

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

JUNE 30, 2010

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Osage Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2009 Election)</b>		
Konnie Snider	President	2011
Karla Mitchell	Vice President	2009
Neil Wubben	Board Member	2009
Herb Wright	Board Member	2011
Jerry Brandau	Board Member	2011

**Board of Education  
(After September 2009 Election)**

Konnie Snider	President	2011
Karla Mitchell	Vice President	2013
Neil Wubben	Board Member	2013
Herb Wright	Board Member	2011
Jerry Brandau	Board Member	2011

**School Officials**

Steve Bass	Superintendent	2010
Helen Burrington	District Board Secretary	2010
Connie Jensen	District Treasurer	2010
Aaron Murphy	Attorney	2010

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**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Osage Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of Osage Community School District, Osage, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of Osage Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2011 on our consideration of Osage Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information, Retiree Health Plan, and Component Unit Financial Statements on pages 7 through 16 and 44 through 48 are not required

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parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Osage Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2009 (not presented herein) and expressed an unqualified opinion on those financial statements. Another firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 11, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 14, 2011

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **2010 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$9,023,319 in fiscal 2009 to \$8,784,324 in fiscal 2010, while General Fund expenditures decreased from \$9,098,516 in fiscal 2009 to \$8,895,585 in fiscal 2010. This resulted in a decrease in the District's General Fund balance from a deficit \$199,884 in fiscal 2009 to a deficit \$311,145 in fiscal 2010, a 55.66% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state grant revenues in fiscal 2010. The decrease in expenditures was due primarily to the instructional functional area.
- The District received \$540,044 in statewide sales, services and use tax revenue during the year.

### **USING THIS ANNUAL REPORT**

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Osage 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 Osage 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 Osage Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the 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.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various federal programs benefiting the District.

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

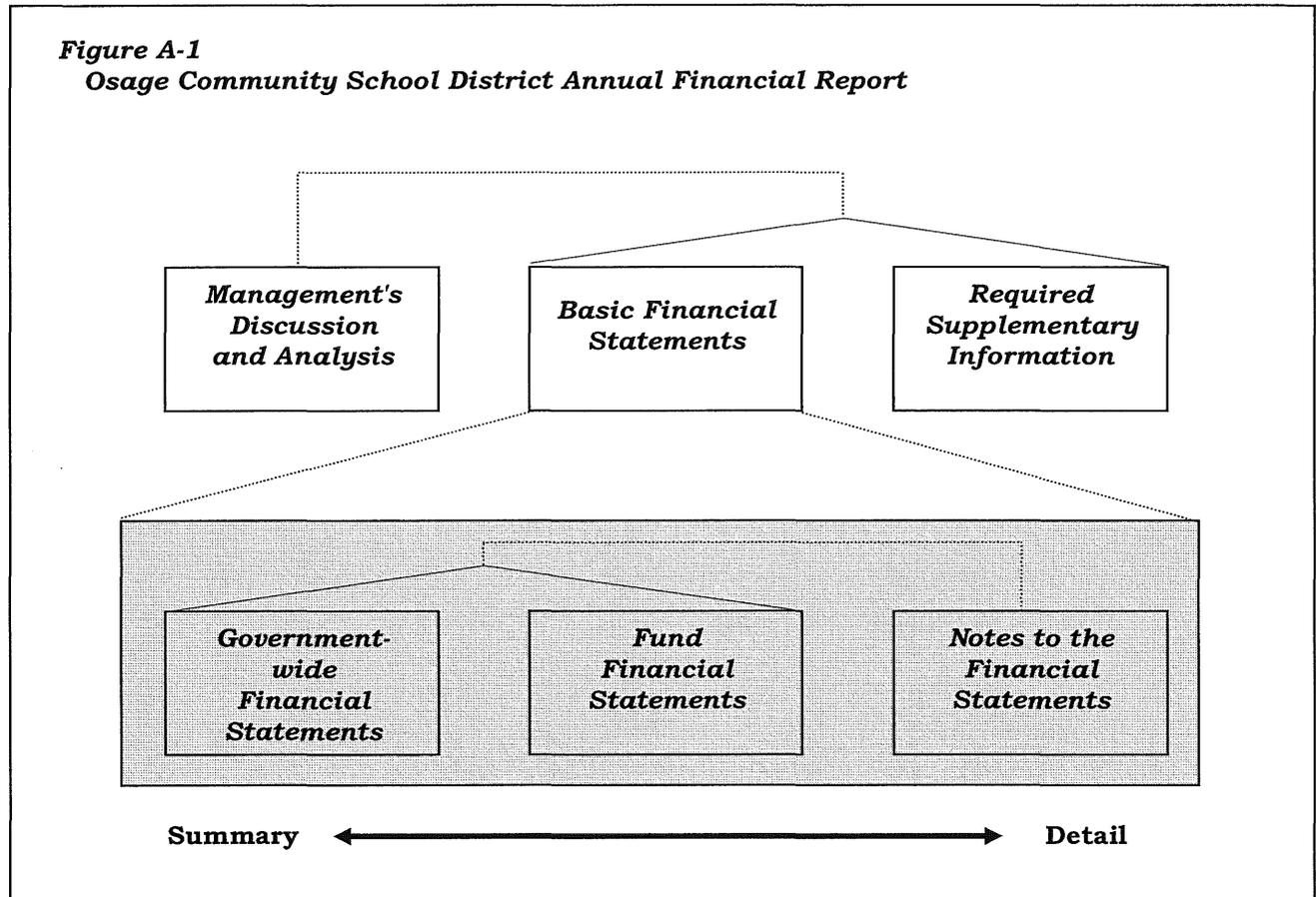


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**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, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust Fund.

a. Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

Reconciliation 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 total net assets at June 30, 2010 compared to June 30, 2009.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 6,493,571	8,197,587	106,301	86,696	6,599,872	8,284,283	-20.33%
Capital assets	8,686,659	8,897,888	47,556	44,171	8,734,215	8,942,059	-2.32%
<b>Total assets</b>	<b>15,180,230</b>	<b>17,095,475</b>	<b>153,857</b>	<b>130,867</b>	<b>15,334,087</b>	<b>17,226,342</b>	<b>-10.98%</b>
Long-term liabilities	2,361,485	2,832,823	0	0	2,361,485	2,832,823	-16.64%
Other liabilities	5,506,928	7,023,323	14,576	21,870	5,521,504	7,045,193	-21.63%
<b>Total liabilities</b>	<b>7,868,413</b>	<b>9,856,146</b>	<b>14,576</b>	<b>21,870</b>	<b>7,882,989</b>	<b>9,878,016</b>	<b>-20.20%</b>
Net assets:							
Invested in capital assets, net of related debt	6,821,293	6,568,924	47,556	44,171	6,868,849	6,613,095	3.87%
Restricted	1,201,347	1,186,363	0	0	1,201,347	1,186,363	1.26%
Unrestricted	(710,823)	(515,958)	91,725	64,826	(619,098)	(451,132)	-37.23%
<b>Total net assets</b>	<b>\$ 7,311,817</b>	<b>7,239,329</b>	<b>139,281</b>	<b>108,997</b>	<b>7,451,098</b>	<b>7,348,326</b>	<b>1.40%</b>

The District's combined net assets increased by 1.40% or \$102,772 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$14,984 or 1.26% over the prior year. The increase in restricted net assets can be attributed to the increase in carryover balances for state categorical funding.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$167,966 or 37.23%. The decrease in unrestricted net assets can be attributed to the decrease in carryover fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4  
Changes of Net Assets

	Governmental		Business Type		Total		Total Change June 30, 2009-10
	Activities		Activities		School District		
	June 30, 2010	2009	June 30, 2010	2009	June 30, 2010	2009	
Revenues:							
Program revenues:							
Charges for services	\$ 742,788	760,766	275,196	297,319	1,017,984	1,058,085	-3.79%
Operating grants and contributions and restricted interest	1,916,814	1,317,504	187,624	164,833	2,104,438	1,482,337	41.97%
Capital grants and contributions and restricted interest	25,426	5,000	0	0	25,426	5,000	408.52%
General revenues:							
Property tax	3,285,444	3,246,167	0	0	3,285,444	3,246,167	1.21%
Income surtax	221,857	144,387	0	0	221,857	144,387	53.65%
Statewide sales, services, and use tax	540,044	574,456	0	0	540,044	574,456	-5.99%
Unrestricted state grants	3,272,070	4,005,180	0	0	3,272,070	4,005,180	-18.30%
Other	139,836	446,735	273	303	140,109	447,038	-68.66%
Total revenues	10,144,279	10,500,195	463,093	462,455	10,607,372	10,962,650	-3.24%
Program expenses:							
Governmental activities:							
Instructional	6,574,521	6,903,152	0	0	6,574,521	6,903,152	-4.76%
Support services	2,551,981	2,620,886	461	0	2,552,442	2,620,886	-2.61%
Non-instructional programs	750	0	432,348	431,103	433,098	431,103	0.46%
Other expenses	944,539	902,615	0	0	944,539	902,615	4.64%
Total expenses	10,071,791	10,426,653	432,809	431,103	10,504,600	10,857,756	-3.25%
Change in net assets	72,488	73,542	30,284	31,352	102,772	104,894	-2.02%
Net assets beginning of year	7,239,329	7,165,787	108,997	77,645	7,348,326	7,243,432	1.45%
Net assets end of year	\$ 7,311,817	7,239,329	139,281	108,997	7,451,098	7,348,326	1.40%

In fiscal 2010, property tax and unrestricted state grants account for 64.64% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.94% of the revenue from business type activities.

The District's total revenues were approximately \$10.61 million of approximately \$10.15 million was for governmental activities and slightly more than \$0.46 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 3.24% in revenues and a 3.25% decrease in expenses.

### Governmental Activities

Revenues for governmental activities were \$10,144,279 and expenses were \$10,071,791.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 6,574,521	6,903,152	-4.76%	4,339,758	5,191,737	-16.41%
Support services	2,551,981	2,620,886	-2.63%	2,538,337	2,609,348	-2.72%
Non-instructional	750	0	100.00%	750	0	100.00%
Other expenses	944,539	902,615	4.64%	507,918	542,298	-6.34%
Totals	\$ 10,071,791	10,426,653	-3.40%	7,386,763	8,343,383	-11.47%

- The cost financed by users of the District's programs was \$742,788.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,942,240.
- The net cost of governmental activities was financed with \$3,507,301 in local tax, \$540,044 in statewide sales, services and use tax, \$3,272,070 in unrestricted state grants, \$105,735 in interest income and \$34,101 in other general revenues.

### Business Type Activities

Revenues of the District's business type activities were \$463,093 and expenses were \$432,809. 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 Osage 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 net assets of \$791,823, below last year's ending net assets of \$1,010,991. This decrease is primarily due to the decrease in the General Fund balance.

### Governmental Fund Highlights

- The District's General Fund net assets decreased from a deficit \$199,884 on June 30, 2009 to a deficit \$311,145 on June 30, 2010. The fluctuation in the District's General Fund financial position is the product of many factors. A decrease in state grant revenues during the year resulted in a decrease in total revenues. While the District did reduce its expenditures the reductions were not enough to offset the decrease in revenues. Revenues were exceeded by expenditures ensuring the decrease in the District's financial position.

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## Proprietary Fund Highlights

The Enterprise Funds net assets increased from \$108,997 at June 30, 2009 to \$139,281 at June 30, 2010, representing an increase of approximately 27.78%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$458,118 less than budgeted revenues, a variance of 4.14%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

During the year ended June 30, 2010, the District amended its budget one time increasing total expenditures by \$266,000.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2010, the District had invested \$8,734,215, 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 decrease of 2.32% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$484,823.

The original cost of the District's capital assets was \$14,184,005. Governmental funds account for \$14,006,425 with the remainder of \$177,580 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. Construction in progress totaled \$1,037,598 at June 30, 2009, compared to \$0 reported at June 30, 2010. This decrease is due to the bus barn and reproofing project at Lincoln being completed during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business-Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 422,000	422,000	0	0	422,000	422,000	0.00%
Construction in progress	0	1,037,598	0	0	0	1,037,598	-100.00%
Buildings	7,387,021	6,546,793	0	0	7,387,021	6,546,793	12.83%
Land Improvements	130,132	102,500	0	0	130,132	102,500	26.96%
Machinery and equipment	747,506	788,997	47,556	44,171	795,062	833,168	-4.57%
Total	\$ 8,686,659	8,897,888	47,556	44,171	8,734,215	8,942,059	-2.32%

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## Long-Term Debt

At June 30, 2010, the District had \$2,361,485 in other long-term debt outstanding. This represents a decrease of 16.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total		Total
	School District		Change
	June 30,		June 30,
	2010	2009	2009-10
General obligation bonds	\$ 0	155,000	-100.0%
Revenue bonds	1,260,000	1,545,000	-18.4%
Energy loan notes	675,000	755,000	-10.6%
Early retirement	426,485	377,823	12.9%
Total	\$ 2,361,485	2,832,823	-16.6%

## 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 fluctuations may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- The 10% across the board cuts by the legislature in the 2009-2010 school year has greatly impacted the District's financial situation. The District has developed a plan for reducing expenditures which includes closing the Washington building and reducing staff and expenses. The District will continue to explore all options to further reduce expenditures.
- Continued budget concerns at state level will affect future projections. After the appropriation of State Aid (and after the adoption of the District's budget for a particular fiscal year), the Governor and the General Assembly have the ability to rescind all or a portion of the appropriation. Certain areas of the State's budget are exempt from these potential cuts; however, K-12 and community college funding are not exempt from rescission. Historically, rescissions were imposed in an "across-the-board" fashion, and all state funding was reduced in a percentage format. This had the potential to impact schools with low valuation per pupil much greater than schools with high per pupil valuations. In the 2002 General Assembly, the formula for rescission was altered for K-12 funding, such that all future rescissions, if any, would be applied to K-12 education on a "per-pupil" basis.
- All District employees qualify for participation in the Iowa Public Employees Retirement System(IPERS). Both the District and its employees contribute to this fund. IPERS has an unfunded actuarial liability and unrecognized actuarial loss. Given this fact, additional contributions have been required by the General Assembly. The legislation increased IPERS contribution rates 0.5 percent per year for four years and restricts certain practices and benefits to control benefit costs. The increases begin July 1, 2009.

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- If student enrollment projections for the District are accurate the District will have a major decline in enrollment over the next three years. This decline will have a negative impact on the financial health of the District.

### **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 Helen Burrington, District Board Secretary, Osage Community School District, 820 Sawyer Drive, Osage, Iowa, 50461.

BASIC FINANCIAL STATEMENTS

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business type Activities	Total	Osage Education Foundation
<b>Assets</b>				
Cash and cash equivalents	\$ 1,888,313	81,962	1,970,275	261,889
Receivables:				
Property tax:				
Delinquent	39,759	0	39,759	0
Succeeding year	4,010,964	0	4,010,964	0
Income surtax	196,600	0	196,600	0
Accounts	455	0	455	0
Due from other governments	327,129	0	327,129	0
Inventories	0	22,778	22,778	0
Net OPEB asset	30,351	1,561	31,912	0
Capital assets, net of accumulated depreciation	8,686,659	47,556	8,734,215	0
<b>Total Assets</b>	<b>15,180,230</b>	<b>153,857</b>	<b>15,334,087</b>	<b>261,889</b>
<b>Liabilities</b>				
Accounts payable	97,344	265	97,609	0
Salaries and benefits payable	1,285,111	6,696	1,291,807	0
Accrued interest payable	32,131	0	32,131	0
Deferred revenue:				
Succeeding year property tax	4,010,964	0	4,010,964	0
Other	81,378	0	81,378	0
Unearned revenues	0	7,615	7,615	0
Long-term liabilities:				
Portion due within one year:				
Revenue bonds	295,000	0	295,000	0
Energy loan notes	85,000	0	85,000	0
Early retirement	213,073	0	213,073	0
Portion due after one year:				
Revenue bonds	965,000	0	965,000	0
Energy loan notes	590,000	0	590,000	0
Early retirement	213,412	0	213,412	0
<b>Total Liabilities</b>	<b>7,868,413</b>	<b>14,576</b>	<b>7,882,989</b>	<b>0</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	6,821,293	47,556	6,868,849	0
Restricted for:				
Scholarships	0	0	0	121,714
Categorical funding	345,357	0	345,357	0
Physical plant and equipment levy	41,357	0	41,357	0
Capital projects	237,338	0	237,338	0
Debt service	354,169	0	354,169	0
Other special revenue purposes	223,126	0	223,126	0
Unrestricted	(710,823)	91,725	(619,098)	140,175
<b>Total Net Assets</b>	<b>\$ 7,311,817</b>	<b>139,281</b>	<b>7,451,098</b>	<b>261,889</b>

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government			Component Unit Osage Education Foundation
					Govern- mental Activities	Business Type Activities	Total	
<b>Governmental activities:</b>								
<b>Instruction:</b>								
Regular	\$ 4,048,598	238,741	1,126,024	0	(2,683,833)	0	(2,683,833)	0
Special	1,064,373	131,307	209,900	0	(723,166)	0	(723,166)	0
Other	1,461,550	372,740	156,051	0	(932,759)	0	(932,759)	0
	<u>6,574,521</u>	<u>742,788</u>	<u>1,491,975</u>	<u>0</u>	<u>(4,339,758)</u>	<u>0</u>	<u>(4,339,758)</u>	<u>0</u>
<b>Support services:</b>								
Student	234,148	0	0	0	(234,148)	0	(234,148)	0
Instructional staff	380,015	0	0	0	(380,015)	0	(380,015)	0
Administration	900,868	0	0	0	(900,868)	0	(900,868)	0
Operation and maintenance of plant	631,804	0	0	0	(631,804)	0	(631,804)	0
Transportation	405,146	0	13,644	0	(391,502)	0	(391,502)	0
	<u>2,551,981</u>	<u>0</u>	<u>13,644</u>	<u>0</u>	<u>(2,538,337)</u>	<u>0</u>	<u>(2,538,337)</u>	<u>0</u>
<b>Non-instructional programs:</b>								
Other enterprise operations	750	0	0	0	(750)		(750)	0
<b>Other expenditures:</b>								
Facilities acquisitions	152,848	0	0	25,426	(127,422)	0	(127,422)	0
Long-term debt interest	90,158	0	0	0	(90,158)	0	(90,158)	0
AEA flowthrough	411,195	0	411,195	0	0	0	0	0
Depreciation (unallocated)*	290,338	0	0	0	(290,338)	0	(290,338)	0
	<u>944,539</u>	<u>0</u>	<u>411,195</u>	<u>25,426</u>	<u>(507,918)</u>	<u>0</u>	<u>(507,918)</u>	<u>0</u>
<b>Total governmental activities</b>	<u>10,071,791</u>	<u>742,788</u>	<u>1,916,814</u>	<u>25,426</u>	<u>(7,386,763)</u>	<u>0</u>	<u>(7,386,763)</u>	<u>0</u>
<b>Business Type activities:</b>								
<b>Instruction:</b>								
Regular	93	0	0	0	0	(93)	(93)	0
<b>Support services:</b>								
Operation and maintenance of plant	461	0	0	0	0	(461)	(461)	0
<b>Non-instructional programs:</b>								
Nutrition services	432,255	275,196	187,624	0	0	30,565	30,565	0
<b>Total business type activities</b>	<u>432,809</u>	<u>275,196</u>	<u>187,624</u>	<u>0</u>	<u>0</u>	<u>30,011</u>	<u>30,011</u>	<u>0</u>
<b>Total primary government</b>	<u>\$ 10,504,600</u>	<u>1,017,984</u>	<u>2,104,438</u>	<u>25,426</u>	<u>(7,386,763)</u>	<u>30,011</u>	<u>(7,356,752)</u>	<u>0</u>
<b>Total component unit</b>	<u>\$ 53,754</u>	<u>0</u>	<u>16,028</u>	<u>12,963</u>				<u>(24,763)</u>
<b>General Revenues:</b>								
Property tax levied for:								
General purposes					\$ 3,231,954	0	3,231,954	0
Debt service					13,509	0	13,509	0
Capital outlay					39,981	0	39,981	0
Income surtax					221,857	0	221,857	0
Statewide sales, services and use tax					540,044	0	540,044	0
Unrestricted state grants					3,272,070	0	3,272,070	0
Unrestricted investment earnings					105,735	273	106,008	4,030
Other					34,101	0	34,101	15,670
<b>Total general revenues</b>					<u>7,459,251</u>	<u>273</u>	<u>7,459,524</u>	<u>19,700</u>
<b>Changes in net assets</b>					<u>72,488</u>	<u>30,284</u>	<u>102,772</u>	<u>(5,063)</u>
<b>Net assets beginning of year</b>					<u>7,239,329</u>	<u>108,997</u>	<u>7,348,326</u>	<u>266,952</u>
<b>Net assets end of year</b>					<u>\$ 7,311,817</u>	<u>139,281</u>	<u>7,451,098</u>	<u>261,889</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

	General	Other Nonmajor Governmental Funds	Total
<b>Assets</b>			
Cash and pooled investments	\$ 850,275	1,038,038	1,888,313
Receivables:			
Property tax:			
Delinquent	36,194	3,565	39,759
Succeeding year	3,642,360	368,604	4,010,964
Income surtax	117,960	78,640	196,600
Accounts	0	455	455
Due from other governments	246,263	80,866	327,129
<b>Total Assets</b>	<b>\$ 4,893,052</b>	<b>1,570,168</b>	<b>6,463,220</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 78,035	19,309	97,344
Salaries and benefits payable	1,284,464	647	1,285,111
Deferred revenue:			
Succeeding year property tax	3,642,360	368,604	4,010,964
Income surtax	117,960	78,640	196,600
Other	81,378	0	81,378
Total liabilities	5,204,197	467,200	5,671,397
Fund balances:			
Reserved for:			
Debt service	0	354,169	354,169
Construction	0	69,634	69,634
Categorical funding	345,357	0	345,357
Unreserved fund balances	(656,502)	679,165	22,663
Total fund balances	(311,145)	1,102,968	791,823
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,893,052</b>	<b>1,570,168</b>	<b>6,463,220</b>

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2010

<b>Total fund balances of governmental funds (page 20)</b>	\$ 791,823
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	8,686,659
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(32,131)
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.	196,600
Other postemployment benefits are not yet available to finance expenditures of the current fiscal period	30,351
Long-term liabilities including revenue bonds payable, capital loan notes payable, and early retirement payable are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,361,485)</u>
<b>Net assets of governmental activities (page 18)</b>	<u><u>\$ 7,311,817</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	General	Nonmajor Special Revenue Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 3,122,358	924,987	4,047,345
Tuition	289,057	0	289,057
Other	215,671	414,542	630,213
State sources	4,321,318	0	4,321,318
Federal sources	835,920	20,426	856,346
Total revenues	<u>8,784,324</u>	<u>1,359,955</u>	<u>10,144,279</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	3,823,152	172,215	3,995,367
Special	1,050,526	0	1,050,526
Other	1,132,824	355,942	1,488,766
	<u>6,006,502</u>	<u>528,157</u>	<u>6,534,659</u>
Support services:			
Student	248,460	0	248,460
Instructional staff	311,547	0	311,547
Administration	892,475	29,033	921,508
Operation and maintenance of plant	598,087	34,015	632,102
Transportation	329,959	85,236	415,195
	<u>2,380,528</u>	<u>148,284</u>	<u>2,528,812</u>
Non-instructional programs:			
Other enterprise operations	0	0	0
	<u>750</u>	<u>0</u>	<u>750</u>
Other expenditures:			
Facilities acquisitions	0	273,448	273,448
Long-term debt:			
Principal	0	520,000	520,000
Interest	0	94,583	94,583
AEA flowthrough	411,195	0	411,195
	<u>411,195</u>	<u>888,031</u>	<u>1,299,226</u>
Total expenditures	<u>8,798,975</u>	<u>1,564,472</u>	<u>10,363,447</u>
Deficiency of revenues under expenditures	<u>(14,651)</u>	<u>(204,517)</u>	<u>(219,168)</u>
Other financing sources(uses):			
Transfer in	0	603,724	603,724
Transfer out	(96,610)	(507,114)	(603,724)
Total other financing sources(uses)	<u>(96,610)</u>	<u>96,610</u>	<u>0</u>
Net change in fund balances	(111,261)	(107,907)	(219,168)
Fund balance beginning of year	(199,884)	1,210,875	1,010,991
Fund balance end of year	<u>\$ (311,145)</u>	<u>1,102,968</u>	<u>791,823</u>

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2010

Net change in fund balances - total governmental funds (page 22) \$ (219,168)

**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 reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 265,272	
Depreciation expense	(476,501)	(211,229)

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (3,229)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

Repaid	520,000
--------	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 4,425

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Other postemployment benefits	30,351	
Early retirement	(48,662)	(18,311)

Changes in net assets of governmental activities (page 19) \$ 72,488

OSAGE COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 JUNE 30, 2010

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 81,962
Inventories	22,778
Net OPEB asset	1,561
Capital assets, net of accumulated depreciation	<u>47,556</u>
Total Assets	<u>153,857</u>
Liabilities	
Accounts payable	265
Salaries and benefits payable	6,696
Unearned revenue	<u>7,615</u>
Total Liabilities	<u>14,576</u>
Net Assets	
Invested in capital assets	47,556
Unrestricted	<u>91,725</u>
Total Net Assets	<u>\$ 139,281</u>

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2010

	Business Type Activities:	Governmental Activities:
	School Nutrition	Internal Service
Operating revenues:		
Local sources:		
Charges for services	\$ 275,196	0
Operating expenses:		
Instruction:		
Regular:		
Salaries	81	0
Benefits	12	0
Support services:		
Operation and maintenance of plant services:		
Services	461	0
Non-instructional programs:		
Food service operations:		
Salaries	152,220	0
Benefits	77,044	3,229
Services	2,638	0
Supplies	191,845	0
Other	186	0
Depreciation	8,322	0
	432,255	3,229
Total operating expenses	432,809	3,229
Operating loss	(157,613)	(3,229)
Non-operating revenues:		
State sources	4,420	0
Federal sources	183,204	0
Interest income	273	0
Total non-operating revenues	187,897	0
Change in net assets	30,284	(3,229)
Net assets beginning of year	108,997	3,229
Net assets end of year	\$ 139,281	0

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2010

	Business Type Activities: School Nutrition	Governmental Activities: Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 267,877	0
Cash payments to employees for services	(229,468)	(3,229)
Cash payments to suppliers for goods or services	(155,256)	0
Net cash provided by (used in) operating activities	<u>(116,847)</u>	<u>(3,229)</u>
Cash flows from non-capital financing activities:		
Repayment to General Fund	0	(12,250)
State grants received	4,420	0
Federal grants received	140,970	0
Net cash provided by non-capital financing activities	<u>145,390</u>	<u>(12,250)</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(11,707)</u>	0
Cash flows from investing activities:		
Interest on investments	<u>273</u>	0
Net increase(decrease) in cash and cash equivalents	17,109	(15,479)
Cash and cash equivalents at beginning of year	<u>64,853</u>	<u>15,479</u>
Cash and cash equivalents at end of year	<u>\$ 81,962</u>	<u>0</u>
Reconciliation of operating loss to net cash provided by(used in) operating activities:		
Operating loss	\$ (157,613)	(3,229)
Adjustments to reconcile operating loss to net cash provided used in operating activities:		
Commodities consumed	42,234	0
Depreciation	8,322	0
Increase in inventories	(935)	0
Decrease in accounts payable	(1,425)	0
Increase in salaries and benefits payable	1,450	0
Decrease in unearned revenue	(7,319)	0
Decrease in other postemployment benefits	(1,561)	0
Net cash provided used in operating activities	<u>\$ (116,847)</u>	<u>(3,229)</u>

## RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR

During the year ended June 30, 2010, the District received Federal commodities valued at \$42,234.

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2010

	<u>Private- Purpose Trust</u>
ASSETS	
Cash and pooled investments	\$ 835,605
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	816,300
Unreserved	<u>19,305</u>
TOTAL NET ASSETS	<u>\$ 835,605</u>

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2010

	<u>Private- Purpose Trust</u>
Additions:	
Local sources:	
Interest income	<u>\$ 22,390</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>13,600</u>
Change in net assets	8,790
Net assets beginning of year	<u>826,815</u>
Net assets end of year	<u><u>\$ 835,605</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010

**(1) Summary of Significant Accounting Policies**

The Osage Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Osage, Orchard and Mitchell, Iowa and the predominate agricultural territory in Mitchell and Floyd 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, Osage 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.

These government financial statements present the Osage Community School District (the primary government) and the Osage Education Foundation (its component unit). The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit - The Osage Education Foundation is a legally separate not-for-profit foundation. The Foundation was established for the purpose of giving financial assistance to the Osage Community School District and granting scholarships to its students who will attend community colleges and universities. The Foundation is governed by a Board of Directors approved by the Osage Community School Board.

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 Mitchell and Floyd County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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 and proprietary 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.

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 District reports the following nonmajor proprietary fund:

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

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is 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.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from 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 funds are 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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

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

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 assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Intangibles	75,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	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	20-50 years
Intangibles	2 or more years
Machinery and equipment	5-15 years

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

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

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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 on the Statement of Net Assets 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 Assets.

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

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

#### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2010 were entirely covered by federal depository insurance or 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, 2010 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$48,420 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investor's Service.

**(3) Interfund Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Statewide Sales, Services and Use Tax	\$ 157,751
Debt Sinking: \$520,000 Bond	Statewide Sales, Services and Use Tax	100,878
Debt Sinking: \$1,100,000 Bond	Statewide Sales, Services and Use Tax	248,485
Debt Service	General	96,610
Total		<u>\$ 603,724</u>

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

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.50%. A summary of the District's participation in ISCAP as of June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2009-10A	6/25/09	6/22/10	\$ 0	750,000	750,000	0

During the year ended June 30, 2010, the District paid \$48,330 of interest on the ISCAP warrants.

**(5) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 422,000	0	0	422,000
Construction in progress	1,037,598	84,950	1,122,548	0
Total capital assets not being depreciated	1,459,598	84,950	1,122,548	422,000
<b>Capital assets being depreciated:</b>				
Buildings	9,502,380	1,122,548	0	10,624,928
Land Improvements	122,533	35,650	0	158,183
Machinery and equipment	2,656,642	144,672	0	2,801,314
Total capital assets being depreciated	12,281,555	1,302,870	0	13,584,425
<b>Less accumulated depreciation for:</b>				
Buildings	2,955,587	282,320	0	3,237,907
Land Improvements	20,033	8,018	0	28,051
Machinery and equipment	1,867,645	186,163	0	2,053,808
Total accumulated depreciation	4,843,265	476,501	0	5,319,766
Total capital assets being depreciated, net	7,438,290	826,369	0	8,264,659
Governmental activities capital assets, net	\$ 8,897,888	911,319	1,122,548	8,686,659
<b>Business type activities:</b>				
Machinery and equipment	\$ 165,873	11,707	0	177,580
Less accumulated depreciation	121,702	8,322	0	130,024
Business type activities capital assets, net	\$ 44,171	3,385	0	47,556

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 44,511
Support services:		
Instructional staff		51,522
Administration		10,580
Operation and maintenance of plant		887
Transportation		78,663
		<u>186,163</u>
Unallocated depreciation		<u>290,338</u>
Total governmental activities depreciation expense		<u>\$ 476,501</u>
Business type activities:		
Food services		<u>\$ 8,322</u>

**(6) Long-Term Liabilities**

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 155,000	0	155,000	0	0
Revenue Bonds	1,545,000	0	285,000	1,260,000	295,000
Energy Loan Notes	755,000	0	80,000	675,000	85,000
Early Retirement	377,823	128,103	79,441	426,485	213,073
Total	<u>\$ 2,832,823</u>	<u>128,103</u>	<u>599,441</u>	<u>2,361,485</u>	<u>593,073</u>

Revenue Bonds

Details of the District's June 30, 2010 revenue bond indebtedness is as follows:

Year Ending June 30,	Bond issue dated March 1, 2007			Bond issue dated December 6, 2007			Total		
	Rate	Principal	Interest	Rate	Principal	Interest	Principal	Interest	Total
2011	4.35 %	\$ 85,000	14,029	4.30 %	\$ 210,000	33,970	\$ 295,000	47,999	342,999
2012	4.35	90,000	10,223	4.30	220,000	24,725	310,000	34,948	344,948
2013	4.35	95,000	6,199	4.30	230,000	15,050	325,000	21,249	346,249
2014	4.35	95,000	2,065	4.30	235,000	5,052	330,000	7,117	337,117
Total		<u>\$ 365,000</u>	<u>32,516</u>		<u>\$ 895,000</u>	<u>78,797</u>	<u>\$ 1,260,000</u>	<u>111,313</u>	<u>1,371,313</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,545,000 bonds issued March 1, 2007 and December 6, 2007. The bonds were issued for the purpose of defraying a portion of the cost of renovations at the school.

The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2014. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 64 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$1,371,313. For the current year \$345,664 in principal and interest was paid on the bonds and total statewide sales, services and use tax revenues were \$285,000 in principal and \$60,510 in interest.

The resolution providing for the \$1,545,000 issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) The bonds will only be redeemed from the future earnings of the statewide sales, services and use tax revenues received by the District and the bond holders hold a lien on the future revenues received.
- b) Sufficient monthly deposits amounting to one sixth of the next interest payment and one twelfth of the next principal payment shall be made to the Statewide Sales, Services and Use Tax Sinking Fund for the purpose of making the bond principal and interest payments when due.
- c) A separate bond reserve fund will be maintained to be used solely for the purpose of paying principal and interest in the event the revenue fund does not have sufficient funds for that purpose. This fund is called the Statewide Sales, Services and Use Tax Reserve Fund.

Energy Loan Notes

Details of the District's June 30, 2010 energy loan notes indebtedness is as follows:

Year Ending June 30,	Energy Loan Notes dated March 1, 2007				
	Interest Rate	Principal	Interest	Total	
2011	4.40	% \$ 85,000	29,700	114,700	
2012	4.40	90,000	25,960	115,960	
2013	4.40	90,000	22,000	112,000	
2014	4.40	95,000	18,040	113,040	
2015	4.40	100,000	13,860	113,860	
2016	4.40	105,000	9,460	114,460	
2017	4.40	110,000	4,840	114,840	
Total		\$ 675,000	123,860	798,860	

Early Retirement

The District offers a voluntary early retirement plan to certified employees only. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service or twenty years of noncontinuous service to the District. Employees must complete an application for early retirement benefits not later than January 13 of the calendar year in which the first year of early retirement is to commence. Each application submitted is subject to approval by the Board of Education.

Employees that have been granted early retirement benefits may elect to continue participation in the District's group health insurance plan until eligible for Medicare benefits whether or not the employee actually applies for Medicare benefits. The District will continue to pay a portion of the retirees monthly premium for group single health insurance until the employee is eligible for Medicare, dies or fails to pay the balance of the premium that is due to continue coverage whichever is first to occur. During the 2010 year the District offered a plan paying retirees a cash payment of \$17,000. This was a one-time offering and the District is no longer offering any new early retirement benefits. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement. Early retirement expenditures for the year ended June 30, 2010 totaled \$79,441.

**(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$368,465, \$345,635, and \$309,507 respectively, equal to the required contributions for each year.

**(8) Other Postemployment Benefits**

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 123 active and 19 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark Blue Cross Blue Shield. Retirees under age 65 pay the same premium for the medical and prescription drug benefits 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 and 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, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 91,012
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost	<u>91,012</u>
Contributions made	<u>(122,924)</u>
Increase in net OPEB obligation	(31,912)
Net OPEB obligation beginning of year	<u>0</u>
Net OPEB obligation end of year	<u>\$ (31,912)</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, 2010.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 91,012	135.1%	\$ (31,912)

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$949,154, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$949,154. The covered payroll (annual payroll of active employees covered by the plan) was \$5,241,565, and the ratio of the UAAL to covered payroll was 18.11%. As of June 30, 2010 there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of 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, 2009 actuarial valuation date, the Frozen Entry Age Actuarial Cost Method was used. The actuarial assumptions includes 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 national termination studies performed by the Society of Actuaries. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(9) Risk Management**

Osage 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.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$411,195 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(12) Deficit Fund Balance/Net Assets**

The General Fund had a deficit unreserved undesignated fund balance of \$656,502. The District also had a deficit unrestricted net assets balance in the governmental activities of \$710,823.

(13) Categorical Funding

The District's ending reserved balances for categorical funding as of June 30, 2010 are broken out by the following projects:

<u>Project</u>	<u>Amount</u>
Talent and gifted	\$ 102,564
Early intervention	77,210
Teacher salary supplement	83,746
Professional development	39,698
Beginning teacher mentoring	5,263
Non-public textbook	91
Market factor	118
Market factor incentive	6,912
Model core curriculum	24,538
Non public transportation	5,217
Total	<u>\$ 345,357</u>

REQUIRED SUPPLEMENTARY INFORMATION

OSAGE COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2010

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Actual
	Actual	Actual				Variance
<b>Revenues:</b>						
Local sources	\$ 4,966,615	275,469	5,242,084	5,341,619	5,341,619	(99,535)
Intermediate sources	0	0	0	13,500	13,500	(13,500)
State sources	4,321,318	4,420	4,325,738	5,309,371	5,309,371	(983,633)
Federal sources	856,346	183,204	1,039,550	401,000	401,000	638,550
Total revenues	10,144,279	463,093	10,607,372	11,065,490	11,065,490	(458,118)
<b>Expenditures/Expenses:</b>						
Instruction	6,534,659	93	6,534,752	6,634,000	6,900,000	365,248
Support services	2,528,812	461	2,529,273	2,776,000	2,776,000	246,727
Non-instructional programs	750	432,255	433,005	455,000	455,000	21,995
Other expenditures	1,299,226	0	1,299,226	1,669,173	1,669,173	369,947
Total expenditures/expenses	10,363,447	432,809	10,796,256	11,534,173	11,800,173	1,003,917
Excess(Deficiency) of revenues over(under) expenditures/expenses	(219,168)	30,284	(188,884)	(468,683)	(734,683)	545,799
Balance beginning of year	1,010,991	108,997	1,119,988	1,458,460	1,458,460	(338,472)
Balance end of year	\$ 791,823	139,281	931,104	989,777	723,777	207,327

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2010

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except 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. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2010, the District amended its budget one time increasing total expenditures by \$266,000.

OSAGE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2010

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ 0	\$ 949,154	\$ 949,154	0.00%	\$ 5,241,565	18.11%

See Note 8 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.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS  
COMPONENT UNIT  
JUNE 30, 2010

	Osage Education Foundation
Assets	
Cash and cash equivalents	\$ 172,889
Certificates of deposit	89,000
Total Assets	\$ 261,889
Total Liabilities	\$ 0
Net Assets	
Reserved for scholarships	121,714
Unreserved net assets	140,175
Total net assets	261,889
Total Liabilities Net Assets	\$ 261,889

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF SUPPORT AND REVENUE, EXPENSES AND  
CHANGES IN NET ASSETS - CASH BASIS  
COMPONENT UNIT  
YEAR ENDED JUNE 30, 2010

	Osage Education Foundation
Support and Revenue:	
Interest	\$ 4,030
Construction contributions	12,963
Scholarship contributions	16,028
Other	15,670
Total support and revenue	48,691
Expenses:	
Publishing	2,287
Supplies	361
Scholarships	20,000
Grants	1,771
Construction services	10,000
Other	19,335
Total expenses	53,754
Deficiency of support and revenue under expenses	(5,063)
Net assets beginning of year	266,952
Net assets end of year	\$ 261,889

OTHER SUPPLEMENTARY INFORMATION

OSAGE COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2010

	Special Revenue Funds							Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
<b>Assets</b>								
Cash and pooled investments	\$ 174,405	157,127	45,784	70,422	447,738	236,289	354,011	1,038,038
Receivables:								
Property tax:								
Delinquent	2,939	0	468	0	3,407	0	158	3,565
Succeeding year	325,000	0	43,604	0	368,604	0	0	368,604
Income surtax	0	0	78,640	0	78,640	0	0	78,640
Accounts	0	455	0	0	455	0	0	455
Due from other governments	0	0	0	0	0	80,866	0	80,866
<b>Total Assets</b>	<b>\$ 502,344</b>	<b>157,582</b>	<b>168,496</b>	<b>70,422</b>	<b>898,844</b>	<b>317,155</b>	<b>354,169</b>	<b>1,570,168</b>
<b>Liabilities and Fund Balances</b>								
Liabilities:								
Accounts payable	\$ 0	4,231	4,895	0	9,126	10,183	0	19,309
Salaries and benefits payable	0	647	0	0	647	0	0	647
Deferred revenue:								
Succeeding year property tax	325,000	0	43,604	0	368,604	0	0	368,604
Income surtax	0	0	78,640	0	78,640	0	0	78,640
<b>Total Liabilities</b>	<b>325,000</b>	<b>4,878</b>	<b>127,139</b>	<b>0</b>	<b>457,017</b>	<b>10,183</b>	<b>0</b>	<b>467,200</b>
Fund balances:								
Reserved for:								
Debt service	0	0	0	0	0	0	354,169	354,169
Construction	0	0	0	0	0	69,634	0	69,634
Unreserved fund balances	177,344	152,704	41,357	70,422	441,827	237,338	0	679,165
<b>Total fund balances</b>	<b>177,344</b>	<b>152,704</b>	<b>41,357</b>	<b>70,422</b>	<b>441,827</b>	<b>306,972</b>	<b>354,169</b>	<b>1,102,968</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 502,344</b>	<b>157,582</b>	<b>168,496</b>	<b>70,422</b>	<b>898,844</b>	<b>247,521</b>	<b>354,169</b>	<b>1,570,168</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2010

	Special Revenue Funds							Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
REVENUES:								
Local sources:								
Local tax	\$ 242,710	0	128,724	0	371,434	540,044	13,509	924,987
Other	14,853	372,740	808	10,996	399,397	11,648	3,497	414,542
Federal sources	0	0	20,426	0	20,426	0	0	20,426
<b>TOTAL REVENUES</b>	<b>257,563</b>	<b>372,740</b>	<b>149,958</b>	<b>10,996</b>	<b>791,257</b>	<b>551,692</b>	<b>17,006</b>	<b>1,359,955</b>
EXPENDITURES:								
Current:								
Instruction:								
Regular	146,449	0	9,455	16,311	172,215	0	0	172,215
Other	0	355,942	0	0	355,942	0	0	355,942
Support services:								
Administration	10,481	0	18,552	0	29,033	0	0	29,033
Operation and maintenance of plant	34,015	0	0	0	34,015	0	0	34,015
Transportation	7,048	0	78,188	0	85,236	0	0	85,236
Other expenditures:								
Facilities acquisitions	0	0	35,225	0	35,225	238,223	0	273,448
Long-term debt:								
Principal	0	0	0	0	0	0	520,000	520,000
Interest and fiscal charges	0	0	0	0	0	0	94,583	94,583
<b>TOTAL EXPENDITURES</b>	<b>197,993</b>	<b>355,942</b>	<b>141,420</b>	<b>16,311</b>	<b>711,666</b>	<b>238,223</b>	<b>614,583</b>	<b>1,564,472</b>
Excess (Deficiency) of revenues over (under) expenditures	59,570	16,798	8,538	(5,315)	79,591	313,469	(597,577)	(204,517)
Other financing sources (uses):								
Transfers in	0	0	0	0	0	0	603,724	603,724
Transfers out	0	0	0	0	0	(507,114)	0	(507,114)
<b>Total other financing sources (uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(507,114)</b>	<b>603,724</b>	<b>96,610</b>
Net change in fund balances	59,570	16,798	8,538	(5,315)	79,591	(193,645)	6,147	(107,907)
Fund balances beginning of year	117,774	135,906	32,819	75,737	362,236	500,617	348,022	1,210,875
Fund balances end of year	\$ 177,344	152,704	41,357	70,422	441,827	306,972	354,169	1,102,968

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
SADD	\$ 389	0	0	389
Activity deposit	0	1,122	0	1,122
Dramatics	0	7,331	3,655	3,676
Speech	482	0	191	291
Project Prom	4,080	5,527	5,180	4,427
Band Trip	10,291	26,778	16,687	20,382
Chorus Trip	26,166	268	4,449	21,985
Cheerleaders	7,258	5,268	8,074	4,452
Magazine Sales	246	10,289	10,217	318
Class of 2008	205	0	205	0
Class of 2009	263	0	263	0
Class of 2010	713	513	1,226	0
Class of 2011	1,327	3,952	3,723	1,556
FFA	22,352	72,095	69,194	25,253
Future Teachers	200	100	0	300
Boys Cross Country Camp	265	1,253	1,453	65
Annual	0	5,036	1,679	3,357
Spanish	9,140	42	0	9,182
Student Council	2,924	13,617	12,841	3,700
IT Club	0	316	291	25
Math Club	0	3,744	1,809	1,935
Weightlifting	0	450	0	450
Boys Basketball Camp	2,523	3,590	4,592	1,521
Football Camp	1,732	7,717	8,329	1,120
Baseball Camp	6,321	5,683	3,334	8,670
Wrestling Camp	0	15,911	15,694	217
Girls Basketball Camp	641	1,785	0	2,426
Volleyball Camp	3,550	17,299	17,432	3,417
Softball Camp	2,550	10,418	4,398	8,570
Concession Stand	0	36,802	36,802	0
Girls Tennis Camp	940	1,130	1,981	89
Computer	289	0	0	289
Girls Track Camp	1,711	520	1,424	807
Boys Track Camp	247	5,450	4,334	1,363
Football Activity Tickets	1,947	2,378	3,978	347
FCCLA	1,764	2,113	2,086	1,791
Golf Camp	1,502	614	453	1,663
Girls Cross Country Camp	643	1,084	1,339	388
Athletics	9,122	91,951	100,498	575
M.S. Student Council	4,099	8,651	6,484	6,266
M.S. Special Olympics	10,024	1,943	1,647	10,320
Total	\$ 135,906	372,740	355,942	152,704

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 JUNE 30, 2010

	Private-Purpose Trust				
	Raub Scholarship	Heiden Scholarship	Neuwohner Scholarship	Alchon Scholarship	Total
ASSETS					
Cash and pooled investments	\$ 792,789	5,658	2,158	35,000	835,605
NET ASSETS					
Reserved for scholarships	774,300	5,000	2,000	35,000	816,300
Unreserved	18,489	658	158	0	19,305
TOTAL NET ASSETS	\$ 792,789	5,658	2,158	35,000	835,605

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 YEAR ENDED JUNE 30, 2010

	Raub Scholarship	Heiden Scholarship	Neuwohner Scholarship	Alchon Scholarship	Total
ADDITIONS:					
Local sources:					
Interest income	\$ 22,202	151	37	0	22,390
DEDUCTIONS:					
Instruction:					
Regular:					
Scholarships awarded	13,000	500	100	0	13,600
Change in net assets	9,202	(349)	(63)	0	8,790
Net assets beginning of year	783,587	6,007	2,221	35,000	826,815
Net assets end of year	\$ 792,789	5,658	2,158	35,000	835,605

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET FOR CAPITAL PROJECTS FUND  
 JUNE 30, 2010

	Capital Projects Fund		
	Statewide, Sales,		
	Building Projects	Services and Use Tax	Total
<b>Assets</b>			
Cash and pooled investments	\$ 69,634	166,655	236,289
Due from other governments	0	80,866	80,866
<b>Total Assets</b>	<b>\$ 69,634</b>	<b>247,521</b>	<b>317,155</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 0	10,183	10,183
<b>Fund balances:</b>			
<b>Reserved for:</b>			
Construction	69,634	0	69,634
Unreserved fund balance	0	237,338	237,338
<b>Total fund balances</b>	<b>69,634</b>	<b>237,338</b>	<b>306,972</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 69,634</b>	<b>247,521</b>	<b>317,155</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 CAPITAL PROJECTS FUND  
 YEAR ENDED JUNE 30, 2010

	Capital Projects Fund		
	Building Projects	Statewide, Sales, Services and Use Tax	Total
Revenues:			
Local sources:			
Local tax	\$ 0	540,044	540,044
Other	1,498	10,150	11,648
Total revenues	1,498	550,194	551,692
Expenditures:			
Current:			
Other expenditures:			
Facilities acquisitions	57,900	180,323	238,223
Total expenditures	57,900	180,323	238,223
Excess(Deficiency) of revenues over(under) expenditures	(56,402)	369,871	313,469
Other financing uses:			
Transfer out	0	(507,114)	(507,114)
Deficiency of revenues under expenditures and other financing uses	(56,402)	(137,243)	(193,645)
Fund balance beginning of year	126,036	374,581	500,617
Fund balance end of year	\$ 69,634	237,338	306,972

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET FOR DEBT SERVICE FUND  
 JUNE 30, 2010

	Debt Service Fund			
	Debt		Debt	
	Sinking		Sinking	
	Debt Service	\$520,000 Bond	\$1,100,000 Bond	Total
Assets				
Cash and pooled investments	\$ 18,029	101,559	234,423	354,011
Receivables:				
Property tax				
Delinquent	158	0	0	158
Total Assets	<u>\$ 18,187</u>	<u>101,559</u>	<u>234,423</u>	<u>354,169</u>
Liabilities				
	0	0	0	0
Fund balances:				
Reserved for Debt service	18,187	101,559	234,423	354,169
Total fund balances	<u>18,187</u>	<u>101,559</u>	<u>234,423</u>	<u>354,169</u>
Total Liabilities and Fund Balances	<u>\$ 18,187</u>	<u>101,559</u>	<u>234,423</u>	<u>354,169</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 DEBT SERVICE FUND  
 YEAR ENDED JUNE 30, 2010

	Debt Service Fund			Total
	Debt Service	Debt Sinking Bond	Debt Sinking Bond	
Revenues:				
Local sources:				
Local tax	\$ 13,509	0	0	13,509
Other	0	1,070	2,427	3,497
Total revenues	13,509	1,070	2,427	17,006
Expenditures:				
Long-term debt:				
Principal	235,000	80,000	205,000	520,000
Interest and fiscal charges	38,921	12,769	42,893	94,583
Total expenditures	273,921	92,769	247,893	614,583
Deficiency of revenues under expenditures	(260,412)	(91,699)	(245,466)	(597,577)
Other financing sources:				
Transfer in	254,361	100,878	248,485	603,724
Excess (Deficiency) of revenues over (under) expenditures and other financing sources	(6,051)	9,179	3,019	6,147
Fund balance beginning of year	24,238	92,380	231,404	348,022
Fund balance end of year	\$ 18,187	101,559	234,423	354,169

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST SEVEN YEARS

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 4,047,345	3,950,449	3,603,586	3,701,018	3,329,036	3,128,088	3,130,230
Tuition	289,057	310,603	284,780	269,587	356,273	335,005	351,671
Other	630,213	901,546	796,975	896,666	805,274	790,760	640,956
Intermediate sources	0	0	13,500	5,320	60,393	61,346	62,442
State sources	4,321,318	5,009,633	4,809,155	4,481,766	4,236,604	4,126,057	3,776,755
Federal sources	856,346	313,052	229,919	294,409	276,208	166,592	177,334
<b>Total</b>	<b>\$ 10,144,279</b>	<b>10,485,283</b>	<b>9,737,915</b>	<b>9,648,766</b>	<b>9,063,788</b>	<b>8,607,848</b>	<b>8,139,388</b>
Expenditures:							
Current:							
Instruction:							
Regular	\$ 3,995,367	4,106,799	3,825,992	3,577,442	3,247,202	3,062,556	3,224,960
Special	1,050,526	1,258,870	1,183,503	1,170,500	1,166,899	1,114,163	1,236,387
Other	1,488,766	1,500,093	1,335,884	1,470,359	1,296,333	1,194,772	913,930
Support services:							
Student	248,460	191,890	241,288	259,527	277,336	282,087	250,492
Instructional staff	311,547	316,816	299,352	506,278	294,270	312,190	303,819
Administration	921,508	932,912	917,423	658,137	799,481	707,799	643,447
Operation and maintenance of plant	632,102	690,287	653,128	640,493	631,683	544,878	522,112
Transportation	415,195	485,642	388,917	478,265	469,451	291,496	288,899
Non-instructional programs	750	0	0	0	0	1,830	9,607
Other expenditures:							
Facilities acquisitions	273,448	1,156,038	1,222,873	817,998	347,813	280,178	412,623
Long-term debt:							
Principal	520,000	300,000	145,000	140,000	130,000	125,000	115,000
Interest	94,583	114,878	74,558	24,295	37,493	44,079	49,558
AEA flow-through	411,195	355,317	333,811	318,582	298,926	293,352	290,290
<b>Total</b>	<b>\$ 10,363,447</b>	<b>11,409,542</b>	<b>10,621,729</b>	<b>10,061,876</b>	<b>8,996,887</b>	<b>8,254,380</b>	<b>8,261,124</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2010

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
U.S. DEPARTMENT OF EDUCATION:			
BILINGUAL EDUCATION SUPPORT SERVICES	84.194	FY 10	\$ 1,147
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	15,887
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	167,224 *
			<u>183,111</u>
TEAM NUTRITION GRANTS	10.574	FY 10	<u>93</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 10	91,113
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	33,249
			<u>124,362</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 10	<u>7,823</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 10	<u>3,804</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (FIRE SAFETY GRANT)	84.215	FY 10	<u>20,426</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 10	<u>40,289</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 10	<u>6,247</u>
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	<u>438,963</u>
ENGLISH LANGUAGE ACQUISITION GRANTS	84.365	FY 10	<u>185</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 10	49,482
ARRA - SPECIAL EDUCATION GRANTS TO STATES, RECOVERY ACT	84.391	FY 10	81,183
			<u>130,665</u>
EDUCATIONAL TECHNOLOGY STATE GRANTS (E2T2)	84.318	FY 10	<u>3,200</u>
TOTAL			<u>\$ 960,315</u>

\* - Includes \$42,234 of non-cash awards

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

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

To the Board of Education of the  
Osage Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of Osage Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 14, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be 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 on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Finding and Questioned Costs as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that 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 II of the accompanying Schedule of Finding and Questioned Costs as items II-B-10 and II-C-10 to be significant deficiencies.

### Compliance and Other Matters

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

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

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Osage 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 14, 2011

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

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Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Osage Community School District

Compliance

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

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

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

Internal Control Over Compliance

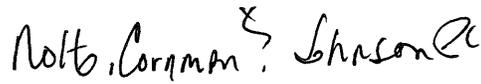
The management of Osage Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Osage Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Osage Community School District's internal control over compliance.

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

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Finding and Questionable Costs as item III-A-10 as a material weakness.

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

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 14, 2011

OSAGE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustered:
    - CFDA Number 84.010 - Title I Grant to Local Educational Agencies
    - CFDA Number 84.389 - ARRA - Title I Grant to Local Educational Agencies, Recovery Act
  - Individual:
    - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Osage Community School District did not qualify as a low-risk auditee.

OSAGE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded and checks are prepared by the same person.

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.

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

Conclusion - Response accepted.

II-B-10 Accounting for Medical Insurance Premiums - We noted during our audit that the District is accounting for its partially self-funded insurance within the General Fund. The funds received for this insurance are represented as both an asset and liability on the General Fund balance sheet.

Recommendation - Internal Service Funds are used to account for the financing of services provided within the District to provide goods or services to other funds or other governments on a cost-reimbursement basis. As these premiums collected from employees and subsequently paid out for the reimbursement of medical expenses are paid on a cost-reimbursement basis it would appear that the District's partially self-funded insurance should be accounted for in an internal service. The current balance recorded in the General Fund should be transferred to an internal service fund.

Response - The balance in the General Fund will be transferred to an internal service fund.

Conclusion - Response accepted.

II-C-10 Organizations Using the District's Federal ID Number - It was noted during our audit that the North Iowa Conference was operating checking accounts under the District's Federal identification number, which are not being accounted for on the District's financial statements.

Recommendation - The District should discuss with the members of the North Iowa Conference, which is run by Superintendents in Osage and the surrounding areas, and either account for this money in the District's financial statements or have them establish their own Federal identification number and account for this on their own.

Response - This will be discussed with the members of the North Iowa Conference and will either be accounted for on the District's financial statements or the North Iowa Conference will account for this on their own.

Conclusion - Response accepted.

OTHER MATTERS:

II-D-10 Student Activity Fund-Fundraisers - We noted during our audit that the District maintains fundraisers in the Student Activity Fund, however they are not approved by the Board. We recommend that all fundraisers be approved by Board.

Recommendation - Districts should have policies and/or procedures in place to address fund-raising activity including:

- a. The Board or its designee should approve all District-sponsored fundraising activity.
- b. The Board may also adopt a policy to require Board approval of all fundraising activity including fundraising activities of affiliated organizations such as Booster Clubs and the PTO.
- c. Boards should establish procedures for fund-raising activity for District sponsored fund-raisers as well as fund-raisers sponsored by outside groups and organizations to help ensure consistency and accountability over fund-raising activities.
- d. The Board should determine the extent, if any, of administrative support to be provided for District-sponsored and affiliated organization fundraising activity including the cost and/or expense associated with staff time used in collecting payments; preparing, printing and/or assembling mailings; postage; etc.
- e. Fund-raising activity should be clearly designated as District-sponsored and/or sponsored by an outside group or affiliated organization to clearly establish responsibility and accountability.
- f. If District-sponsored, the District should account for the fund-raising activity.

Response - As per district policy, fundraisers are approved by building principals.

Conclusion - Response accepted.

OSAGE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.010: Title I Grants to Local Educational Agencies  
CFDA Number 84.389: ARRA - Title I Grants to Local Educational Agencies, Recovery Act  
Federal Award Year: 2010  
U.S. Department of Education  
Passed through the Iowa Department of Education

CFDA Number 84.394: ARRA - State Fiscal Stabilization Fund - Education State Grants,  
Recovery Act  
Federal Award Year: 2010  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded and checks are prepared by the same person.

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.

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

Conclusion - Response accepted.

OSAGE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - District disbursements for the year ended June 30, 2010, did not exceed the amount budgeted.

IV-B-10 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-10 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jolene Hemann, Food Service Director Spouse owns Brumm Construction	Purchased service	\$83
Judy Mayer, Superintendent's secretary Spouse owns Mayer's Digging	Purchased service	\$1,366

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the family members of District employees do not appear to cause a conflict of interest.

IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-10 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-10 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-10 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.

IV-J-10 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.

IV-K-10 Financial Condition - The General Fund had a deficit unreserved undesignated fund balance of \$656,502. The District also had a deficit unrestricted net assets balance in the governmental activities of \$710,823.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - The district continues to monitor these funds. Staffing cuts have been made, a building has been closed, and budgets were cut by 20 percent.

Conclusion - Response accepted.

IV-L-10 Categorical Funding - No instance were noted of categorical funding being used to supplant rather than supplement other funds.

IV-M-10 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.3 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance		\$	0
Statewide sales, services and use tax revenue			540,044
Expenditures/transfers out:			
School Infrastructure			
Equipment	\$	17,600	
Other improvements		15,330	
Debt service for school infrastructure			
General obligation debt		157,751	
Revenue debt		349,363	540,044
			<hr/>
Ending Balance		\$	<u>0</u>

As a result of the statewide sales, service and use tax revenue received during the year ended June 30, 2010 the District reduced the following levy:

	<hr/> Per \$1,000 of Taxable Valuation <hr/>	<hr/> Property Tax Dollars <hr/>
Debt service levy	\$ 0.62599	\$ 157,751
Physical plant and equipment levy	1.51116	380,816

II-N-10 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations that have been outstanding for over a year.

Recommendation - The District needs to determine if the checks need to be voided, reissued or submitted to the State Treasurer as unclaimed property. Per Chapter 556.1(10) and 556.11 of the Code of Iowa the District is required to report unclaimed property to the State Treasurer annually before November 1<sup>st</sup>.

Response - Outstanding checks have either been voided or reissued.

Conclusion - Response accepted.