
	<u>177,718</u>	<u>185,330</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>2,314,992</u>	<u>1,035,870</u>	<u>1,376,618</u>	<u>-</u>
Total	<u>\$ 47,101,787</u>	<u>\$ 2,723,640</u>	<u>\$ 11,260,653</u>	<u>\$ 230,447</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
Statewide sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		<u>Total</u>
\$	-	\$ 161,370	\$	161,370
	-	21,471		21,471
	-	182,841		182,841
	-	7,612		7,612
	-	97,496		97,496
	(32,984,543)	97,496		(32,887,047)
\$	9,093,591	-	\$	9,093,591
	678,463	-		678,463
	3,450,457	-		3,450,457
	20,786,310	-		20,786,310
	105,367	3,064		108,431
	67,381	-		67,381
	34,181,569	3,064		34,184,633
	1,197,026	100,560		1,297,586
	18,901,643	1,025,327		19,926,970
\$	<u>20,098,669</u>	<u>\$ 1,125,887</u>	\$	<u>21,224,556</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General	Debt Service	Nonmajor	Total
Assets				
Cash and pooled investments	\$ 7,189,328	\$ 2,598,511	\$ 1,826,232	\$ 11,614,071
Receivables:				
Property tax:				
Current year	208,747	15,932	8,581	233,260
Succeeding year	9,370,054	710,002	359,997	10,440,053
Accounts	947	-	1,844	2,791
Due from other governments	864,119	-	572,145	1,436,264
Inventories	36,976	-	-	36,976
Prepaid expenses (note 4)	-	-	330,000	330,000
Total assets	\$ 17,670,171	\$ 3,324,445	\$ 3,098,799	\$ 24,093,415
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 830,342	\$ -	\$ 152,832	\$ 983,174
Salaries and benefits payable	4,281,797	-	1,236	4,283,033
Deferred revenue:				
Succeeding year property tax	9,370,054	710,002	359,997	10,440,053
Other	291,826	-	-	291,826
Total liabilities	14,774,019	710,002	514,065	15,998,086
Fund balances:				
Reserved for:				
Categorical funding (note 11)	786,984	-	-	786,984
Inventories	36,976	-	-	36,976
Prepaid expenses	-	-	330,000	330,000
Debt service	-	279,949	-	279,949
Revenue bond sinking fund	-	2,334,494	-	2,334,494
Unreserved, designated for educational trust	50,105	-	-	50,105
Unreserved, undesignated, reported in:				
General fund	2,022,087	-	-	2,022,087
Special revenue funds	-	-	801,004	801,004
Capital projects fund	-	-	1,453,730	1,453,730
Total fund balances	2,896,152	2,614,443	2,584,734	8,095,329
Total liabilities and fund balances	\$ 17,670,171	\$ 3,324,445	\$ 3,098,799	\$ 24,093,415

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2010

Total fund balances of governmental funds	\$ 8,095,329
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
The Internal Service Fund net assets are incorporated into governmental net assets due to the integral nature of the services performed.	1,153,922
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	27,118,711
Other long-term assets, including income surtax receivable, are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	15,000
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.	(236,522)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(16,047,771)</u>
Net assets of governmental activities	<u>\$ 20,098,669</u>
See notes to financial statements.	

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	General	Debt Service	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 8,726,341	\$ 677,838	\$ 3,809,174	\$ 13,213,353
Tuition	640,221	-	-	640,221
Other	568,781	14,899	1,154,225	1,737,905
Intermediate sources	138,198	-	-	138,198
State sources	24,108,276	624	337	24,109,237
Federal sources	6,135,396	-	-	6,135,396
Total revenues	<u>40,317,213</u>	<u>693,361</u>	<u>4,963,736</u>	<u>45,974,310</u>
Expenditures:				
Current:				
Instruction	26,701,675	-	1,015,269	27,716,944
Support services:				
Student services	1,393,624	-	2,340	1,395,964
Instructional staff services	1,928,677	-	-	1,928,677
Administration services	4,222,565	-	13,246	4,235,811
Operation and maintenance of plant services	3,437,583	-	171,507	3,609,090
Transportation services	1,309,162	-	2,782	1,311,944
	<u>12,291,611</u>	<u>-</u>	<u>189,875</u>	<u>12,481,486</u>
Non-instructional programs	27,815	-	-	27,815
Other expenditures:				
Facilities acquisition	-	-	1,166,229	1,166,229
Long term debt:				
Principal	-	2,025,000	-	2,025,000
Interest and fiscal charges	-	698,411	-	698,411
AEA flowthrough	1,769,471	-	-	1,769,471
	<u>1,769,471</u>	<u>2,723,411</u>	<u>1,166,229</u>	<u>5,659,111</u>
Total expenditures	<u>40,790,572</u>	<u>2,723,411</u>	<u>2,371,373</u>	<u>45,885,356</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(473,359)</u>	<u>(2,030,050)</u>	<u>2,592,363</u>	<u>88,954</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Other financing sources (uses):				
Sale of equipment	\$ 700	\$ -	\$ -	\$ 700
Interfund transfers in (note 3)	-	2,726,136	-	2,726,136
Interfund transfers out (note 3)	-	-	(2,726,136)	(2,726,136)
Total other financing sources (uses)	<u>700</u>	<u>2,726,136</u>	<u>(2,726,136)</u>	<u>700</u>
Net change in fund balances	(472,659)	696,086	(133,773)	89,654
Fund balances beginning of year	<u>3,368,811</u>	<u>1,918,357</u>	<u>2,718,507</u>	<u>8,005,675</u>
Fund balances end of year	<u>\$ 2,896,152</u>	<u>\$ 2,614,443</u>	<u>\$ 2,584,734</u>	<u>\$ 8,095,329</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

Net change in fund balances - total governmental funds \$ 89,654

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

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

	Expenditures for capital assets	\$ 995,290	
	Depreciation expense	<u>(1,646,784)</u>	(651,494)

Local grant revenue received but not expended until after the District's fiscal year end is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities. 8,811

The change in net assets of the Internal Service Fund represents an overcharge for services performed for governmental activities. Expenses in governmental activities are adjusted to reflect this overcharge in the Statement of Activities. 315,045

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 2,025,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 36,177

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:

	Early retirement	(391,962)	
	Compensated absences	15,097	
	Net OPEB liability	<u>(249,302)</u>	<u>(626,167)</u>

Change in net assets of governmental activities \$ 1,197,026

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
Assets		
Cash and cash equivalents	\$ 562,607	\$ 1,385,421
Receivables:		
Accounts	-	42,705
Inventories	304,996	-
Capital assets, net of accumulated depreciation (note 5)	<u>442,170</u>	<u>-</u>
Total assets	<u>1,309,773</u>	<u>1,428,126</u>
Liabilities		
Accounts payable	34,557	39,204
Salaries and benefits payable	131,804	-
Claims incurred but not reported	-	235,000
Deferred revenue	11,475	-
Net OPEB liability (notes 6 and 7)	<u>6,050</u>	<u>-</u>
Total liabilities	<u>183,886</u>	<u>274,204</u>
Net Assets		
Invested in capital assets	442,170	-
Unrestricted	<u>683,717</u>	<u>1,153,922</u>
Total net assets	<u>\$ 1,125,887</u>	<u>\$ 1,153,922</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2010

	Enterprise Funds	Internal Service Fund
	<u> </u>	<u> </u>
Operating revenues:		
Local sources:		
Charges for services	\$ 1,035,870	\$ 2,491,906
Operating expenses:		
Support services:		
Salaries	65,720	-
Benefits	8,184	-
Purchased services	19,053	-
	<u>92,957</u>	<u>-</u>
Non-instructional programs:		
Salaries	662,253	-
Benefits	109,570	-
Purchased services	47,575	2,187,447
Supplies	1,173,490	-
Other	51,429	-
	<u>2,044,317</u>	<u>2,187,447</u>
Facilities acquisition and construction:		
Salaries	9,289	-
Benefits	1,241	-
Purchased services	4,419	-
Supplies	162,769	-
	<u>177,718</u>	<u>-</u>
	<u>2,314,992</u>	<u>2,187,447</u>
Operating income (loss)	<u>(1,279,122)</u>	<u>304,459</u>
Non-operating revenues:		
Interest on investments	3,064	10,586
Local sources	8,300	-
State sources	18,144	-
Federal sources	1,350,174	-
Total non-operating revenues	<u>1,379,682</u>	<u>10,586</u>
Change in net assets	100,560	315,045
Net assets beginning of year	<u>1,025,327</u>	<u>838,877</u>
Net assets end of year	<u>\$ 1,125,887</u>	<u>\$ 1,153,922</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2010

	Enterprise Funds	Internal Service Fund
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 666,343	\$ -
Cash received from miscellaneous operating activities	376,174	2,449,201
Cash payments to employees for services	(856,210)	-
Cash payments to suppliers for goods or services	<u>(1,315,559)</u>	<u>(2,236,347)</u>
Net cash provided by (used by) operating activities	<u>(1,129,252)</u>	<u>212,854</u>
Cash flows from non-capital financing activities:		
Local grants received	8,300	-
State grants received	18,144	-
Federal grants received	<u>1,215,716</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>1,242,160</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(13,725)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>3,064</u>	<u>10,586</u>
Net increase in cash and cash equivalents	102,247	223,440
Cash and cash equivalents beginning of year	<u>460,360</u>	<u>1,161,981</u>
Cash and cash equivalents end of year	<u>\$ 562,607</u>	<u>\$ 1,385,421</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2010

	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:		
Operating income (loss)	\$ (1,279,122)	\$ 304,459
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:		
Depreciation	51,429	-
Commodities used	134,458	-
(Increase) in accounts receivable	-	(42,705)
(Increase) in inventories	(26,275)	-
(Decrease) in accounts payable	(16,436)	(3,900)
Increase in salaries and benefits payable	47	-
Increase in deferred revenue	6,647	-
(Decrease) in claims incurred but not reported	-	(45,000)
	<u> -</u>	<u> (45,000)</u>
Net cash provided by (used by) operating activities	<u>\$ (1,129,252)</u>	<u>\$ 212,854</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received \$134,458 of federal commodities.

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2010

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Assets:	
Cash and pooled investments	\$ <u>81,873</u>
Liabilities:	
None	\$ <u>-</u>
Net assets:	
Reserved for scholarships	\$ <u>81,873</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 Year Ended June 30, 2010

		Private Purpose Trust
		<u>Scholarship</u>
Additions:		
Local sources:		
Gifts and contributions	\$	311
Interest		<u>1,079</u>
Total additions		<u>1,390</u>
Deductions:		
Non-instructional programs:		
Scholarships awarded		<u>2,140</u>
Change in net assets		(750)
Net assets beginning of year		<u>82,623</u>
Net assets end of year	\$	<u><u>81,873</u></u>
See notes to financial statements.		

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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

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

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

The District reports the following major governmental funds:

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

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

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

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

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

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost, 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 that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

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.

Prepaid Expenses – The District has paid for services that will not be a benefit until future periods. These amounts are reflected as prepaid expenses asset in the financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

Asset Class	Amount
Land	\$ 4,000
Buildings	4,000
Improvements other than buildings	4,000
Intangibles	100,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	4,000

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

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

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

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

Deferred revenue in the Statement of Net Assets consists of the succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, unearned meal revenues, and unearned federal grants.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

Restricted Net Assets – In the District-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Net assets restricted through enabling legislation as of June 30, 2010 consists of \$5,536,891.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures did not exceed the amounts budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 2. Cash and Pooled Investments (continued)

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ <u>3,529,269</u>

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

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

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ <u>2,726,136</u>

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

Note 4. Prepaid Expense

The District entered into an agreement to establish the Regional Academy at the Indian Hills Community College (IHCC) North Campus. The agreement calls for the lease of IHCC property for a term of 114 months for a total cost of \$330,000. The term runs from August, 2010 through January, 2021. The prepaid expense will be amortized on a straight-line basis over the term of the lease.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 472,677	\$ -	\$ -	\$ 472,677
Construction in progress	14,817,418	774,011	15,591,429	-
Total capital assets not being depreciated	<u>15,290,095</u>	<u>774,011</u>	<u>15,591,429</u>	<u>472,677</u>
Capital assets being depreciated:				
Buildings	30,038,316	15,699,212	120,000	45,617,528
Improvements other than buildings	779,752	78,400	-	858,152
Furniture and equipment	741,063	35,096	30,112	746,047
Total capital assets being depreciated	<u>31,559,131</u>	<u>15,812,708</u>	<u>150,112</u>	<u>47,221,727</u>
Less accumulated depreciation for:				
Buildings	18,219,590	1,555,213	120,000	19,654,803
Improvements other than buildings	180,679	57,211	-	237,890
Furniture and equipment	678,752	34,360	30,112	683,000
Total accumulated depreciation	<u>19,079,021</u>	<u>1,646,784</u>	<u>150,112</u>	<u>20,575,693</u>
Total capital assets being depreciated, net	<u>12,480,110</u>	<u>14,165,924</u>	<u>-</u>	<u>26,646,034</u>
Governmental activities capital assets, net	<u>\$ 27,770,205</u>	<u>\$ 14,939,935</u>	<u>\$ 15,591,429</u>	<u>\$ 27,118,711</u>
Business-type activities:				
Furniture and equipment	\$ 878,410	\$ 13,725	\$ -	\$ 892,135
Less accumulated depreciation	398,536	51,429	-	449,965
Business-type activities capital assets, net	<u>\$ 479,874</u>	<u>\$ (37,704)</u>	<u>\$ -</u>	<u>\$ 442,170</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 5. Capital Assets (continued)

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

Governmental activities:

Instruction	\$ 50,623
Support services:	
Administration	14,892
Operation and maintenance of plant services	25,162
	90,677
Unallocated depreciation	1,556,107
	\$ 1,646,784

Business-type activities:

Food service operations	\$ 51,429
	\$ 51,429

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
Early retirement	\$ 214,907	\$ 504,859	\$ 112,897	\$ 606,869	\$ 186,788
General obligation bonds	4,800,000	-	710,000	4,090,000	745,000
Revenue bonds	12,000,000	-	1,315,000	10,685,000	1,970,000
Compensated absences	197,846	182,749	197,846	182,749	182,749
Net OPEB liability	233,851	249,302	-	483,153	-
	\$ 17,446,604	\$ 936,910	\$ 2,335,743	\$ 16,047,771	\$ 3,084,537
Total	\$ 17,446,604	\$ 936,910	\$ 2,335,743	\$ 16,047,771	\$ 3,084,537
	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ 6,050	\$ -	\$ -	\$ 6,050	\$ -
	\$ 6,050	\$ -	\$ -	\$ 6,050	\$ -

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 6. Long-Term Liabilities (continued)

Early Retirement

The District offered a voluntary early retirement plan to its certified employees for the year ended June 30, 2010. Eligible employees had to be licensed, at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees had to complete an application which was required to be approved by the Board of Education.

The early retirement incentive for each eligible certified employee was \$20,000, payable in annual payments over four years in equal installments.

The District has offered various other early retirement plans in prior years. Details of these plans are available upon request at the administration offices.

At June 30, 2010, the District had obligations to 52 participants with a total liability of \$606,869. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$112,897. Early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

General Obligation Bonds Payable

Details of the District's June 30, 2010 general obligations bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Issue dated September 1, 1998		
		Principal	Interest	Total
2011	4.60 %	\$ 745,000	\$ 189,242	\$ 934,242
2012	4.60	795,000	154,973	949,973
2013	4.60	810,000	118,402	928,402
2014	4.63	850,000	81,143	931,143
2015	4.70	890,000	41,830	931,830
		<u>\$ 4,090,000</u>	<u>\$ 585,590</u>	<u>\$ 4,675,590</u>

During the year ended June 30, 2010, the District retired \$710,000 in general obligation bonds.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 6. Long-Term Liabilities (continued)

Revenue Bonds Payable

Details of the District's June 30, 2010 revenue bonded indebtedness are as follows:

Year Ending June 30,	Issue dated July 19, 2007			Issue dated December 1, 2008			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2011	4.18 %	\$ 1,685,000	\$ 339,939	3.88 %	\$ 285,000	\$ 60,819	\$ 1,970,000	\$ 400,758
2012	4.18	1,735,000	268,460	3.88	315,000	49,179	2,050,000	317,639
2013	4.18	1,790,000	194,788	3.88	345,000	36,375	2,135,000	231,163
2014	4.18	1,850,000	118,712	3.88	370,000	22,504	2,220,000	141,216
2015	4.18	1,915,000	40,024	3.88	395,000	7,663	2,310,000	47,687
		<u>\$ 8,975,000</u>	<u>\$ 961,923</u>		<u>\$ 1,710,000</u>	<u>\$ 176,540</u>	<u>\$ 10,685,000</u>	<u>\$ 1,138,463</u>

The District pledged future local option (statewide) sales and services tax revenues to repay the \$10,000,000 bonds issued July 2007 and the \$2,000,000 bonds issued December 1, 2008. The bonds were issued for the purpose of financing a portion of the costs of renovating the middle school. The bonds are payable solely from the proceeds of the statewide sales and services tax revenues received by the District and are payable through June 30, 2015. The bonds are not a general obligation of the District. Annual principal and interest payments on the bonds are expected to require approximately 69 percent of the statewide sales and services tax revenues. The total principal and interest remaining to be paid on the bonds is \$11,823,463. For the current year, \$475,018 of interest was paid on the bonds and total statewide sales and services tax revenues were \$3,450,457.

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

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

Note 7. Other Postemployment Benefits (OPEB)

Plan Description – The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 255 active and 40 retired members in the plan. Participants must be age 55 or older at retirement.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 7. Other Postemployment Benefits (OPEB) (continued)

The medical/prescription drug coverage is provided through a self-funded plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The District’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District’s annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District’s net OPEB obligation:

Annual required contribution	\$	246,188
Interest on net OPEB obligation		3,114
Adjustment to annual required contribution		-
Annual OPEB cost		249,302
Contributions made		-
Increase in net OPEB obligation		249,302
Net OPEB obligation beginning of year		239,901
 Net OPEB obligation end of year	 \$	 489,203

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$172,080 to the medical plan. Plan members eligible for benefits contributed \$2,314,529, or 93.1% of the premium costs.

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 249,302	0%	\$ 489,203

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 7. Other Postemployment Benefits (OPEB) (continued)

Funded Status and Funding Progress – As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$2,223,523, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,223,523. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$28,950,969, and the ratio of the UAAL to covered payroll was 7.7%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, projected to 2000, applied on the basis of 2/3 female, 1/3 male.

Projected claim costs of the medical plan are \$589 per month for retirees less than age 65.

Note 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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$1,834,474, \$1,707,081, and \$1,578,550, respectively, equal to the required contributions for each year.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 9. Risk Management

Self-Funded Health and Dental Insurance

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

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

Payments are made to the plans based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for incurred but unpaid claims. The reserve for the Self-Funded Health and Self-Funded Dental plans was \$1,153,922 at June 30, 2010 and is recorded in the Internal Service Fund. The incurred but not reported claims liability of \$235,000 is reported as a liability of the Internal Service Fund at June 30, 2010.

Ottumwa Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of 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.

Note 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 \$1,769,471 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 11. Categorical Funding

The District's fund balance reserved for categorical funding at June 30, 2010 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Special Education	\$ 245,916
Salary improvement program	170,095
Four-year-old preschool	96,391
Professional development for model core curriculum	80,911
Gifted and talented	68,434
Early intervention	66,615
Market factor incentives	36,348
Limited English proficiency	11,783
Professional development	4,718
Beginning teacher mentoring and induction	4,195
Non-public textbooks	<u>1,578</u>
Total	<u>\$ 786,984</u>

This page intentionally left blank

Required Supplementary Information

OTTUMWA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances –
Budget and Actual – All Governmental Funds
and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2010

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
REVENUES:					
Local sources	\$ 15,591,479	\$ 1,047,234	\$ 16,638,713	\$ 17,154,556	\$ (515,843)
Intermediate sources	138,198	-	138,198	28,000	110,198
State sources	24,109,237	18,144	24,127,381	29,028,440	(4,901,059)
Federal sources	6,135,396	1,350,174	7,485,570	3,978,000	3,507,570
Total revenues	45,974,310	2,415,552	48,389,862	50,188,996	(1,799,134)
EXPENDITURES/EXPENSES:					
Instruction	27,716,944	-	27,716,944	28,825,000	1,108,056
Support services	12,481,486	92,957	12,574,443	12,804,480	230,037
Non-instructional programs	27,815	2,044,317	2,072,132	2,330,500	258,368
Other expenditures	5,659,111	177,718	5,836,829	7,899,064	2,062,235
Total expenditures/expenses	45,885,356	2,314,992	48,200,348	51,859,044	3,658,696
Excess (deficiency) of revenues over (under) expenditures/ expenses	88,954	100,560	189,514	(1,670,048)	1,859,562
Other financing sources, net	700	-	700	-	700
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses	89,654	100,560	190,214	(1,670,048)	1,860,262
Balance beginning of year	8,005,675	1,025,327	9,031,002	7,035,847	1,995,155
Balance end of year	<u>\$ 8,095,329</u>	<u>\$ 1,125,887</u>	<u>\$ 9,221,216</u>	<u>\$ 5,365,799</u>	<u>\$ 3,855,417</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2010

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis.

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

During the year ended June 30, 2010, expenditures did not exceed the amounts budgeted.

OTTUMWA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
 Required Supplementary Information
 Year Ended June 30, 2010

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	\$ -	\$ 2,223,523	\$ 2,223,523	0.0%	\$ 28,373,044	7.8%
2010	July 1, 2008	-	2,223,523	2,223,523	0.0%	28,950,969	7.7%

See note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2010

	Special Revenue				
	Management Levy	Student Activity	Capital Projects	Total	
Assets					
Cash and pooled investments	\$ 207,651	\$ 640,791	\$ 977,790	\$	1,826,232
Receivables:					
Property tax:					
Current year	8,581	-	-		8,581
Succeeding year	359,997	-	-		359,997
Accounts	-	1,844	-		1,844
Due from other governments	-	-	572,145		572,145
Prepaid expenses	-	-	330,000		330,000
Total assets	\$ 576,229	\$ 642,635	\$ 1,879,935	\$	3,098,799
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 3,484	\$ 53,143	\$ 96,205	\$	152,832
Salaries and benefits payable	-	1,236	-		1,236
Deferred revenue:					
Succeeding year property tax	359,997	-	-		359,997
Total liabilities	363,481	54,379	96,205		514,065
Fund balances:					
Reserved for:					
Prepaid expenses	-	-	330,000		330,000
Unreserved:					
Undesignated	212,748	588,256	1,453,730		2,254,734
Total fund balances	212,748	588,256	1,783,730		2,584,734
Total liabilities and fund balances	\$ 576,229	\$ 642,635	\$ 1,879,935	\$	3,098,799

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	<u>Special Revenue</u>			<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Capital Projects</u>	
Revenues:				
Local sources:				
Local tax	\$ 358,717	\$ -	\$ 3,450,457	\$ 3,809,174
Other	30,501	871,004	252,720	1,154,225
State sources	337	-	-	337
Total revenues	<u>389,555</u>	<u>871,004</u>	<u>3,703,177</u>	<u>4,963,736</u>
Expenditures:				
Current:				
Instruction	200,256	815,013	-	1,015,269
Support services:				
Student services	-	2,340	-	2,340
Administration services	13,246	-	-	13,246
Operation and maintenance of plant services	171,507	-	-	171,507
Transportation services	-	2,782	-	2,782
Other expenditures:				
Facilities acquisition	-	-	1,166,229	1,166,229
Total expenditures	<u>385,009</u>	<u>820,135</u>	<u>1,166,229</u>	<u>2,371,373</u>
Excess of revenues over under expenditures	4,546	50,869	2,536,948	2,592,363
Other financing uses:				
Interfund transfers out	-	-	(2,726,136)	(2,726,136)
Net change in fund balances	4,546	50,869	(189,188)	(133,773)
Fund balances beginning of year	<u>208,202</u>	<u>537,387</u>	<u>1,972,918</u>	<u>2,718,507</u>
Fund balances end of year	<u>\$ 212,748</u>	<u>\$ 588,256</u>	<u>\$ 1,783,730</u>	<u>\$ 2,584,734</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

 COMBINING SCHEDULE OF NET ASSETS
 ENTERPRISE FUNDS
 June 30, 2010

	School Nutrition	Youth Care	Career Academy House	Total
Assets				
Cash and pooled investments	\$ 375,289	\$ 112,600	\$ 74,718	\$ 562,607
Inventories	121,452	-	183,544	304,996
Capital assets, net of accumulated depreciation	438,220	-	3,950	442,170
Total assets	<u>934,961</u>	<u>112,600</u>	<u>262,212</u>	<u>1,309,773</u>
Liabilities				
Accounts payable	8,856	6,439	19,262	34,557
Salaries and benefits payable	105,871	25,933	-	131,804
Deferred revenue	11,475	-	-	11,475
Net OPEB liability	4,883	1,118	49	6,050
Total liabilities	<u>131,085</u>	<u>33,490</u>	<u>19,311</u>	<u>183,886</u>
Net Assets				
Invested in capital assets, net of related debt	438,220	-	3,950	442,170
Unrestricted	365,656	79,110	238,951	683,717
Total net assets	<u>\$ 803,876</u>	<u>\$ 79,110</u>	<u>\$ 242,901</u>	<u>\$ 1,125,887</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 ENTERPRISE FUNDS
 Year Ended June 30, 2010

	School Nutrition	Youth Care	Career Academy House	Total
Operating revenues:				
Local sources:				
Charges for services	\$ 677,072	\$ 173,468	\$ 185,330	\$ 1,035,870
Operating expenses:				
Support services:				
Salaries	65,720	-	-	65,720
Benefits	8,184	-	-	8,184
Purchased services	2,644	16,409	-	19,053
	<u>76,548</u>	<u>16,409</u>	<u>-</u>	<u>92,957</u>
Non-instructional programs:				
Salaries	527,400	134,853	-	662,253
Benefits	94,392	15,178	-	109,570
Purchased services	38,220	9,355	-	47,575
Supplies	1,153,894	19,596	-	1,173,490
Depreciation	51,429	-	-	51,429
	<u>1,865,335</u>	<u>178,982</u>	<u>-</u>	<u>2,044,317</u>
Facilities acquisition and construction:				
Salaries	-	-	9,289	9,289
Benefits	-	-	1,241	1,241
Purchased services	-	-	4,419	4,419
Supplies	-	-	162,769	162,769
	<u>-</u>	<u>-</u>	<u>177,718</u>	<u>177,718</u>
Total operating expenses	<u>1,941,883</u>	<u>195,391</u>	<u>177,718</u>	<u>2,314,992</u>
Operating income (loss)	<u>(1,264,811)</u>	<u>(21,923)</u>	<u>7,612</u>	<u>(1,279,122)</u>
Non-operating revenues:				
Interest on investments	2,240	824	-	3,064
Local sources	-	8,300	-	8,300
State sources	18,144	-	-	18,144
Federal sources	1,331,489	18,685	-	1,350,174
Total non-operating revenues	<u>1,351,873</u>	<u>27,809</u>	<u>-</u>	<u>1,379,682</u>
Change in net assets	87,062	5,886	7,612	100,560
Net assets beginning of year	<u>716,814</u>	<u>73,224</u>	<u>235,289</u>	<u>1,025,327</u>
Net assets end of year	<u>\$ 803,876</u>	<u>\$ 79,110</u>	<u>\$ 242,901</u>	<u>\$ 1,125,887</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
ENTERPRISE FUNDS
Year Ended June 30, 2010

	School Nutrition	Youth Care	Career Academy House	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 666,343	\$ -	\$ -	\$ 666,343
Cash received from miscellaneous operating activities	17,376	173,468	185,330	376,174
Cash payments to employees for services	(690,380)	(150,265)	(15,565)	(856,210)
Cash payments to suppliers for goods or services	(1,105,996)	(48,941)	(160,622)	(1,315,559)
Net cash provided by (used by) operating activities	<u>(1,112,657)</u>	<u>(25,738)</u>	<u>9,143</u>	<u>(1,129,252)</u>
Cash flows from non-capital financing activities:				
Local grants received	-	8,300	-	8,300
State grants received	18,144	-	-	18,144
Federal grants received	1,197,031	18,685	-	1,215,716
Net cash provided by non-capital financing activities	<u>1,215,175</u>	<u>26,985</u>	<u>-</u>	<u>1,242,160</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(13,725)	-	-	(13,725)
Cash flows from investing activities:				
Interest on investments	2,240	824	-	3,064
Net increase in cash and cash equivalents	91,033	2,071	9,143	102,247
Cash and cash equivalents beginning of year	284,256	110,529	65,575	460,360
Cash and cash equivalents end of year	<u>\$ 375,289</u>	<u>\$ 112,600</u>	<u>\$ 74,718</u>	<u>\$ 562,607</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF CASH FLOWS
 ENTERPRISE FUNDS
 Year Ended June 30, 2010

	<u>School Nutrition</u>	<u>Youth Care</u>	<u>Career Academy House</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:				
Operating income (loss)	\$ (1,264,811)	\$ (21,923)	\$ 7,612	\$ (1,279,122)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:				
Depreciation	51,429	-	-	51,429
Commodities used	134,458	-	-	134,458
(Increase) in inventories	(22,814)	-	(3,461)	(26,275)
Increase (decrease) in accounts payable	(22,882)	(3,581)	10,027	(16,436)
Increase (decrease) in salaries and benefits payable	5,316	(234)	(5,035)	47
Increase in deferred revenue	6,647	-	-	6,647
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used by) operating activities	\$ <u>(1,112,657)</u>	\$ <u>(25,738)</u>	\$ <u>9,143</u>	\$ <u>(1,129,252)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received \$134,458 of federal commodities.

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 Year Ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
District-Wide:				
Interest	\$ 65,302	\$ -	\$ -	65,302
Musical Fees	3,526	2,605	528	5,603
Administration	3,761	-	611	3,150
Trips	229,394	380,360	359,094	250,660
Other	20,363	20,075	16,844	23,594
Agassiz	1,989	5,632	4,946	2,675
Douma	3,617	12,464	13,756	2,325
Eisenhower	15,891	22,513	20,838	17,566
Horace Mann	12,016	33,451	28,908	16,559
James	3,002	17,176	17,635	2,543
Pickwick	20,876	8,710	15,810	13,776
Wildwood	10,358	13,146	13,221	10,283
Wilson	10,341	9,336	6,924	12,753
Evans	46,041	40,621	39,282	47,380
High School	89,423	303,932	279,878	113,477
Alternative High School	1,487	983	1,860	610
Total	\$ 537,387	\$ 871,004	\$ 820,135	\$ 588,256

See accompanying independent auditor's report.

This page intentionally left blank

OTTUMWA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST SEVEN YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2010	2009	2008	2007
Revenues:				
Local sources:				
Local tax	\$ 13,213,353	\$ 13,862,521	\$ 11,394,355	\$ 11,208,076
Tuition	640,221	626,137	706,636	707,458
Other	1,737,905	679,365	1,897,332	1,589,114
Intermediate sources	138,198	23,023	21,065	17,871
State sources	24,109,237	27,125,220	26,767,932	25,428,811
Federal sources	6,135,396	2,866,181	3,070,534	2,608,625
Total revenues	<u>\$ 45,974,310</u>	<u>\$ 45,182,447</u>	<u>\$ 43,857,854</u>	<u>\$ 41,559,955</u>
Expenditures:				
Instruction	\$ 27,716,944	\$ 26,782,056	\$ 26,056,421	\$ 25,424,111
Support services:				
Student services	1,395,964	1,358,617	1,262,883	1,209,650
Instructional staff services	1,928,677	1,547,588	1,772,491	1,394,278
Administration services	4,235,811	4,124,401	3,976,802	3,877,697
Operation and maintenance of plant services	3,609,090	3,606,585	3,538,876	3,595,889
Transportation services	1,311,944	1,206,227	1,225,644	1,175,279
Non-instructional programs	27,815	10,929	12,810	16,473
Other expenditures:				
Facilities acquisition	1,166,229	5,621,299	9,597,229	3,224,850
Long-term debt:				
Principal	2,025,000	680,000	635,000	615,000
Interest and fiscal charges	698,411	680,395	470,068	309,443
AEA flowthrough	1,769,471	1,586,078	1,559,499	1,480,592
Total expenditures	<u>\$ 45,885,356</u>	<u>\$ 47,204,175</u>	<u>\$ 50,107,723</u>	<u>\$ 42,323,262</u>

See accompanying independent auditor's report.

2006	2005	2004
\$ 11,164,979	\$ 10,981,439	\$ 9,154,683
703,647	674,413	656,652
1,496,771	1,468,688	1,947,936
19,195	44,665	7,193
23,539,622	22,598,252	22,286,299
2,682,677	3,321,783	3,349,311
\$ 39,606,891	\$ 39,089,240	\$ 37,402,074
\$ 24,393,086	\$ 23,843,305	\$ 23,014,703
1,489,444	1,576,887	1,180,904
1,398,523	1,163,541	952,636
3,394,586	3,052,393	3,010,152
3,512,685	3,240,112	3,381,279
1,148,380	1,032,484	987,835
54,216	18,886	96,537
991,970	1,187,999	1,159,943
550,000	525,000	500,000
339,318	364,242	763,052
1,395,915	1,341,364	1,345,454
\$ 38,668,123	\$ 37,346,213	\$ 36,392,495

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

Grantor / Program	CFDA Number	Grant Number	Expenditures
Direct:			
U. S. Department of Education:			
Fund for the Improvement of Education	84.215	FY 10	\$ <u>73,994</u>
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Child Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 10	157,743
National School Lunch Program (non-cash)	10.555	FY 10	134,458
National School Lunch Program	10.555	FY 10	998,725
Summer Food Service Program for Children	10.559	FY 10	<u>18,685</u>
			<u>1,309,611</u>
Child and Adult Care Food Program	10.558	FY 10	<u>19,609</u>
Fresh Fruit and Vegetable Program	10.582	FY 10	<u>20,981</u>
U. S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster Programs:			
Title I Grants to Local Educational Agencies	84.010	5049-GC	25,588
Title I Grants to Local Educational Agencies	84.010	5049-G	1,422,578
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY 09	128,821
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY 10	<u>256,832</u>
			<u>1,833,819</u>
Migrant Education - State Grant Program	84.011	FY 10	<u>130,575</u>
Special Education Cluster Programs:			
Special Education - Preschool Grants	84.173	FY 10	<u>7,653</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 10	<u>25,919</u>
Improving Teacher Quality State Grants	84.367	FY 10	<u>303,916</u>
Grants for State Assessments and Related Activities	84.369	FY 10	<u>29,523</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

<u>Grantor / Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect (continued):			
U. S. Department of Education (continued):			
Iowa Department of Education (continued):			
Tech-Prep Education	84.243	FY 10	\$ <u>83,399</u>
Reading First State Grants	84.357	FY 10	<u>96,000</u>
Education for Homeless Children and Youth	84.196	FY 10	<u>13,399</u>
State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	FY 10	<u>2,157,066</u>
Southern Prairie Area Education Agency:			
Special Education Cluster:			
Special Education - Grants to States	84.027	FY 10	269,656
ARRA - Special Education - Grants to States, Recovery Act	84.391	FY 09	147,467
ARRA - Special Education - Grants to States, Recovery Act	84.391	FY 10	<u>398,333</u>
			<u>815,456</u>
U. S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Promoting Safe and Stable Families	93.556	FY 10	<u>22,500</u>
Wapello County:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	FY 10	<u>95,401</u>
Total			\$ <u><u>7,038,821</u></u>

Basis of Presentation –

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

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Ottumwa Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Ottumwa Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 10, 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 Ottumwa Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ottumwa Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ottumwa Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. No material weaknesses in internal control over financial reporting were noted.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about Ottumwa Community School District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

Oskaloosa, Iowa
December 10, 2010

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

To the Board of Education of
Ottumwa Community School District:

Compliance

We have audited the compliance of Ottumwa Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Ottumwa Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Ottumwa Community School District's management. Our responsibility is to express an opinion on Ottumwa Community School District's compliance based on our audit.

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

In our opinion, Ottumwa Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. No material weaknesses in internal control over compliance over major programs were noted.

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

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

Oskaloosa, Iowa
December 10, 2010

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.394 – ARRA – State Fiscal Stabilization Fund – Education State Grants, Recovery Act
 - Clustered programs:
 - CFDA Number 84.027 – Special Education – Grants to States
 - CFDA Number 84.173 – Special Education – Preschool Grants
 - CFDA Number 84.391 – ARRA – Special Education – Grants to States, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Ottumwa Community School District qualified as a low-risk auditee.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

Part II: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Internal Control Deficiencies:

No matters were reported.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Internal Control Deficiency:

No matters were reported.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-10 Certified Budget – Expenditures for the year ended June 30, 2010, did not exceed the amounts budgeted.
- IV-B-10 Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- IV-C-10 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-10 Business Transactions – No business transactions between the District and District officials or employees were noted.
- IV-E-10 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-10 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-10 Certified Enrollment – We noted in our testing of the enrollment figures certified to the Department of Education that the number of resident students was overstated by one student.

Recommendation – The District should contact the Iowa Department of Education to report this error in the certified enrollment count.

Response – We will contact the necessary officials to report this error. We will be more careful in our class counts in the future.

Conclusion – Response accepted.

- IV-H-10 Supplementary Weighting – We noted in our testing of the enrollment figures certified to the State of Iowa that the supplementary weighting calculation was overstated by 3.55 students.

Recommendation – The District should contact the Department of Education to report this adjustment to the calculation.

Response – We will contact the necessary officials to report this adjustment.

Conclusion – Response accepted.

- IV-I-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.

- IV-J-10 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

Part IV: Other Findings Related to Statutory Reporting (continued):

- IV-K-10 Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- IV-L-10 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, 2010, the District's financial activity and other required information for the statewide sales and services tax revenue are as follows:

Beginning balance	\$	1,972,918
Statewide sales and services tax revenue		3,450,457
Other related revenues		252,720
Expenditures/transfers out:		
School infrastructure:		
Buildings	\$	(994,175)
Equipment		(45,990)
Other improvements		(126,064)
Debt service for school infrastructure:		
Revenue debt		<u>(2,726,136)</u> <u>(3,892,365)</u>
Ending balance	\$	<u><u>1,783,730</u></u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	<u>Per \$1,000 of Taxable Valuation</u>		<u>Property Tax Dollars</u>
Debt service levy	\$ 1.22898	\$	836,389
Physical plant and equipment levy	1.67000		1,136,529