

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2013

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Odebolt-Arthur Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Traci Bengford	President	2015
Brad Lundell	Vice President	2013
Naomi Lozier	Board Member	2013
Paul Neumann	Board Member	2015
Pat Hoefling	Board Member	2015
School Officials		
Dr. Nick Ouellette	Superintendent	2013
Jann Murphy	District Secretary/Treasurer (Resigned May 2013)	2013
Kathy Leonard	District Secretary/Treasurer (Appointed June 2013)	2013
Rick Frank	Attorney	2013

Odebolt-Arthur Community School District

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Odebolt-Arthur Community School District, Odebolt, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Odebolt-Arthur Community School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Odebolt-Arthur Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2014 on our consideration of Odebolt-Arthur Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Odebolt-Arthur Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Odebolt-Arthur Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,693,950 in fiscal 2012 to \$4,661,567 in fiscal 2013, while General Fund expenditures increased from \$4,248,985 in fiscal 2012 to \$4,448,447. This resulted in an increase in the District's General Fund balance from \$906,743 in fiscal 2012 to a balance of \$1,119,863 in fiscal 2013, a 23.50% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state and federal source revenues. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.

USING THIS ANNUAL REPORT

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

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

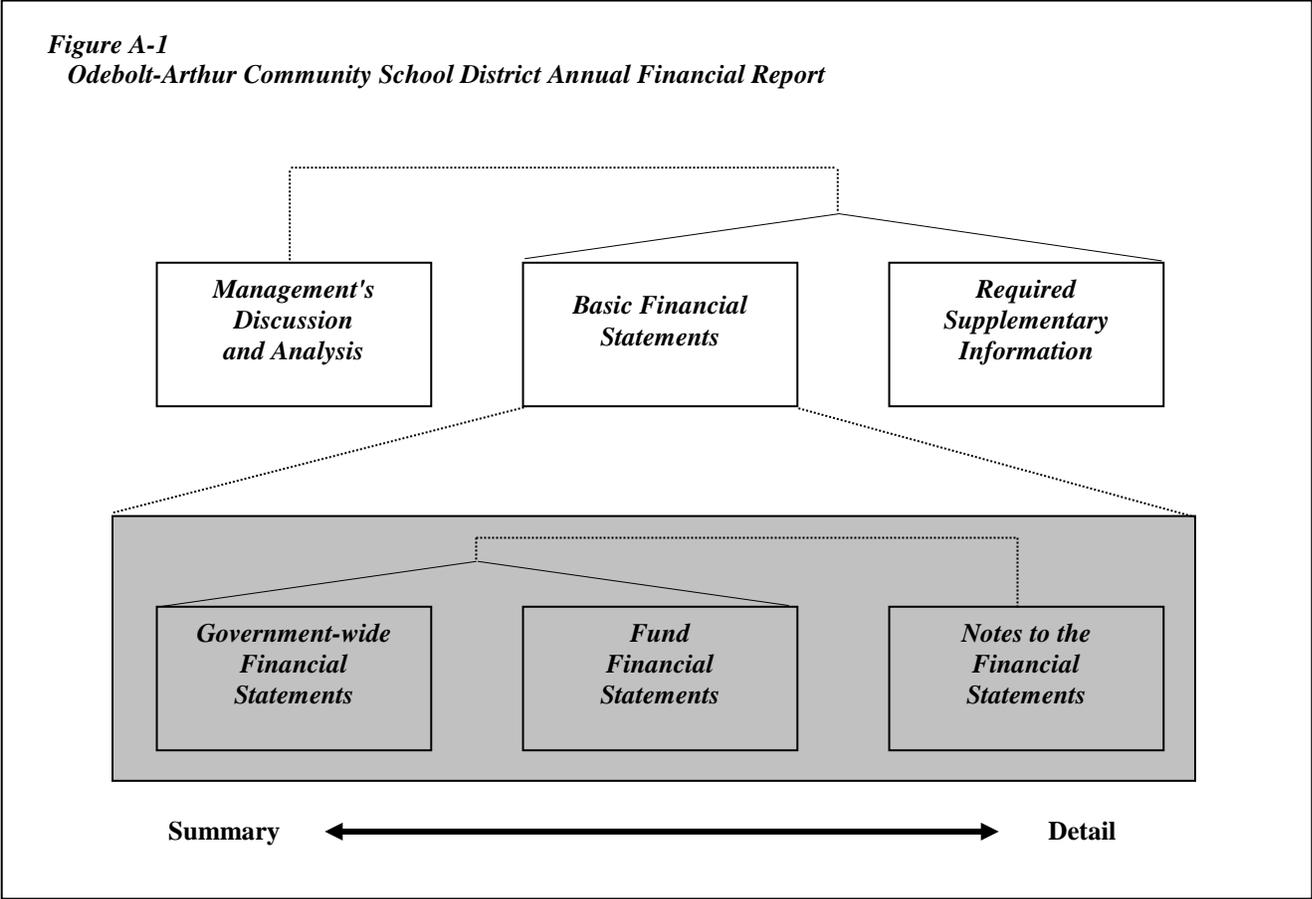


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund and the Agency Fund.
 - Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Funds - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2013 compared to June 30, 2012.

Figure A-3
Condensed Statement of Net Position

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 4,411,064	4,218,778	75,833	62,353	4,486,897	4,281,131	4.81%
Capital assets	1,681,961	1,625,967	25,193	23,820	1,707,154	1,649,787	3.48%
Total assets	6,093,025	5,844,745	101,026	86,173	6,194,051	5,930,918	4.44%
Long-term liabilities	353,550	230,349	-	-	353,550	230,349	53.48%
Other liabilities	2,426,884	2,357,645	2,084	1,726	2,428,968	2,359,371	2.95%
Total liabilities	2,780,434	2,587,994	2,084	1,726	2,782,518	2,589,720	7.44%
Net position:							
Invested in capital assets	1,681,961	1,625,967	25,193	23,820	1,707,154	1,649,787	3.48%
Restricted	637,492	759,153	-	-	637,492	759,153	-16.03%
Unrestricted	993,138	871,631	73,749	60,627	1,066,887	932,258	14.44%
Total net position	\$ 3,312,591	3,256,751	98,942	84,447	3,411,533	3,341,198	2.11%

The District's combined net position increased by 2.11%, or \$70,335, from the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased \$121,661 or 16.03% from the prior year. The decrease in restricted net position was primarily a result of the decrease in the Capital Projects: Statewide Sales, Services and Use Tax Fund's ending balance.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$134,629, or 14.44%. The increase in unrestricted net position is due to the increase in the General Fund ending balance.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-4
Changes in Net Position

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Revenues:							
Program revenues:							
Charges for services	\$ 1,200,344	1,271,396	81,106	78,889	1,281,450	1,350,285	-5.10%
Operating grants and contributions and restricted interest	257,040	604,684	102,529	102,655	359,569	707,339	-49.17%
Capital grants and contributions and restricted interest	-	11,047	-	-	-	11,047	-100.00%
General revenues:							
Property tax	1,773,479	1,707,151	-	-	1,773,479	1,707,151	3.89%
Income surtax	62,762	85,774	-	-	62,762	85,774	-26.83%
Statewide sales, services and use tax	284,764	253,669	-	-	284,764	253,669	12.26%
Unrestricted state grants	1,511,241	1,276,278	-	-	1,511,241	1,276,278	18.41%
Unrestricted investment earnings	780	554	38	49	818	603	35.66%
Other	67,559	8,472	1,076	-	68,635	8,472	710.14%
Total revenues and transfers	5,157,969	5,219,025	184,749	181,593	5,342,718	5,400,618	-1.07%
Program expenses:							
Governmental activities:							
Instruction	3,545,114	3,256,380	-	-	3,545,114	3,256,380	8.87%
Support services	1,310,628	1,039,659	-	-	1,310,628	1,039,659	26.06%
Non-instructional programs	3,557	11,590	170,254	165,302	173,811	176,892	-1.74%
Other expenses	242,830	410,114	-	-	242,830	410,114	-40.79%
Total expenses	5,102,129	4,717,743	170,254	165,302	5,272,383	4,883,045	7.97%
Change in net position	55,840	501,282	14,495	16,291	70,335	517,573	-86.41%
Net position beginning of year	3,256,751	2,755,469	84,447	68,156	3,341,198	2,823,625	18.33%
Net position end of year	\$ 3,312,591	3,256,751	98,942	84,447	3,411,533	3,341,198	2.11%

In fiscal 2013, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 70.42% of the revenue from governmental activities while charges for service and operating grants and contributions account for 99.40% of the revenue from business type activities.

The District's total revenues were \$5,342,718, of which \$5,157,969 was for governmental activities and \$184,749 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 1.07% in revenues and an increase in expenses of 7.97%. The increase in expenses was related to increases in negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$5,157,969 and expenses were \$5,102,129 for the year ended June 30, 2013.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 3,545,114	3,256,380	8.87%	2,339,232	1,519,345	53.96%
Support services	1,310,628	1,039,659	26.06%	1,185,954	1,024,940	15.71%
Non-instructional	3,557	11,590	-69.31%	3,557	11,590	-69.31%
Other expenses	242,830	410,114	-40.79%	116,002	274,741	-57.78%
Totals	<u>\$ 5,102,129</u>	<u>4,717,743</u>	<u>8.15%</u>	<u>3,644,745</u>	<u>2,830,616</u>	<u>28.76%</u>

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$1,200,344.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$257,040.
- The net cost of governmental activities was financed with \$1,773,479 in property tax, \$62,762 in income surtax, \$284,764 in statewide sales, services and use tax, \$1,511,241 in unrestricted state grants, \$780 in interest income and \$67,559 in other general revenues.

Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2013 were \$184,749 and expenses were \$170,254. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,927,333, above last year's ending fund balances of \$1,755,620. The increase in ending fund balances was primarily due to the increase in the General Fund ending balance as compared to the prior year.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Decreases in state and federal grant dollars received by the District, as compared to the previous year, led to the decrease in revenues during the year ended June 30, 2013. The increase in expenditures can be attributed to increases in salaries and benefits received by District employees. As a result, the District's General Fund balance increased from \$906,743 to \$1,119,863.
- The Management Levy Fund balance increased from \$314,376 in fiscal year 2012 to \$321,372 in fiscal year 2013.

- The Capital Projects Accounts balance decreased from \$445,398 at the beginning of the fiscal year 2013 to \$398,329 at the end of the fiscal year 2013. The increase in Capital Projects Accounts expenditures as compared to the previous year led to the decrease in overall balance.

Proprietary Fund Highlights

The School Nutrition Fund net position increased from \$84,447 at June 30, 2012 to \$98,942 at June 30, 2013, representing an increase of 17.16%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$131,779 more than budgeted revenues, a variance of 2.51%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

In spite of the District's budgetary practice, expenditures in the support services, non-instructional programs, and other expenditures functional areas exceeded the amounts budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$1,707,154, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 3.48% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$207,780.

The original cost of the District's capital assets was \$4,651,985. Governmental funds account for \$4,581,191 with the remainder of \$70,794 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2013, compared to \$263,241 reported at June 30, 2012. The decrease in construction in progress resulted from the completion of the geothermal projects the District had in the previous year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total Change June 30, 2012-13
	Activities		Activities		School District		
	June 30,		June 30,		June 30,		
	2013	2012	2013	2012	2013	2012	
Land	\$ 10,850	10,850	-	-	10,850	10,850	0.00%
Construction in progress	-	263,241	-	-	-	263,241	-100.00%
Buildings	1,355,864	1,046,042	-	-	1,355,864	1,046,042	29.62%
Land improvements	198,437	151,553	-	-	198,437	151,553	30.94%
Machinery and equipment	116,810	154,281	25,193	23,820	142,003	178,101	-20.27%
Total	\$ 1,681,961	1,625,967	25,193	23,820	1,707,154	1,649,787	3.48%

Long-Term Debt

At June 30, 2013, the District had \$353,550 in total long-term debt outstanding. This represents an increase of 53.48% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding termination benefits payable of \$233,832 at June 30, 2013, that is payable from the Special Revenue, Management Levy Fund.

The District had a total net OPEB liability of \$119,718.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30, 2013	2012	June 30, 2012-13
Termination benefits	233,832	134,877	73.37%
Net OPEB liability	119,718	95,472	25.40%
Total	<u>\$ 353,550</u>	<u>230,349</u>	<u>53.48%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Low allowable growth over several years and enrollment decreases have negatively impacted the District's Unspent Authorized Budget (UAB) in the past. Even though the District has shown an increase in UAB in recent years, fiscal year 2013 ended with an approximately \$80,482 decrease. The District must realize contractual increases and program changes cannot be made without thorough consideration of the Unspent Authorized Budget.
- The District continued discussions with the Battle Creek-Ida Grove Community School District's School Board regarding the possibility of sharing other positions in the future. Prior to the end of fiscal year 2013, the following sharing agreements were put in place for fiscal year 2014: Business Manger Services, Middle School Principal, State Reporting Services, Director of Innovation, District Librarian and Curriculum Director. These shared positions would make the District eligible for operational sharing incentives from the state and were approved in June 2013 at the close of the legislative session.
- The Board approved an aggressive budget reduction plan in January 2013 that resulted in some positions being reduced as well as some reduction in program costs. With the added shared positions and budget reductions, the administration projected estimated savings would be approximately \$170,000 heading into fiscal year 2014.
- In fiscal year 2013 the District was in its fourth year of a whole grade sharing agreement with Battle Creek-Ida Grove Community School District for grades 6-12. Both Districts have seen financial savings due to efficiencies in staff and shared costs as well as increased academic offerings for students. However, with the failure of the reorganization vote in September 2011, the share incentive money from the state ended and resulted in a loss of revenue of approximately \$80,000 for Odebolt Arthur Community School District.
- The District shares a Maintenance Director (50/50) and Transportation Services (80/20) with the Battle Creek-Ida Grove Community School District. This saves approximately \$18,000 in payroll costs. Fiscal year 2013 was the fifth year for sharing these two positions and each year the operational sharing incentive from the state decreased as part of a five year phase out. The operational sharing money from the state helps, but the District will continue to see the savings in payroll costs should the state money end.

-
- In fiscal year 2013, the District was in its fourth year of sharing a superintendent with Battle Creek-Ida Grove Community School District. In addition to receiving state incentive money for sharing, the District saved approximately \$70,000 in payroll costs.
 - The administration and the board are constantly re-evaluating programs in an effort to reduce expenditures and yet maintain a quality education program.
 - The District offered a generous early retirement incentive package in fiscal year 2013 that resulted in 6 certified staff retiring at the end of the year. This represented 179 years of experience the District hated to lose, but by not re-hiring some positions as well as hiring less experienced staff for others, the District was able to save some ongoing payroll related expenditures.
 - The District continued installing geo thermal units in the building as part of a phased project. This high efficiency way of heating and cooling will help reduce energy costs and result in savings to the General Fund.

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 Kathy Leonard, District Board Secretary/Treasurer, Odebolt-Arthur Community School District, 600 S Maple St, Odebolt, Iowa, 51458.

BASIC FINANCIAL STATEMENTS

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 2,150,383	69,064	2,219,447
Receivables:			
Property tax:			
Delinquent	24,367	-	24,367
Succeeding year	1,768,477	-	1,768,477
Income surtax	50,258	-	50,258
Accounts	-	-	-
Due from other governments	417,579	-	417,579
Inventories	-	6,769	6,769
Capital assets, net of accumulated depreciation	1,681,961	25,193	1,707,154
TOTAL ASSETS	6,093,025	101,026	6,194,051
LIABILITIES			
Accounts payable	396,429	481	396,910
Salaries and benefits payable	261,978	-	261,978
Deferred revenue:			
Succeeding year property tax	1,768,477	-	1,768,477
Unearned revenue	-	1,603	1,603
Long-term liabilities:			
Portion due within one year:			
Termination benefits payable	128,989	-	128,989
Portion due after one year:			
Termination benefits payable	104,843	-	104,843
Net OPEB liability	119,718	-	119,718
TOTAL LIABILITIES	2,780,434	2,084	2,782,518
NET POSITION			
Invested in capital assets	1,681,961	25,193	1,707,154
Restricted for:			
Categorical funding	63,854	-	63,854
School infrastructure	184,533	-	184,533
Physical plant and equipment	213,796	-	213,796
Management levy purposes	87,540	-	87,540
Student activities	87,769	-	87,769
Unrestricted	993,138	73,749	1,066,887
TOTAL NET POSITION	\$ 3,312,591	98,942	3,411,533

SEE NOTES TO FINANCIAL STATEMENTS.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 2,718,255	874,308	31,702	(1,812,245)	-	(1,812,245)
Special	442,972	190,355	50,210	(202,407)	-	(202,407)
Other	383,887	16,154	43,153	(324,580)	-	(324,580)
	<u>3,545,114</u>	<u>1,080,817</u>	<u>125,065</u>	<u>(2,339,232)</u>	<u>-</u>	<u>(2,339,232)</u>
Support services:						
Student	132,995	11,598	-	(121,397)	-	(121,397)
Instructional staff	159,597	24,595	5,147	(129,855)	-	(129,855)
Administration	516,987	81,609	-	(435,378)	-	(435,378)
Operation and maintenance of plant	317,846	-	-	(317,846)	-	(317,846)
Transportation	183,203	1,725	-	(181,478)	-	(181,478)
	<u>1,310,628</u>	<u>119,527</u>	<u>5,147</u>	<u>(1,185,954)</u>	<u>-</u>	<u>(1,185,954)</u>
Non-instructional programs:						
Food service operations	3,557	-	-	(3,557)	-	(3,557)
Other expenditures:						
AEA flowthrough	126,828	-	126,828	-	-	-
Depreciation(unallocated)*	116,002	-	-	(116,002)	-	(116,002)
	<u>242,830</u>	<u>-</u>	<u>126,828</u>	<u>(116,002)</u>	<u>-</u>	<u>(116,002)</u>
Total governmental activities	5,102,129	1,200,344	257,040	(3,644,745)	-	(3,644,745)
Business type activities:						
Non-instructional programs:						
Nutrition services	170,254	81,106	102,529	-	13,381	13,381
Total business type activities	<u>170,254</u>	<u>81,106</u>	<u>102,529</u>	<u>-</u>	<u>13,381</u>	<u>13,381</u>
Total	<u>\$ 5,272,383</u>	<u>1,281,450</u>	<u>359,569</u>	<u>(3,644,745)</u>	<u>13,381</u>	<u>(3,631,364)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,652,825	-	1,652,825
Capital outlay				120,654	-	120,654
Income surtax				62,762	-	62,762
Statewide sales, services and use tax				284,764	-	284,764
Unrestricted state grants				1,511,241	-	1,511,241
Unrestricted investment earnings				780	38	818
Other				67,559	1,076	68,635
Total general revenues				<u>3,700,585</u>	<u>1,114</u>	<u>3,701,699</u>
Change in net position				55,840	14,495	70,335
Net position beginning of year				<u>3,256,751</u>	<u>84,447</u>	<u>3,341,198</u>
Net position end of year				<u>\$ 3,312,591</u>	<u>98,942</u>	<u>3,411,533</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Management Levy	Capital Projects	Nonmajor Student Activity	Total
ASSETS					
Cash and pooled investments	\$ 1,336,166	315,734	403,811	88,083	2,143,794
Receivables:					
Property tax:					
Delinquent	21,378	1,398	1,591	-	24,367
Succeeding year	1,259,498	290,000	218,979	-	1,768,477
Income surtax	33,505	-	16,753	-	50,258
Due from other funds	-	4,240	-	-	4,240
Due from other governments	326,003	-	91,576	-	417,579
TOTAL ASSETS	\$ 2,976,550	611,372	732,710	88,083	4,408,715
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	\$ 4,240	-	-	-	4,240
Accounts payable	297,466	-	98,649	314	396,429
Salaries and benefits payable	261,978	-	-	-	261,978
Deferred revenue:					
Succeeding year property tax	1,259,498	290,000	218,979	-	1,768,477
Income surtax	33,505	-	16,753	-	50,258
Total liabilities	1,856,687	290,000	334,381	314	2,481,382
Fund balances:					
Restricted for:					
Categorical funding	63,854	-	-	-	63,854
School infrastructure	-	-	184,533	-	184,533
Physical plant and equipment	-	-	213,796	-	213,796
Management levy purposes	-	321,372	-	-	321,372
Student activities	-	-	-	87,769	87,769
Unassigned	1,056,009	-	-	-	1,056,009
Total fund balances	1,119,863	321,372	398,329	87,769	1,927,333
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,976,550	611,372	732,710	88,083	4,408,715

SEE NOTES TO FINANCIAL STATEMENTS.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balances of governmental funds(page 20)	\$ 1,927,333
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,681,961
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	6,589
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	50,258
Long-term liabilities, including termination benefits payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(353,550)</u>
Net position of governmental activities(page 18)	<u><u>\$ 3,312,591</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT E

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General	Management Levy	Capital Projects	Nonmajor Student Activity	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,644,840	101,458	424,113	-	2,170,411
Tuition	1,056,363	-	-	-	1,056,363
Other	187,576	9,631	33	16,230	213,470
State sources	1,639,938	-	-	-	1,639,938
Federal sources	127,193	-	-	-	127,193
Total revenues	4,655,910	111,089	424,146	16,230	5,207,375
EXPENDITURES:					
Current:					
Instruction:					
Regular	2,419,221	51,029	1,800	-	2,472,050
Special	420,565	-	-	-	420,565
Other	345,325	-	-	17,564	362,889
	3,185,111	51,029	1,800	17,564	3,255,504
Support services:					
Student	123,931	3,380	-	-	127,311
Instructional staff	137,143	-	15,111	-	152,254
Administration	489,705	7,293	-	-	496,998
Operation and maintenance of plant	233,866	27,814	35,760	-	297,440
Transportation	151,863	11,020	22,244	-	185,127
	1,136,508	49,507	73,115	-	1,259,130
Non-instructional programs:					
Food service operations	-	3,557	-	-	3,557
Capital outlay	-	-	396,300	-	396,300
Other expenditures:					
AEA flowthrough	126,828	-	-	-	126,828
Total expenditures	4,448,447	104,093	471,215	17,564	5,041,319
Excess(Deficiency) of revenues over(under) expenditures/expenses	207,463	6,996	(47,069)	(1,334)	166,056
Other financing sources:					
Insurance proceeds	5,657	-	-	-	5,657
Change in fund balances	213,120	6,996	(47,069)	(1,334)	171,713
Fund balance beginning of year	906,743	314,376	445,398	89,103	1,755,620
Fund balance end of year	\$ 1,119,863	321,372	398,329	87,769	1,927,333

SEE NOTES TO FINANCIAL STATEMENTS.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2013

Change in fund balances - total governmental funds(page 22) \$ 171,713

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

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

Capital outlay	\$ 261,251	
Depreciation expense	(205,257)	55,994

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis		740
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Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(49,406)
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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 fund.

Termination benefits	(98,955)	
Other postemployment benefits	(24,246)	(123,201)

Change in net position of governmental activities(page 19)		\$ 55,840
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SEE NOTES TO FINANCIAL STATEMENTS.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2013

	Business Type	
	Activities: Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
ASSETS		
Cash and pooled investments	\$ 69,064	6,589
Inventories	6,769	-
Capital assets, net of accumulated depreciation	25,193	-
TOTAL ASSETS	101,026	6,589
LIABILITIES		
Accounts payable	481	-
Unearned revenue	1,603	-
TOTAL LIABILITIES	2,084	-
NET POSITION		
Invested in capital assets	25,193	-
Unrestricted	73,749	6,589
TOTAL NET POSITION	\$ 98,942	6,589

SEE NOTES TO FINANCIAL STATEMENTS.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business Type	
	Activities: Enterprise Fund	Governmental Activities:
	School	Internal
	Nutrition	Service
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 81,106	-
Miscellaneous	1,076	2,550
TOTAL OPERATING REVENUES	82,182	2,550
OPERATING EXPENSES:		
Support services:		
Administration:		
Services	-	1,810
Non-instructional programs:		
Food service operations:		
Salaries	57,920	-
Benefits	9,450	-
Services	5,229	-
Supplies	95,132	-
Depreciation	2,523	-
	170,254	-
TOTAL OPERATING EXPENSES	170,254	1,810
OPERATING INCOME(LOSS)	(88,072)	740
NON-OPERATING REVENUES:		
State sources	1,880	-
Federal sources	100,649	-
Interest income	38	-
TOTAL NON-OPERATING REVENUES	102,567	-
Change in net position	14,495	740
Net position beginning of year	84,447	5,849
Net position end of year	\$ 98,942	6,589

SEE NOTES TO FINANCIAL STATEMENTS.

OLDEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service
	School Nutrition	
Cash flows from operating activities:		
Cash received from charges for services	\$ 82,247	-
Cash received from miscellaneous operating activities	1,076	2,550
Cash payments to employees for services	(67,370)	-
Cash payments to suppliers for goods or services	(90,690)	(1,965)
Net cash provided by(used in) operating activities	<u>(74,737)</u>	<u>585</u>
Cash flows from non-capital financing activities:		
State grants received	1,880	-
Federal grants received	90,300	-
Net cash provided by non-capital financing activities	<u>92,180</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	38	-
Cash flows from capital financing activities:		
Acquisitions of capital assets	(3,896)	-
Net increase in cash and cash equivalents	13,585	585
Cash and cash equivalents at beginning of year	55,479	6,004
Cash and cash equivalents at end of year	<u>\$ 69,064</u>	<u>6,589</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (88,072)	740
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities used	10,349	-
Depreciation	2,523	-
Increase in inventories	(1,159)	-
Decrease in accounts receivable	1,264	-
Increase(Decrease) in accounts payable	481	(155)
Decrease in unearned revenue	(123)	-
Net cash provided by(used in) operating activities	<u>\$ (74,737)</u>	<u>585</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$10,349.

SEE NOTES TO FINANCIAL STATEMENTS.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Private Purpose Trust	
	Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 109,675	11,767
LIABILITIES		
Due to other groups	-	11,767
NET POSITION		
Restricted for scholarships	\$ 109,675	-

SEE NOTES TO FINANCIAL STATEMENTS.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2013

	<u>Private Purpose Trust Scholarship</u>
ADDITIONS:	
Local sources:	
Interest income	<u>\$ 1,759</u>
DEDUCTIONS:	
Instruction:	
Regular:	
Scholarships awarded	<u> 2,150</u>
Change in net position	(391)
Net position beginning of year	<u> 110,066</u>
Net position end of year	<u><u>\$ 109,675</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position 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 Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are 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 is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

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 receipts that are 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 expenses, including instructional, support and other costs.

The Management Levy Fund is used to account for resources used in the purchase of property insurance and payments for termination benefits incentives.

The Capital Projects Fund is used for all resources used in the acquisition and construction of capital facilities.

The District reports the following nonmajor proprietary fund:

The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports the following other proprietary fund:

The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Position and the Statement of Activities.

The District also reports fiduciary funds which focus on net position and changes in net position. The District's fiduciary funds are as follows:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and 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 the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position 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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - restricted and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Balances

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, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are 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. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the

subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

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

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

Capital Assets - Capital assets, which include property, machinery, equipment and intangibles are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Position. 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	\$ 200
Buildings	1,500
Land improvements	1,500
Intangibles	30,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	5-25 years
Intangibles	3-40 years
Machinery and equipment	3-20 years

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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 as well as property tax receivables and other receivables not collected within sixty days after year end.

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

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected in the Statement of Net Position in the Proprietary Funds.

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

Fund Balances - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Position - In the government-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position 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.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, expenditures in the support services, non-instructional programs and other expenditures functional areas exceeded the amounts budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$3,539 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

Note 3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2013 is as follows:

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

The General Fund is repaying the Management Levy Fund for revenues received into the incorrect fund in the prior year.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 10,850	-	-	10,850
Construction in progress	263,241	66,486	329,727	-
Total capital assets not being depreciated	274,091	66,486	329,727	10,850
Capital assets being depreciated:				
Buildings	2,698,197	407,980	-	3,106,177
Land improvements	401,719	64,728	-	466,447
Machinery and equipment	960,333	51,784	14,400	997,717
Total capital assets being depreciated	4,060,249	524,492	14,400	4,570,341
Less accumulated depreciation for:				
Buildings	1,652,155	98,158	-	1,750,313
Land improvements	250,166	17,844	-	268,010
Machinery and equipment	806,052	89,255	14,400	880,907
Total accumulated depreciation	2,708,373	205,257	14,400	2,899,230
Total capital assets being depreciated, net	1,351,876	319,235	-	1,671,111
Governmental activities capital assets, net	\$ 1,625,967	385,721	329,727	1,681,961
Business type activities:				
Machinery and equipment	\$ 66,898	3,896	-	70,794
Less accumulated depreciation	43,078	2,523	-	45,601
Business type activities capital assets, net	\$ 23,820	1,373	-	25,193

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 63,184
Other		560
Support services:		
Operation and maintenance of plant		6,766
Transportation		18,745
		<u>89,255</u>
Unallocated depreciation		<u>116,002</u>
Total governmental activities depreciation expense		<u>\$ 205,257</u>
Business type activities:		
Food services		<u>\$ 2,523</u>

Note 5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2013 are as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Termination benefits	\$ 134,877	160,564	61,609	233,832	129,989
Net OPEB liability	95,472	24,246	-	119,718	-
Total	<u>\$ 230,349</u>	<u>184,810</u>	<u>61,609</u>	<u>353,550</u>	<u>129,989</u>

Termination Benefits(Early Retirement)

The District offered a voluntary early retirement plan to its employees during fiscal year 2013. Eligible employees must have completed at least twelve years of full-time service to the District and must have reached the age of fifty-five on or before July 1 of the year the application for early retirement is submitted. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits for fiscal year 2013 consist of the District paying a portion of the single premium, but not to exceed the total cost of \$5,800 per retiree.

At June 30, 2013, the District has obligations to fifteen participants with a total liability of \$233,832. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$61,609.

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.78% of their annual salary and the District is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$205,768, \$178,074 and \$154,235, respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 38 active and 5 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit rate 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 which, 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 Districts OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 27,565
Interest on net OPEB obligation	7,256
Adjustment to annual required contribution	(3,357)
Annual OPEB cost	<u>31,464</u>
Contributions made	<u>(7,218)</u>
Increase in net OPEB obligation	24,246
Net OPEB obligation beginning of year	95,472
Net OPEB obligation end of year	<u><u>\$ 119,718</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. 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, 2013.

For the year ended June 30, 2013, the District contributed \$7,218 to the medical plan. Plan members eligible for benefits contributed \$65,584, or 90.09% 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, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 50,048	37.31%	\$ 64,095
2012	\$ 50,048	37.31%	\$ 95,472
2013	\$ 31,464	22.94%	\$ 119,718

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$210,642, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$210,642. The covered payroll (annual payroll of active employees covered by the plan) was \$1,967,996, and the ratio of the UAAL to covered payroll was 10.70%. As of June 30, 2013 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 event 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 July 1, 2012 actuarial valuation date, the 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%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were based upon the 2006 Society of Actuaries Study. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Risk Management

Odebolt-Arthur 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 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$126,828 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Categorical Funding

The District's restricted balance for categorical funding at June 30, 2013 is comprised of the following programs:

Program	Amount
Dropout and dropout prevention programs	14,830
Teacher salary supplement	29,735
Iowa early intervention block grant	8,413
Professional development for core curriculum	5,014
Professional development	5,862
Total	\$ 63,854

Note 11. Budget Overexpenditure

Per the code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2013, expenditures in the support services, non-instructional programs and other expenditures functional areas exceeded the amounts budgeted.

Odebolt-Arthur Community School District

REQUIRED SUPPLEMENTARY INFORMATION

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2013

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 3,440,244	82,220	3,522,464	3,306,760	3,306,760	215,704
State sources	1,639,938	1,880	1,641,818	1,708,585	1,708,585	(66,767)
Federal sources	127,193	100,649	227,842	245,000	245,000	(17,158)
Total revenues	<u>5,207,375</u>	<u>184,749</u>	<u>5,392,124</u>	<u>5,260,345</u>	<u>5,260,345</u>	<u>131,779</u>
Expenditures/Expenses:						
Instruction	3,255,504	-	3,255,504	3,617,000	3,617,000	361,496
Support services	1,259,130	-	1,259,130	1,021,000	1,021,000	(238,130)
Non-instructional programs	3,557	170,254	173,811	145,000	145,000	(28,811)
Other expenditures	523,128	-	523,128	480,713	480,713	(42,415)
Total expenditures/expenses	<u>5,041,319</u>	<u>170,254</u>	<u>5,211,573</u>	<u>5,263,713</u>	<u>5,263,713</u>	<u>52,140</u>
Excess(Deficiency)of revenues over(under)expenditures/expnses	166,056	14,495	180,551	(3,368)	(3,368)	183,919
Other financing sources, net	5,657	-	5,657	-	-	5,657
Excess(Deficiency)of revenues and other financing sources over(under) expenditures/expenses	171,713	14,495	186,208	(3,368)	(3,368)	189,576
Balance beginning of year	<u>1,755,620</u>	<u>84,447</u>	<u>1,840,067</u>	<u>1,052,304</u>	<u>1,052,304</u>	<u>787,763</u>
Balance end of year	<u>\$ 1,927,333</u>	<u>98,942</u>	<u>2,026,275</u>	<u>1,048,936</u>	<u>1,048,936</u>	<u>977,339</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

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 comparison 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 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 GAAP basis.

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

During the year ended June 30, 2013, the expenditures in the support services, non-instructional programs, and other expenditures functional areas exceeded the certified budget.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013

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)
2010	July 1, 2009	\$ -	\$ 729,428	\$ 729,428	0.00%	\$ 1,700,000	42.91%
2011	July 1, 2009	-	695,913	695,913	0.00%	1,920,000	36.25%
2012	July 1, 2009	-	695,913	695,913	0.00%	1,925,000	36.15%
2013	July 1, 2012	-	210,642	210,642	0.00%	1,967,996	10.70%

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.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

SUPPLEMENTARY INFORMATION

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS ACCOUNTS
 YEAR ENDED JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 185,378	218,433	403,811
Receivables:			
Property tax:			
Delinquent	-	1,591	1,591
Succeeding year	-	218,979	218,979
Income surtax	-	16,753	16,753
Due from other governments	91,576	-	91,576
TOTAL ASSETS	\$ 276,954	455,756	732,710
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 92,421	6,228	98,649
Deferred revenue:			
Succeeding year property tax	-	218,979	218,979
Income surtax	-	16,753	16,753
Total liabilities	92,421	241,960	334,381
Fund balances:			
Restricted for:			
School infrastructure	184,533	-	184,533
Physical plant and equipment	-	213,796	213,796
Total fund balances	184,533	213,796	398,329
TOTAL LIABILITIES AND FUND BALANCES	\$ 276,954	455,756	732,710

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ODEBOLT-ARUTHUR COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS ACCOUNTS
 YEAR ENDED JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 284,764	139,349	424,113
Other	15	18	33
Total revenues	<u>284,779</u>	<u>139,367</u>	<u>424,146</u>
Expenditures:			
Current:			
Instruction:			
Regular	-	1,800	1,800
Support services:			
Instructional staff	-	15,111	15,111
Operation and maintainance of plant services	-	35,760	35,760
Transportation	22,244	-	22,244
Capital outlay	333,792	62,508	396,300
Total expenditures	<u>356,036</u>	<u>115,179</u>	<u>471,215</u>
Change in fund balances	(71,257)	24,188	(47,069)
Fund balance beginning of year	<u>255,790</u>	<u>189,608</u>	<u>445,398</u>
Fund balance end of year	<u>\$ 184,533</u>	<u>213,796</u>	<u>398,329</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
 STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
MS student council	\$ 4,784	7,350	5,487	(50)	6,597
MS athletics	2,937	8,157	-	67,433	78,527
MS activity	3,634	-	3,634	-	-
Athletics	75,438	-	7,539	(67,899)	-
Yearbook	(516)	-	-	516	-
TAG	765	689	695	-	759
Springbook	2,061	34	209	-	1,886
Total	\$ 89,103	16,230	17,564	-	87,769

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND
LIABILITIES - AGENCY FUND
YEAR ENDED JUNE 30, 2013

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 11,292	2,012	1,537	11,767
Liabilities				
Due to other groups	\$ 11,292	2,012	1,537	11,767

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST TEN YEARS

	Modified Accrual Basis									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 2,170,411	2,094,857	1,978,017	1,906,147	1,693,045	1,629,344	1,632,394	1,532,409	1,532,608	1,498,587
Tuition	1,056,363	876,698	491,868	830,763	113,085	123,304	96,803	101,939	112,921	92,243
Other	213,470	403,724	621,229	182,878	187,408	222,556	278,168	261,244	188,383	141,410
State sources	1,639,938	1,693,091	1,640,760	1,414,929	1,603,274	1,585,495	1,663,299	1,600,539	1,623,410	1,555,753
Federal sources	127,193	198,918	203,788	296,458	174,534	133,891	119,915	148,856	188,481	153,804
Total	\$ 5,207,375	5,267,288	4,935,662	4,631,175	3,771,346	3,694,590	3,790,579	3,644,987	3,645,803	3,441,797
Expenditures:										
Instruction:										
Regular	\$ 2,472,050	2,485,835	2,594,021	2,439,501	1,928,607	1,716,314	1,710,894	1,663,598	1,541,939	1,533,265
Special	420,565	411,221	291,683	336,798	337,717	334,673	304,965	308,843	346,517	364,952
Other	362,889	342,772	266,731	294,691	297,888	307,305	289,789	150,975	295,333	294,894
Support services:										
Student	127,311	98,993	122,457	119,326	169,202	164,187	146,882	185,298	76,651	64,853
Instructional staff	152,254	156,608	121,314	112,304	128,771	119,399	137,384	126,761	100,015	99,886
Administration	496,998	384,589	368,537	410,923	404,520	400,792	396,834	383,621	290,063	354,064
Operation and maintenance of plant	297,440	246,540	257,591	258,190	274,351	267,036	298,827	237,283	295,936	290,187
Transportation	185,127	143,975	170,917	124,437	146,066	125,634	174,208	116,751	103,095	203,063
Non-instructional:										
Food service operations	3,557	11,590	3,897	4,749	5,394	5,153	-	-	9,978	-
Capital outlay	396,300	170,169	260,222	365,199	316,917	403,923	181,496	186,138	55,927	-
Long-term debt:										
Principal	-	-	-	50,000	75,000	75,000	-	-	-	-
Interest	-	-	-	1,000	3,500	6,856	-	-	-	-
Other expenditures:										
AEA flow-through	126,828	124,326	139,785	140,290	126,913	123,291	122,773	118,773	119,259	122,356
Total	\$ 5,041,319	4,576,618	4,597,155	4,657,408	4,214,846	4,049,563	3,764,052	3,478,041	3,234,713	3,327,500

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

**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 the Odebolt-Arthur Community School District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Odebolt-Arthur Community School District as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 24, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-B-13 through I-D-13 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Odebolt-Arthur Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts.

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However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

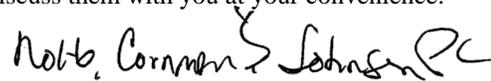
Odebolt-Arthur Community School District's Responses to Findings

Odebolt-Arthur Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Odebolt-Arthur Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2014
Newton, Iowa

ODEBOLT-ARTHUR COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual may perform two or more functions in each of the following areas for the District.

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Inventories - ordering, receiving, issuing and storing.
- 5) Capital assets - purchasing, recording and reconciling.
- 6) Wire transfers - processing and approving.
- 7) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 8) Transfers - preparing and approving.
- 9) Computer systems - performing all general accounting functions and controlling all data input and output.
- 10) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances utilizing current personnel, including elected officials.

Response - We will investigate alternatives and implement as soon as possible. At the end of the fiscal year, we were in the process of hiring a part time person to do data entry at the central office that would help shift and share some of the duties listed.

Conclusion - Response acknowledged.

I-B-13 Non-certified Time Sheets - We noted during our audit that the District does not maintain documentation of hours worked by coaches who are non-certified staff. This creates a situation where calculating wage per hour amounts is not possible.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of hours worked for non-certified staff coaches. The District should then determine if wages paid comply with minimum wage and overtime requirements.

Response - The business manager, administration, athletic director and head coaches will have a meeting to discuss implementing and maintaining time sheets for coaches for future years.

Conclusion - Response accepted.

- I-C-13 Scholarship Awards - We noted the District is writing scholarship checks directly to the student from the Scholarship account in the Private Purpose Trust Fund.

Recommendation - The District should issue scholarship checks in the names of the student and the college/university the student is attending once proof of attendance has been provided to the District. This way the District can ensure that scholarships are properly reported on the students federal 1098T, where the amount will not be subject to federal tax withholdings. If the District continues to write the scholarship check directly to the student, the District should issue a W-2, in compliance with IRS requirements.

Response - Beginning in fiscal year 2014, all scholarship checks have been made payable to the college in the name of the student.

Conclusion - Response accepted.

- I-D-13 Deficit Student Nutrition Account Balances - It was noted during the audit that the Nutrition Fund is carrying numerous negative student and adult lunch account balances on the books.

Recommendation - The District should review their procedures and policies in regard to negative student lunch account balances. The District should try various collection techniques to collect the balances from the families. Another option would be to give these families a free/reduced lunch application to see if they qualify.

Response - In July 2013, the Hot Lunch financials and accounting system were moved to the Battle Creek-Ida Grove Central Office and are administered by the same person doing the Battle Creek-Ida Grove Nutrition Fund. Once we discovered the negative balances, action plans were put in place immediately to correct.

Conclusion - Response accepted.

OTHER MATTERS:

- I-E-13 Commodity Pricing - We noted during our audit of the Enterprise, School Nutrition Fund that the District did not price out the commodity inventory using the correct values at the end of the year.

Recommendation - The District should review procedures in place for calculation of commodity inventory prices. The State of Iowa provides a price guide listing of values to be used in the calculation. The District needs to use the correct price values in calculating the inventory value at year end.

Response - In July 2013, the Hot Lunch financials and accounting system were moved to the Battle Creek-Ida Grove Central Office and are administered by the same person doing the Battle Creek-Ida Grove Nutrition Fund. It is the Battle Creek-Ida Grove practice to use the correct calculation of commodity inventory and will be implement this practice for Odebolt-Arthur Community School District as well.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget - District expenditures for the year ended June 30, 2013 exceeded the certified amounts in the support services, non-instructional programs, and other expenditures functions.

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

Response - The new business manager was hired in June 2013 which was too late to amend the budget. Monthly reporting/tracking is being done to monitor expenditures for fiscal year 2014 and the budget will be amended if needed prior to the end of May.

Conclusion - Response accepted.

II-B-13 Questionable Disbursements - We noted during our audit that the District purchased gift cards from the Student Activity Fund for Invent Iowa Invention Convention prizes. Gift cards do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - Sponsors and coaches have been notified that purchasing gift cards does not meet public purpose as defined by code and the practice will be discontinued.

Conclusion - Response accepted.

II-C-13 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.

II-D-13 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-E-13 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.

II-F-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-13 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by 4.0 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The District's auditor will contact the Iowa Department of Education and Department of Management to resolve this matter.

Response - Response accepted.

II-H-13 Supplementary Weighting - No variances regarding supplementary weighting certified to the Iowa Department of Education were noted.

II-I-13 Deposits and Investments - We noted 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.

II-J-13 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-K-13 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-L-13 Statewide Sales, Services and Use Tax - We noted during our audit the District had purchases from the Capital Projects: Statewide Sales, Services and Use Tax Fund which do not appear to be in compliance with Chapter 423F.3 of the Code of Iowa. The District purchased new basketball lifts for the gym for \$576. The District also had expenditures for water heater repairs and tuck pointing repairs of \$1,410.

Recommendation - Since the District had allowable Capital Projects: Statewide Sales, Services and Use Tax Fund expenditures from the General Fund, we did not request a corrective transfer. The District should review Chapter 423F.3 of the Code of Iowa for allowability of expenditures from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

Response - The District has reviewed the allowable expenses from the Capital Projects Accounts and will monitor expenses more closely.

Conclusion - Response accepted.

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, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2013, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2013 audit:

Beginning Balance		\$	255,790
Revenues:			
Sales tax revenues	\$	284,764	
Other revenues		15	284,779
			<hr/>
Expenditures:			
School infrastructure		333,792	
Equipment		22,244	356,036
			<hr/>
Ending Balance		\$	<u>184,533</u>

For the year ended June 30, 2013, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

II-M-13 Interfund Loan - We noted during our audit that the District has an interfund loan which was on the balance sheet in the prior year and still on the current year balance sheet. As of June 30, 2013, the District has a loan between the General Fund and the Management Levy Fund that has not been repaid.

According to a declaratory order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2008+, interfund loans on the District's year end financial statements must be repaid to their respective funds on or before October 1st of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later. If the District is unable to repay the interfund loan by that time, the District must issue external loans to repay the interfund loan according to Iowa Code Chapter 74.

Recommendation - The District should issue external debt to repay the interfund loan to be in compliance with the declaratory order issued by the Iowa Department of Education to the Auditor of State and Iowa Code Chapter 74.

Response - Corrective actions have been taken to pay back this loan.

Conclusion - Response accepted.

II-N-13 Payroll Procedures - We noted during our audit the District does not have written authorization to mail employee's payroll checks. Chapter 91A.3 of the Code of Iowa requires that an employer have a written request from an employee before wages can be sent to an employee by mail.

Recommendation - The District should obtain written authorization from each employee who desires to receive a payroll check by mail.

Response - Written authorization has been obtained from employees receiving payroll by mail and placed in their personal files.

Conclusion - Response accepted.

II-O-13 PPEL Expenditures - We noted during our audit that the District had purchases from the Capital Projects: Physical Plant and Equipment Levy Fund which do not appear to be in compliance with Chapter 298.3 of the Code of Iowa. The District purchased new exit and emergency lights throughout the school for \$3,194.66. The District also had expenditures for gym floor maintenance and roof and skylight repair work of \$3,210.

Recommendation - Since the District had allowable PPEL Fund expenditures from the General Fund, we did not request a corrective transfer on the financial statements. The District should review Chapter 298.3 of the Code of Iowa for allowability of expenditures from the PPEL Fund.

Response - The District has reviewed the allowable expenses from the Capital Projects Accounts and will monitor expenses more closely.

Conclusion - Response accepted.

II-P-13 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. More specific examples of these instances of questioned items and recommendations are as follows:

Questionable Revenues and Expenses: We noted during our audit that the District records revenues and expenses for TAG supplies in the TAG account in the Student Activity Fund. TAG revenues and expenses appear to be more instructional items and therefore, would be more appropriately handled in the General Fund.

Recommendation - The District should review the propriety of the revenues and expenditures that are approved in the Student Activity Fund. The revenues and expenditures in the TAG account are instructional in nature. Revenues and expenditures for instructional supplies are more appropriately handled in the General Fund. Any remaining balance in the TAG account in the Student Activity Fund should be moved to the General Fund.

Response - The Odebolt-Arthur TAG account will be moved to the General Fund prior to the end of fiscal year 2014.

Conclusion - Response accepted.