

OSAGE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

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Osage Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2011 Election)</b>		
Konnie Snider	President	2011
Karla Mitchell	Vice President	2013
Neil Wubben	Board Member	2013
Herb Wright	Board Member	2011
Jerry Brandau	Board Member	2011
<b>(After September 2011 Election)</b>		
Konnie Snider	President	2015
Karla Mitchell	Vice President	2013
Neil Wubben	Board Member	2013
Herb Wright	Board Member	2015
Doug Lang	Board Member	2015
<b>School Officials</b>		
Steve Bass	Superintendent	2012
Helen Burrington	District Board Secretary/ District Treasurer	2012
Aaron Murphy	Attorney	2012

**NOLTE, CORNMAN & JOHNSON P.C.**  
**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, 2012, 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.

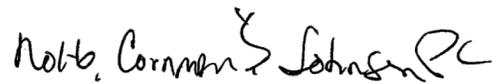
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of Osage Community School District at June 30, 2012, 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 February 21, 2013 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.

U.S generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan and the Combining Statements for the Discretely Presented Component Units on pages 7

through 15 and 44 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 five years ended June 30, 2011 (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. The supplementary information included in Schedules 1 through 10, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 21, 2013

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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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$9,443,834 in fiscal 2011 to \$9,559,165 in fiscal 2012, while General Fund expenditures increased from \$8,107,867 in fiscal 2011 to \$8,392,466 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$1,024,822 in fiscal 2011 to \$2,191,521 in fiscal 2012, a 113.84% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and state grant revenues in fiscal 2012. The increase in expenditures was due primarily to the instructional and support services functional areas.
- The District received \$706,730 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.

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

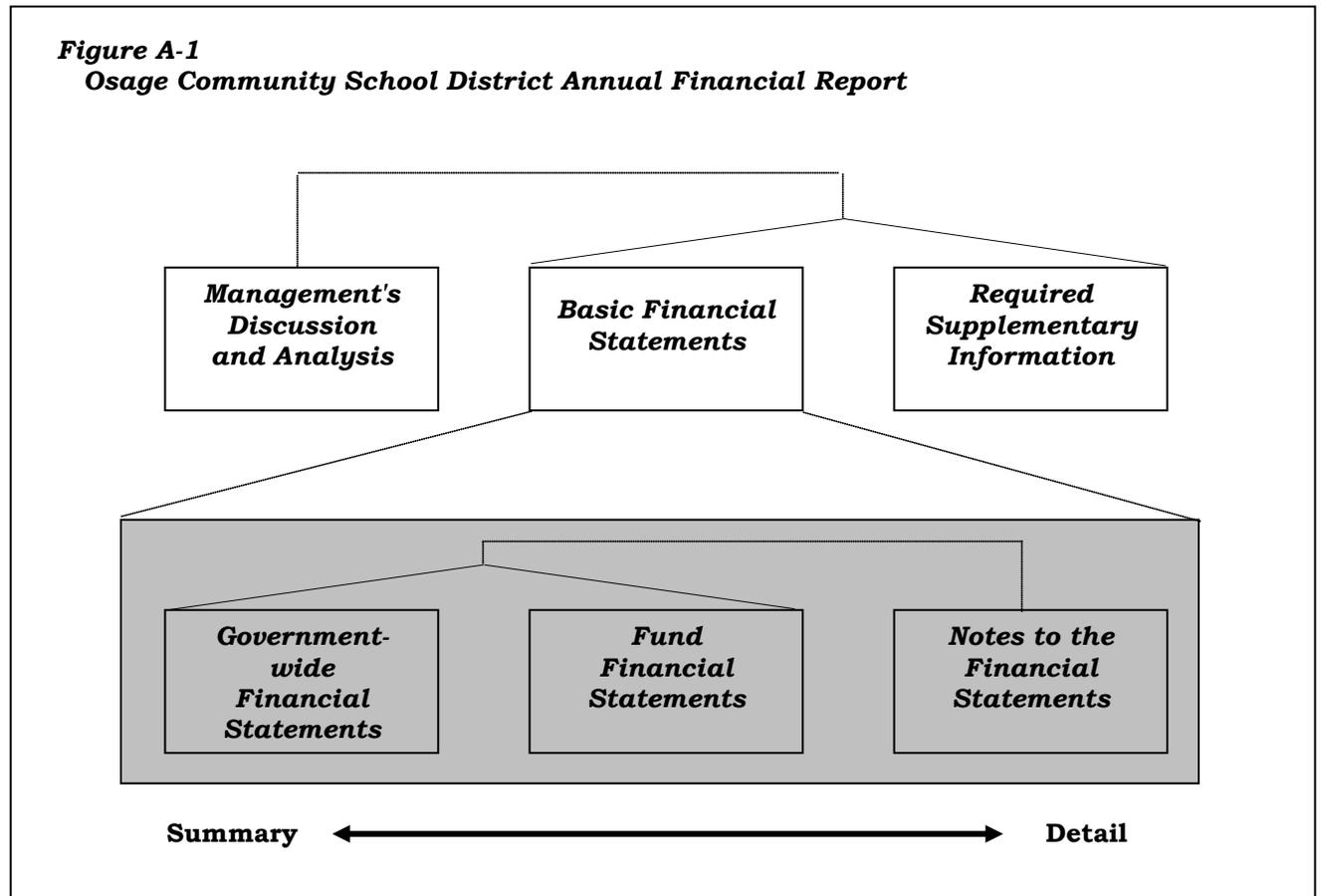


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, 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 net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, 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 fund 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, 2012 compared to June 30, 2011.

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 9,740,784	8,119,876	170,864	140,005	9,911,648	8,259,881	20.00%
Capital assets	8,315,610	8,485,288	52,440	61,830	8,368,050	8,547,118	-2.10%
Total assets	<u>18,056,394</u>	<u>16,605,164</u>	<u>223,304</u>	<u>201,835</u>	<u>18,279,698</u>	<u>16,806,999</u>	<u>8.76%</u>
Long-term liabilities	1,304,796	1,775,041	0	0	1,304,796	1,775,041	-26.49%
Other liabilities	5,263,498	5,576,342	13,756	12,715	5,277,254	5,589,057	-5.58%
Total liabilities	<u>6,568,294</u>	<u>7,351,383</u>	<u>13,756</u>	<u>12,715</u>	<u>6,582,050</u>	<u>7,364,098</u>	<u>-10.62%</u>
Net assets:							
Invested in capital assets, net of related debt	7,160,610	6,967,892	52,440	61,830	7,213,050	7,029,722	2.61%
Restricted	1,492,682	1,432,839	0	0	1,492,682	1,432,839	4.18%
Unrestricted	2,834,808	853,050	157,108	127,290	2,991,916	980,340	205.19%
Total net assets	<u>\$ 11,488,100</u>	<u>9,253,781</u>	<u>209,548</u>	<u>189,120</u>	<u>11,697,648</u>	<u>9,442,901</u>	<u>23.88%</u>

The District's combined net assets increased by 23.88% or \$2,254,747 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 \$59,843 or 4.18% over the prior year. The increase in restricted net assets can be attributed to the increase in amount reserved for management levy purposes.

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 - increased \$2,011,576 or 205.19%. The increase in unrestricted net assets can be attributed to the increase in the fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4  
Changes in Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	2011-12
	2012	2011	2012	2011	2012	2011	
Revenues:							
Program revenues:							
Charges for services	\$ 780,441	799,927	257,944	258,331	1,038,385	1,058,258	-1.88%
Operating grants and contributions and restricted interest	709,262	937,411	194,679	188,197	903,941	1,125,608	-19.69%
Capital grants and contributions and restricted interest	40,000	0	0	0	40,000	0	100.00%
General revenues:							
Property tax	4,105,937	4,009,676	0	0	4,105,937	4,009,676	2.40%
Income surtax	257,219	153,350	0	0	257,219	153,350	67.73%
Statewide sales, services, and use tax	706,730	671,332	0	0	706,730	671,332	5.27%
Unrestricted state grants	4,456,882	4,143,948	0	0	4,456,882	4,143,948	7.55%
Nonspecific program federal grants	90,168	190,567	0	0	90,168	190,567	-52.68%
Other	74,075	86,510	331	331	74,406	86,841	-14.32%
Total revenues	11,220,714	10,992,721	452,954	446,859	11,673,668	11,439,580	2.05%
Program expenses:							
Governmental activities:							
Instructional	5,731,316	6,144,623	0	0	5,731,316	6,144,623	-6.73%
Support services	2,151,715	2,133,108	7,083	0	2,158,798	2,133,108	1.20%
Non-instructional programs	0	0	425,443	397,020	425,443	397,020	7.16%
Other expenses	731,306	773,026	0	0	731,306	773,026	-5.40%
Total expenses	8,614,337	9,050,757	432,526	397,020	9,046,863	9,447,777	-4.24%
Changes in net assets before special item	2,606,377	1,941,964	20,428	49,839	2,626,805	1,991,803	31.88%
Special item:							
Loss on the sale of capital assets	(372,058)	-	-	-	(372,058)	-	-100.00%
Change in net assets	2,234,319	1,941,964	20,428	49,839	2,254,747	1,991,803	13.20%
Net assets beginning of year	9,253,781	7,311,817	189,120	139,281	9,442,901	7,451,098	26.73%
Net assets end of year	\$ 11,488,100	9,253,781	209,548	189,120	11,697,648	9,442,901	23.88%

In fiscal 2012, property tax and unrestricted state grants account for 76.31% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.93% of the revenue from business type activities.

The District's total revenues were approximately \$11.67 million of approximately \$11.22 million was for governmental activities and slightly more than \$0.45 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 2.05% in revenues and a 4.24% decrease in expenses.

### Governmental Activities

Revenues for governmental activities were \$11,220,714 and expenses were \$8,614,337.

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		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 5,731,316	6,144,623	-6.73%	4,647,170	4,891,304	-4.99%
Support services	2,151,715	2,133,108	0.87%	2,080,163	2,062,051	0.88%
Other expenses	731,306	773,026	-5.40%	357,301	360,064	-0.77%
Totals	\$ 8,614,337	9,050,757	-4.82%	7,084,634	7,313,419	-3.13%

- The cost financed by users of the District's programs was \$780,441.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$749,262.
- The net cost of governmental activities was financed with \$4,363,156 in local tax, \$706,730 in statewide sales, services and use tax, \$4,456,882 in unrestricted state grants, \$90,168 in nonspecific program federal grants, \$40,093 in interest income and \$33,982 in other general revenues.

### Business Type Activities

Revenues of the District's business type activities were \$452,954 and expenses were \$432,526. 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 \$3,441,798, above last year's ending net assets of \$2,317,356. This increase is primarily due to the increase in the General Fund balance.

### Governmental Fund Highlights

- The District's General Fund net assets increased from \$1,024,822 on June 30, 2011 to \$2,191,521 on June 30, 2012. The fluctuation in the District's General Fund financial position is the product of many factors. An increase in property tax and state grant revenues during the year resulted in an increase in total revenues.

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## Proprietary Fund Highlights

The Enterprise Funds net assets increased from \$189,120 at June 30, 2011 to \$209,548 at June 30, 2012, representing an increase of approximately 10.80%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$153,058 more than budgeted revenues, a variance of 1.34%. The most significant variance resulted from the District receiving less in state 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 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, 2012, the expenditures in the other expenditures function exceeded the amount budgeted.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2012, the District had invested \$8,368,050, 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 2.10% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$455,390.

The original cost of the District's capital assets was \$14,219,856. Governmental funds account for \$14,036,791 with the remainder of \$183,065 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 \$85,798 at June 30, 2011, compared to \$0 reported at June 30, 2012. This decrease is due to the press box and workshop addition work 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,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 422,000	422,000	0	0	422,000	422,000	0.00%
Construction in progress	0	85,798	0	0	0	85,798	-100.00%
Buildings	6,853,795	7,104,701	0	0	6,853,795	7,104,701	-3.53%
Land Improvements	352,643	243,742	0	0	352,643	243,742	44.68%
Machinery and equipment	687,172	629,047	52,440	61,830	739,612	690,877	7.05%
Total	\$ 8,315,610	8,485,288	52,440	61,830	8,368,050	8,547,118	-2.10%

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## Long-Term Debt

At June 30, 2012, the District had \$1,304,796 in other long-term debt outstanding. This represents a decrease of 26.49% 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,	June 30,
	2012	2011	2011-12
Revenue bonds	\$ 655,000	971,667	-32.59%
Energy loan notes	500,000	590,000	-15.25%
Early retirement	149,796	213,374	-29.80%
Total	\$ 1,304,796	1,775,041	-26.49%

## 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. If currently proposed legislation is approved, regarding the funding formula and unfunded mandates, the district's future could be greatly impacted.
- 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.

## 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/District Treasurer, Osage Community School District, 820 Sawyer Drive, Osage, Iowa, 50461.

OSAGE COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Primary Government		Component Unit	
	Governmental Activities	Business type Activities	Total	Osage Education Foundation
<b>Assets</b>				
Cash and cash equivalents	\$ 4,820,875	141,613	4,962,488	293,756
Receivables:				
Property tax:				
Delinquent	66,718	0	66,718	0
Succeeding year	4,175,526	0	4,175,526	0
Income surtax	258,746	0	258,746	0
Accounts	647	1,504	2,151	0
Due from other governments	309,228	0	309,228	0
Inventories	0	22,139	22,139	0
Net OPEB asset	109,044	5,608	114,652	0
Capital assets, net of accumulated depreciation	8,315,610	52,440	8,368,050	0
<b>Total Assets</b>	<b>18,056,394</b>	<b>223,304</b>	<b>18,279,698</b>	<b>293,756</b>
<b>Liabilities</b>				
Accounts payable	141,229	133	141,362	0
Salaries and benefits payable	930,779	6,340	937,119	0
Accrued interest payable	15,964	0	15,964	0
Deferred revenue:				
Succeeding year property tax	4,175,526	0	4,175,526	0
Unearned revenues	0	7,283	7,283	0
Long-term liabilities:				
Portion due within one year:				
Revenue bonds	325,000	0	325,000	0
Energy loan notes	90,000	0	90,000	0
Early retirement	47,262	0	47,262	0
Portion due after one year:				
Revenue bonds	330,000	0	330,000	0
Energy loan notes	410,000	0	410,000	0
Early retirement	102,534	0	102,534	0
<b>Total Liabilities</b>	<b>6,568,294</b>	<b>13,756</b>	<b>6,582,050</b>	<b>0</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	7,160,610	52,440	7,213,050	0
Restricted for:				
Scholarships	0	0	0	160,964
Categorical funding	392,201	0	392,201	0
Management levy purposes	75,428	0	75,428	0
Student activities	147,702	0	147,702	0
Expendable trust purposes	66,867	0	66,867	0
Physical plant and equipment	122,669	0	122,669	0
School infrastructure	336,136	0	336,136	0
Debt service	351,679	0	351,679	0
Unrestricted	2,834,808	157,108	2,991,916	132,792
<b>Total Net Assets</b>	<b>\$ 11,488,100</b>	<b>209,548</b>	<b>11,697,648</b>	<b>293,756</b>

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Contributions and Restricted Interest	Grants, Contributions and Restricted Interest	Primary Government		Component Unit	
					Govern- mental Activities	Business Type Activities	Osage Education Foundation	Total
Functions/Programs								
Governmental activities:								
Instruction:								
Regular	\$ 3,411,141	237,599	43,933	0	(3,129,609)	0	(3,129,609)	0
Special	932,797	68,293	48,223	0	(816,281)	0	(816,281)	0
Other	1,387,378	474,549	211,549	0	(701,280)	0	(701,280)	0
	<u>5,731,316</u>	<u>780,441</u>	<u>303,705</u>	<u>0</u>	<u>(4,647,170)</u>	<u>0</u>	<u>(4,647,170)</u>	<u>0</u>
Support services:								
Student	211,533	0	23,312	0	(188,221)	0	(188,221)	0
Instructional staff	204,651	0	3,021	0	(201,630)	0	(201,630)	0
Administration	760,988	0	0	0	(760,988)	0	(760,988)	0
Operation and maintenance of plant	552,487	0	0	40,000	(512,487)	0	(512,487)	0
Transportation	422,056	0	5,219	0	(416,837)	0	(416,837)	0
	<u>2,151,715</u>	<u>0</u>	<u>31,552</u>	<u>40,000</u>	<u>(2,080,163)</u>	<u>0</u>	<u>(2,080,163)</u>	<u>0</u>
Long-term debt interest	54,429	0	0	0	(54,429)	0	(54,429)	0
Other expenses:								
AEA flowthrough	374,005	0	374,005	0	0	0	0	0
Depreciation (unallocated)*	302,872	0	0	0	(302,872)	0	(302,872)	0
	<u>676,877</u>	<u>0</u>	<u>374,005</u>	<u>0</u>	<u>(302,872)</u>	<u>0</u>	<u>(302,872)</u>	<u>0</u>
Total governmental activities	<u>8,614,337</u>	<u>780,441</u>	<u>709,262</u>	<u>40,000</u>	<u>(7,084,634)</u>	<u>0</u>	<u>(7,084,634)</u>	<u>0</u>
Business Type activities:								
Support services:								
Operation and maintenance of plant	7,083	0	0	0	0	(7,083)	(7,083)	0
Non-instructional programs:								
Nutrition services	425,443	257,944	194,679	0	0	27,180	27,180	0
Total business type activities	<u>432,526</u>	<u>257,944</u>	<u>194,679</u>	<u>0</u>	<u>0</u>	<u>20,097</u>	<u>20,097</u>	<u>0</u>
Total primary government	<u>\$ 9,046,863</u>	<u>1,038,385</u>	<u>903,941</u>	<u>40,000</u>	<u>(7,084,634)</u>	<u>20,097</u>	<u>(7,064,537)</u>	<u>0</u>
Total component unit	<u>\$ 49,025</u>	<u>0</u>	<u>38,892</u>	<u>500</u>				<u>(9,633)</u>
<b>General Revenues:</b>								
Property tax levied for:								
General purposes					\$ 3,941,798	0	3,941,798	0
Capital outlay					164,139	0	164,139	0
Income surtax					257,219	0	257,219	0
Statewide sales, services and use tax					706,730	0	706,730	0
Unrestricted state grants					4,456,882	0	4,456,882	0
Nonspecific program federal grants					90,168	0	90,168	0
Unrestricted investment earnings					40,093	331	40,424	3,274
Other					33,982	0	33,982	26,769
Total general revenues					<u>9,691,011</u>	<u>331</u>	<u>9,691,342</u>	<u>30,043</u>
Changes in net assets before special item					2,606,377	20,428	2,626,805	20,410
Special item(Note 12):								
Loss on sale of capital asset					(372,058)	0	(372,058)	0
Change in net assets					2,234,319	20,428	2,254,747	20,410
Net assets beginning of year					9,253,781	189,120	9,442,901	273,346
Net assets end of year					<u>\$ 11,488,100</u>	<u>209,548</u>	<u>11,697,648</u>	<u>293,756</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, 2012

	General	Other Nonmajor Governmental Funds	Total
<b>Assets</b>			
Cash and pooled investments	\$ 3,008,673	1,128,540	4,137,213
Receivables:			
Property tax:			
Delinquent	60,981	5,737	66,718
Succeeding year	3,666,384	509,142	4,175,526
Income surtax	129,373	129,373	258,746
Accounts	647	0	647
Due from other governments	153,218	156,010	309,228
<b>Total Assets</b>	<b>\$ 7,019,276</b>	<b>1,928,802</b>	<b>8,948,078</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 101,413	39,816	141,229
Salaries and benefits payable	930,585	194	930,779
Deferred revenue:			
Succeeding year property tax	3,666,384	509,142	4,175,526
Income surtax	129,373	129,373	258,746
Total liabilities	<u>4,827,755</u>	<u>678,525</u>	<u>5,506,280</u>
Fund balances:			
Restricted for:			
Categorical funding	392,201	0	392,201
Management levy purposes	0	225,224	225,224
Student activities	0	147,702	147,702
Expendable trust purposes	0	66,867	66,867
Physical plant and equipment	0	122,669	122,669
School infrastructure	0	336,136	336,136
Debt service	0	351,679	351,679
Assigned for specific purposes	84,882	0	84,882
Unassigned	1,714,438	0	1,714,438
Total fund balances	<u>2,191,521</u>	<u>1,250,277</u>	<u>3,441,798</u>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,019,276</b>	<b>1,928,802</b>	<b>8,948,078</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, 2012

<b>Total fund balances of governmental funds (page 20)</b>	\$ 3,441,798
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	8,315,610
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.	(15,964)
Blending of the Internal Service Fund to be reflected at an entity-wide basis.	683,662
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.	258,746
Other postemployment benefits are not yet available to finance expenditures of the current fiscal period	109,044
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>(1,304,796)</u>
<b>Net assets of governmental activities (page 18)</b>	<u><u>\$ 11,488,100</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, 2012

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 3,877,902	1,110,681	4,988,583
Tuition	237,696	0	237,696
Other	219,716	444,645	664,361
State sources	4,931,900	0	4,931,900
Federal sources	291,871	25,000	316,871
Total revenues	<u>9,559,085</u>	<u>1,580,326</u>	<u>11,139,411</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	3,648,945	144,176	3,793,121
Special	1,033,714	0	1,033,714
Other	1,045,182	402,195	1,447,377
	<u>5,727,841</u>	<u>546,371</u>	<u>6,274,212</u>
Support services:			
Student	229,819	0	229,819
Instructional staff	234,672	631	235,303
Administration	817,025	49,333	866,358
Operation and maintenance of plant	490,171	33,325	523,496
Transportation	402,954	106,480	509,434
	<u>2,174,641</u>	<u>189,769</u>	<u>2,364,410</u>
Capital outlay	0	536,309	536,309
Long-term debt:			
Principal	0	406,667	406,667
Interest	0	61,446	61,446
	<u>0</u>	<u>468,113</u>	<u>468,113</u>
Other expenditures:			
AEA flowthrough	374,005	0	374,005
	<u>374,005</u>	<u>0</u>	<u>374,005</u>
Total expenditures	<u>8,276,487</u>	<u>1,740,562</u>	<u>10,017,049</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>1,282,598</u>	<u>(160,236)</u>	<u>1,122,362</u>
Other financing sources (uses):			
Transfer in	0	487,426	487,426
Transfer out	(115,979)	(371,447)	(487,426)
Sale of capital assets	80	2,000	2,080
Total other financing sources (uses)	<u>(115,899)</u>	<u>117,979</u>	<u>2,080</u>
Net change in fund balances	1,166,699	(42,257)	1,124,442
Fund balance beginning of year	<u>1,024,822</u>	<u>1,292,534</u>	<u>2,317,356</u>
Fund balance end of year	<u>\$ 2,191,521</u>	<u>1,250,277</u>	<u>3,441,798</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  
 YEAR ENDED JUNE 30, 2012

<b>Net change in fund balances - total governmental funds (page 22)</b>		\$ 1,124,442
 <b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
 Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense and loss on disposal of capital assets in the current year are as follows:		
Capital outlays	\$ 657,795	
Depreciation expense	(445,243)	
Loss on disposal of capital assets	(382,230)	(169,678)
Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.		683,662
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		406,667
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.		7,017
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		81,303
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	37,328	
Early retirement	63,578	100,906
<b>Changes in net assets of governmental activities (page 19)</b>		<b>\$ 2,234,319</b>

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2012

	Business Type	
	Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	Service Fund
<b>Assets</b>		
Cash and pooled investments	\$ 141,613	683,662
Accounts receivable	1,504	0
Inventories	22,139	0
Net OPEB asset	5,608	0
Capital assets, net of accumulated depreciation	52,440	0
<b>Total Assets</b>	<b>223,304</b>	<b>683,662</b>
<b>Liabilities</b>		
Accounts payable	133	0
Salaries and benefits payable	6,340	0
Unearned revenue	7,283	0
<b>Total Liabilities</b>	<b>13,756</b>	<b>0</b>
<b>Net Assets</b>		
Invested in capital assets	52,440	0
Unrestricted	157,108	683,662
<b>Total Net Assets</b>	<b>\$ 209,548</b>	<b>683,662</b>

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, 2012

	Business Type	
	Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Operating revenues:		
Local sources:		
Charges for services	\$ 257,944	1,496,008
Operating expenses:		
Support services:		
Operation and maintenance of plant:		
Services	7,083	0
Non-instructional programs:		
Food service operations:		
Salaries	142,615	0
Benefits	70,742	0
Services	1,010	0
Supplies	200,324	0
Depreciation	10,147	0
	424,838	0
Other operations:		
Benefits	0	812,346
Total operating expenses	431,921	812,346
Operating income(loss)	(173,977)	683,662
Non-operating revenues(expenses):		
Interest income	331	0
State sources	4,091	0
Federal sources	190,588	0
Loss on disposal of assets	(605)	0
Total non-operating revenues(expenses)	194,405	0
Change in net assets	20,428	683,662
Net assets beginning of year	189,120	0
Net assets end of year	\$ 209,548	683,662

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2012

	School Nutrition	Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 256,764	0
Cash received from miscellaneous operating activities	0	1,496,008
Cash payments to employees for services	(214,693)	0
Cash payments to suppliers for goods or services	(164,482)	(812,346)
Net cash provided by(used in) operating activities	<u>(122,411)</u>	<u>683,662</u>
Cash flows from non-capital financing activities:		
State grants received	4,091	0
Federal grants received	148,520	0
Net cash provided by non-capital financing activities	<u>152,611</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,362)	0
Cash flows from investing activities:		
Interest on investments	331	0
Net increase in cash and cash equivalents	29,169	683,662
Cash and cash equivalents at beginning of year	112,444	0
Cash and cash equivalents at end of year	<u>\$ 141,613</u>	<u>683,662</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (173,977)	683,662
Adjustments to reconcile operating loss to net cash provided by(used in) operating activities:		
Commodities consumed	42,068	0
Depreciation	10,147	0
Decrease in inventories	1,734	0
Increase in accounts receivable	(1,504)	0
Increase in accounts payable	133	0
Increase in salaries and benefits payable	584	0
Increase in unearned revenue	324	0
Decrease in other postemployment benefits	(1,920)	0
Net cash provided by(used in) operating activities	<u>\$ (122,411)</u>	<u>683,662</u>

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at \$42,068.

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2012

	<u>Private-</u> <u>Purpose Trust</u>
ASSETS	
Cash and pooled investments	\$ 834,213
LIABILITIES	<u>0</u>
NET ASSETS	
Restricted for scholarships	816,300
Unrestricted	<u>17,913</u>
TOTAL NET ASSETS	<u>\$ 834,213</u>

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 YEAR ENDED JUNE 30, 2012

	Private- Purpose Trust
Additions:	
Local sources:	
Interest income	\$ 18,097
	18,097
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	19,000
	19,000
Change in net assets	(903)
Net assets beginning of year	835,116
Net assets end of year	\$ 834,213

SEE NOTES TO FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

**(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. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some

other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following nonmajor proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund, Health Insurance Fund. The Nutrition Fund is used to account for the food service operations of the District. The Health Insurance Fund is used to account for the partially self-funded health insurance 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.

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

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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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, fund balances are classified as follows:

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

Assigned - Amounts the Board intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

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. During the year ended June 30, 2012 expenditures in the other expenditures function exceeded the budgeted amount.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2012 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, 2012 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$78,429 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust were rated AAA by Standard & Poor's Financial Services.

**(3) 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 2011-12A warrants are variable rates, calculated daily, based on one-month LIBOR rate plus 100 basis points. During the year ended June 30, 2012 the District had no borrowing or repayments.

**(4) Interfund Transfers**

The detail of transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects:		
Physical Plant and Equipment Levy	Debt Service	\$ 18,187
	Capital Projects:	
Debt Sinking:	Statewide Sales, Services and Use Tax	103,265
\$520,000 Bond		
	Capital Projects:	
Debt Sinking:	Statewide Sales, Services and Use Tax	249,995
\$1,100,000 Bond		
Debt Service	General	<u>115,979</u>
Total		<u>\$ 487,426</u>

The Capital Projects: Statewide Sales, Services and Use Tax Fund transfer to Debt Sinking: \$520,000 Bond and Debt Sinking: \$1,100,000 Bond funds were needed for principal and interest payments on the District's revenue bond indebtedness. The General Fund transfer to Debt Service Fund was for principal and interest payments on the District's energy loan note.

The Debt Service Fund transfer to Capital Projects: Physical Plant and Equipment Levy Fund was for the remaining funds in the account from the District's general obligation bond issuance.

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2012 is as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>Beginning</u>			<u>End</u>
	<u>of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Of Year</u>
Business type activities:				
Machinery and equipment	\$ 182,955	1,362	1,252	183,065
Less accumulated depreciation	121,125	10,147	647	130,625
Business type activities capital assets, net	<u>\$ 61,830</u>	<u>(8,785)</u>	<u>605</u>	<u>52,440</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 422,000	0	0	422,000
Construction in progress	85,798	24,004	109,802	0
Total capital assets not being depreciated	<u>507,798</u>	<u>24,004</u>	<u>109,802</u>	<u>422,000</u>
Capital assets being depreciated:				
Buildings	10,624,928	405,114	737,168	10,292,874
Land Improvements	286,211	129,811	0	416,022
Machinery and equipment	2,817,371	208,668	120,144	2,905,895
Total capital assets being depreciated	<u>13,728,510</u>	<u>743,593</u>	<u>857,312</u>	<u>13,614,791</u>
Less accumulated depreciation for:				
Buildings	3,520,227	281,962	363,110	3,439,079
Land Improvements	42,469	20,910	0	63,379
Machinery and equipment	2,188,324	142,371	111,972	2,218,723
Total accumulated depreciation	<u>5,751,020</u>	<u>445,243</u>	<u>475,082</u>	<u>5,721,181</u>
Total capital assets being depreciated, net	<u>7,977,490</u>	<u>298,350</u>	<u>382,230</u>	<u>7,893,610</u>
Governmental activities capital assets, net	<u>\$ 8,485,288</u>	<u>322,354</u>	<u>492,032</u>	<u>8,315,610</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 37,221
Other	15,367
Support services:	
Administration	4,173
Operation and maintenance of plant	12,361
Transportation	73,249
	<u>142,371</u>
Unallocated depreciation	<u>302,872</u>
Total governmental activities depreciation expense	<u>\$ 445,243</u>
Business type activities:	
Food services	<u>\$ 10,147</u>

**(6) Long-Term Liabilities**

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Revenue Bonds	\$ 971,667	0	316,667	655,000	325,000
Energy Loan Notes	590,000	0	90,000	500,000	90,000
Early Retirement	213,374	0	63,578	149,796	47,262
Total	\$ 1,775,041	0	470,245	1,304,796	462,262

Revenue Bonds

Details of the District's June 30, 2012 revenue bond indebtedness is as follows:

Year	Bond issue dated March 1, 2007			Bond issue dated December 6, 2007			Total		
Ending June 30,	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest	Principal	Interest	Total
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		\$ 190,000	8,264		\$ 465,000	20,102	\$ 655,000	28,366	683,366

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 49 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$683,366. For the current year \$316,667 in principal and \$35,451 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$706,730.

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, 2012 energy loan notes indebtedness is as follows:

Year Ending June 30,	Energy Loan Notes dated March 1, 2007			
	Interest Rate	Principal	Interest	Total
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		\$ 500,000	68,200	568,200

Early Retirement

The District offered a voluntary early retirement plan to certified employees only who retired prior to June 30, 2010. Eligible employees must have been 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 have completed 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 was subject to approval by the Board of Education.

Employees that had been granted early retirement benefits can 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. 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, 2012 totaled \$63,578.

**(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 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$408,435, \$341,481, and \$368,465, respectively, equal to the required contributions for each year.

**(8) Other Postemployment Benefits**

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 District's OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 91,764
Interest on net OPEB obligation	(1,885)
Adjustment to annual required contribution	<u>(7,062)</u>
Annual OPEB cost	82,817
Contributions made	<u>(122,065)</u>
Increase in net OPEB obligation	(39,248)
Net OPEB obligation beginning of year	<u>(75,404)</u>
Net OPEB obligation end of year	<u><u>\$ (114,652)</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

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, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 91,012	135.1%	\$ (31,912)
2011	85,689	150.8%	(75,404)
2012	82,817	147.4%	(114,652)

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, 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 \$5,061,147, and the ratio of the UAAL to covered payroll was 18.75%. As of June 30, 2012 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 \$374,005 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2012, expenditures in the other expenditures function exceeded the amount budgeted.

**(12) Special Item**

During the year ended June 30, 2012, the District sold the Washington Elementary School for \$2,000. With the disposition of the building and land the District recognized a loss on sale of capital assets of \$372,058 in the Statement of Activities.

**(13) Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

Program	Amount
Talent and gifted	\$ 115,636
Dropout and dropout prevention	46,062
Teacher salary supplement	46,341
Professional development	95,309
Beginning teacher mentoring	2,235
Statewide voluntary preschool	31,873
Market factor incentive	3,894
Model core curriculum	50,851
Total	<u>\$ 392,201</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, 2012

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 5,890,640	258,275	6,148,915	5,782,294	5,782,294	366,621
State sources	4,931,900	4,091	4,935,991	5,232,013	5,232,013	(296,022)
Federal sources	316,871	190,588	507,459	425,000	425,000	82,459
Total revenues	11,139,411	452,954	11,592,365	11,439,307	11,439,307	153,058
Expenditures/Expenses:						
Instruction	6,274,212	0	6,274,212	7,040,000	7,040,000	765,788
Support services	2,364,410	7,083	2,371,493	2,821,500	2,821,500	450,007
Non-instructional programs	0	425,443	425,443	502,000	502,000	76,557
Other expenditures	1,378,427	0	1,378,427	1,140,996	1,140,996	(237,431)
Total expenditures/expenses	10,017,049	432,526	10,449,575	11,504,496	11,504,496	1,054,921
Excess(Deficiency) of revenues over(under) expenditures/expenses	1,122,362	20,428	1,142,790	(65,189)	(65,189)	1,207,979
Other financing sources, net	2,080	0	2,080	36,000	36,000	(33,920)
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	1,124,442	20,428	1,144,870	(29,189)	(29,189)	1,174,059
Balance beginning of year	2,317,356	189,120	2,506,476	1,251,489	1,251,489	1,254,987
Balance end of year	\$ 3,441,798	209,548	3,651,346	1,222,300	1,222,300	2,429,046

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2012

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, 2012, the expenditures in the other expenditures function exceeded the amount budgeted.

OSAGE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2012

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%
2011	July 1, 2009	0	949,154	949,154	0.00%	5,058,171	18.76%
2012	July 2, 2009	0	949,154	949,154	0.00%	5,061,147	18.75%

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.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ASSETS, LIABILITIES AND  
NET ASSETS - CASH BASIS  
COMPONENT UNIT  
JUNE 30, 2012

	Osage Education Foundation
Assets	
Cash and cash equivalents	\$ 293,756
Liabilities	0
Net Assets	
Restricted for scholarships	160,964
Unrestricted	132,792
Total net assets	293,756
Total Liabilities Net Assets	\$ 293,756

OSAGE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF SUPPORT AND REVENUE, EXPENSES AND  
CHANGES IN NET ASSETS - CASH BASIS  
COMPONENT UNIT  
YEAR ENDED JUNE 30, 2012

	Osage Education Foundation
Support and Revenue:	
Interest	\$ 3,274
Construction contributions	500
Scholarship contributions	38,892
Other	26,769
Total support and revenue	69,435
Expenses:	
Publishing	2,195
Scholarships	19,250
Grants	20,000
Construction services	2,497
Other	5,083
Total expenses	49,025
Excess of support and revenue over expenses	20,410
Net assets beginning of year	273,346
Net assets end of year	\$ 293,756

SUPPLEMENTARY INFORMATION

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

	Special Revenue						Total
	Management Levy	Student Activity	Expendable Trust	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
<b>Assets</b>							
Cash and pooled investments	\$ 222,040	151,570	66,867	440,477	336,384	351,679	1,128,540
Receivables:							
Property tax:							
Delinquent		3,184	0	3,184	2,553	0	5,737
Succeeding year		250,000	0	250,000	259,142	0	509,142
Income surtax		0	0	0	129,373	0	129,373
Due from other governments		0	0	0	156,010	0	156,010
<b>Total Assets</b>	<b>\$ 475,224</b>	<b>151,570</b>	<b>66,867</b>	<b>693,661</b>	<b>883,462</b>	<b>351,679</b>	<b>1,928,802</b>
<b>Liabilities and Fund Balances</b>							
Liabilities:							
Accounts payable	\$ 0	3,674	0	3,674	36,142	0	39,816
Salaries and benefits payable		0	194	194	0	0	194
Deferred revenue:							
Succeeding year property tax		250,000	0	250,000	259,142	0	509,142
Income surtax		0	0	0	129,373	0	129,373
Total Liabilities		250,000	3,868	253,868	424,657	0	678,525
Fund balances:							
Restricted for:							
Management levy purposes	225,224	0	0	225,224	0	0	225,224
Student activities	0	147,702	0	147,702	0	0	147,702
Expendable trust purposes	0	0	66,867	66,867	0	0	66,867
Physical plant and equipment	0	0	0	0	122,669	0	122,669
School infrastructure	0	0	0	0	336,136	0	336,136
Debt service	0	0	0	0	0	351,679	351,679
Total fund balances	225,224	147,702	66,867	439,793	458,805	351,679	1,250,277
<b>Total Liabilities and Fund Balances</b>	<b>\$ 475,224</b>	<b>151,570</b>	<b>66,867</b>	<b>693,661</b>	<b>883,462</b>	<b>351,679</b>	<b>1,928,802</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, 2012

	Special Revenue						Total
	Management Levy	Student Activity	Expendable Trust	Total Special Revenue Funds	Capital Projects	Debt Service	Total Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 195,833	0	0	195,833	914,848	0	1,110,681
Other	10,606	406,398	6,786	423,790	19,006	1,849	444,645
Federal sources	0	0	0	0	25,000	0	25,000
<b>TOTAL REVENUES</b>	<b>206,439</b>	<b>406,398</b>	<b>6,786</b>	<b>619,623</b>	<b>958,854</b>	<b>1,849</b>	<b>1,580,326</b>
EXPENDITURES:							
Current:							
Instruction:							
Regular	116,323	0	7,290	123,613	20,563	0	144,176
Other	0	402,195	0	402,195	0	0	402,195
Support services:							
Instructional staff	0	0	0		631	0	631
Administration	15,156	0	0	15,156	34,177	0	49,333
Operation and maintenance of plant	33,325	0	0	33,325	0	0	33,325
Transportation	8,766	0	0	8,766	97,714	0	106,480
Capital outlay	0	0	0	0	536,309	0	536,309
Long-term debt:							
Principal	0	0	0	0	0	406,667	406,667
Interest and fiscal charges	0	0	0	0	0	61,446	61,446
<b>TOTAL EXPENDITURES</b>	<b>173,570</b>	<b>402,195</b>	<b>7,290</b>	<b>583,055</b>	<b>689,394</b>	<b>468,113</b>	<b>1,740,562</b>
Excess(Deficiency) of revenues over(under) expenditures	32,869	4,203	(504)	36,568	269,460	(466,264)	(160,236)
Other financing sources(uses):							
Transfers in	0	0	0	0	18,187	469,239	487,426
Transfers out	0	0	0	0	(353,260)	(18,187)	(371,447)
Sale of capital assets	0	0	0	0	2,000	0	2,000
<b>Total other financing sources(uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(333,073)</b>	<b>451,052</b>	<b>117,979</b>
Net change in fund balances	32,869	4,203	(504)	36,568	(63,613)	(15,212)	(42,257)
Fund balances beginning of year	192,355	143,499	67,371	403,225	522,418	366,891	1,292,534
Fund balances end of year	\$ 225,224	147,702	66,867	439,793	458,805	351,679	1,250,277

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2012

	Capital Projects		
	Physical Plant and Equipment Levy	Statewide, Sales, Services and Use Tax	Total
<b>Assets</b>			
Cash and pooled investments	\$ 120,116	216,268	336,384
Receivables:			
Property tax			
Delinquent	2,553	0	2,553
Succeeding year	259,142	0	259,142
Income surtax	129,373	0	129,373
Due from other governments	0	156,010	156,010
<b>Total Assets</b>	<b>\$ 511,184</b>	<b>372,278</b>	<b>883,462</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 0	36,142	36,142
Deferred revenue			
Succeeding year property tax	259,142	0	259,142
Income surtax	129,373	0	129,373
<b>Total liabilities</b>	<b>388,515</b>	<b>36,142</b>	<b>424,657</b>
Fund balances:			
Restricted for:			
Physical plant and equipment	122,669	0	122,669
School infrastructure	0	336,136	336,136
<b>Total fund balances</b>	<b>122,669</b>	<b>336,136</b>	<b>458,805</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 511,184</b>	<b>372,278</b>	<b>883,462</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2012

	Capital Projects			Total
	Building Projects	Physical Plant and Equipment Levy	Statewide, Sales, Services and Use Tax	
Revenues:				
Local sources:				
Local tax	\$ 0	208,118	706,730	914,848
Other	131	15,476	3,399	19,006
Federal sources	0	25,000	0	25,000
Total revenues	131	248,594	710,129	958,854
Expenditures:				
Current:				
Instruction:				
Regular	0	20,563	0	20,563
Support services:				
Instructional staff	0	0	631	631
Administration	0	34,177	0	34,177
Transportation	0	97,714	0	97,714
Other expenditures:				
Capital outlay	44,402	54,856	437,051	536,309
Total expenditures	44,402	207,310	437,682	689,394
Excess(Deficiency) of revenues over(under) expenditures	(44,271)	41,284	272,447	269,460
Other financing sources(uses):				
Transfer in	0	18,187	0	18,187
Transfer out	0	0	(353,260)	(353,260)
Sale of capital assets	0	2,000	0	2,000
Total other financing sources(uses)	0	20,187	(353,260)	(333,073)
Net change in fund balances	(44,271)	61,471	(80,813)	(63,613)
Fund balance beginning of year	44,271	61,198	416,949	522,418
Fund balance end of year	\$ 0	122,669	336,136	458,805

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 DEBT SERVICE FUND  
 JUNE 30, 2012

	Debt Service Fund		
	Debt	Debt	Total
	Sinking	Sinking	
	\$520,000	\$1,100,000	
Bond	Bond		
<b>Assets</b>			
Cash and pooled investments	\$ 103,581	248,098	351,679
<b>Liabilities</b>	\$ 0	0	0
Fund balances:			
Restricted for Debt service	103,581	248,098	351,679
Total fund balances	103,581	248,098	351,679
<b>Total Liabilities and Fund Balances</b>	<b>\$ 103,581</b>	<b>248,098</b>	<b>351,679</b>

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, 2012

	Debt Service Fund			Total
	Debt Service	Debt Sinking Bond	Debt Sinking Bond	
Revenues:				
Local sources:				
Other	\$ 0	583	1,266	1,849
Total revenues	0	583	1,266	1,849
Expenditures:				
Long-term debt:				
Principal	90,000	95,000	221,667	406,667
Interest and fiscal charges	25,979	10,562	24,905	61,446
Total expenditures	115,979	105,562	246,572	468,113
Deficiency of revenues under expenditures	(115,979)	(104,979)	(245,306)	(466,264)
Other financing sources(uses):				
Transfer in	115,979	103,265	249,995	469,239
Transfer out	(18,187)	0	0	(18,187)
Total other financing sources(uses)	97,792	103,265	249,995	451,052
Net change in fund balances	(18,187)	(1,714)	4,689	(15,212)
Fund balance beginning of year	18,187	105,295	243,409	366,891
Fund balance end of year	\$ 0	103,581	248,098	351,679

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
SADD	\$ 772	0	0	0	772
Activity deposit	2,311	872	66	(3,117)	0
Dramatics	5,534	11,167	11,454	0	5,247
Speech	140	0	0	0	140
Project Prom	4,749	5,735	5,743	0	4,741
Band Trip	8,137	447	425	(1,583)	6,576
Chorus Trip	21,246	26,270	18,792	0	28,724
Cheerleaders	3,120	8,113	8,807	0	2,426
Magazine Sales	0	12,629	12,629	0	0
Class of 2011	1,224	0	1,224	0	0
Class of 2012	480	1,950	2,430	0	0
Class of 2013	0	4,395	4,153	0	242
FFA	25,812	96,713	92,636	0	29,889
Future Teachers	370	0	0	0	370
Boys Cross Country Camp	726	3,321	1,632	0	2,415
Annual	297	7,581	6,168	0	1,710
Spanish	9,431	170	7,449	0	2,152
Student Council	1,726	13,820	14,789	1,039	1,796
IT Club	27	694	657	0	64
Math Club	2,465	2,113	3,370	0	1,208
Weightlifting	763	1,076	1,187	0	652
Boys Basketball Camp	1,529	930	1,980	0	479
Football Camp	1,529	14,874	12,456	0	3,947
Baseball Camp	7,205	4,926	6,868	0	5,263
Wrestling Camp	4	4,743	3,897	0	850
Girls Basketball Camp	3,618	4,576	4,093	0	4,101
Volleyball Camp	1,746	473	2,019	0	200
Softball Camp	6,529	11,661	11,363	0	6,827
Concession Stand	0	45,012	45,389	377	0
Girls Tennis Camp	290	1,564	1,114	0	740
Computer	289	100	0	0	389
Girls Track Camp	760	2,073	1,506	0	1,327
Boys Track Camp	1,669	16,827	14,735	0	3,761
Football Activity Tickets	2,445	4,309	0	(5,283)	1,471
HS Annual	697	0	697	0	0
FCCLA	1,779	552	945	0	1,386
Golf Camp	1,509	1,339	1,201	0	1,647
Girls Cross Country Camp	448	1,282	1,671	0	59
Athletics	0	83,200	89,382	7,528	1,346
M.S. Student Council	12,264	9,394	5,836	1,039	16,861
M.S. Special Olympics	9,859	1,497	3,432	0	7,924
Total	\$ 143,499	406,398	402,195	0	147,702

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST  
 JUNE 30, 2012

	Private-Purpose Trust			
	Raub Scholarship	Heiden Scholarship	Neuwohner Scholarship	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 827,211	4,799	2,203	834,213
<b>NET ASSETS</b>				
Restricted for scholarships	809,300	5,000	2,000	816,300
Unrestricted	17,911	(201)	203	17,913
<b>TOTAL NET ASSETS</b>	<b>\$ 827,211</b>	<b>4,799</b>	<b>2,203</b>	<b>834,213</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN NET ASSETS  
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS  
 YEAR ENDED JUNE 30, 2012

	Raub Scholarship	Heiden Scholarship	Neuwohner Scholarship	Total
ADDITIONS:				
Local sources:				
Interest income	\$ 18,020	60	17	18,097
DEDUCTIONS:				
Instruction:				
Regular:				
Scholarships awarded	19,000	0	0	19,000
Change in net assets	(980)	60	17	(903)
Net assets beginning of year	828,191	4,739	2,186	835,116
Net assets end of year	\$ 827,211	4,799	2,203	834,213

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 NINE YEARS

	Modified Accrual Basis								
	Years Ended June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 4,988,583	4,853,515	4,047,345	3,950,449	3,603,586	3,701,018	3,329,036	3,128,088	3,130,230
Tuition	237,696	240,060	289,057	310,603	284,780	269,587	356,273	335,005	351,671
Other	664,361	692,348	630,213	901,546	796,975	896,666	805,274	790,760	640,956
Intermediate sources	0	1,300	0	0	13,500	5,320	60,393	61,346	62,442
State sources	4,931,900	4,727,890	4,321,318	5,009,633	4,809,155	4,481,766	4,236,604	4,126,057	3,776,755
Federal sources	316,871	496,765	856,346	313,052	229,919	294,409	276,208	166,592	177,334
Total	\$ 11,139,411	11,011,878	10,144,279	10,485,283	9,737,915	9,648,766	9,063,788	8,607,848	8,139,388
Expenditures:									
Current:									
Instruction:									
Regular	\$ 3,793,121	3,889,013	3,995,367	4,106,799	3,825,992	3,577,442	3,247,202	3,062,556	3,224,960
Special	1,033,714	949,475	1,050,526	1,258,870	1,183,503	1,170,500	1,166,899	1,114,163	1,236,387
Other	1,447,377	1,474,549	1,488,766	1,500,093	1,335,884	1,470,359	1,296,333	1,194,772	913,930
Support services:									
Student	229,819	249,955	248,460	191,890	241,288	259,527	277,336	282,087	250,492
Instructional staff	235,303	186,098	311,547	316,816	299,352	506,278	294,270	312,190	303,819
Administration	866,358	773,571	921,508	932,912	917,423	658,137	799,481	707,799	643,447
Operation and maintenance of plant	523,496	531,577	632,102	690,287	653,128	640,493	631,683	544,878	522,112
Transportation	509,434	369,562	415,195	485,642	388,917	478,265	469,451	291,496	288,899
Non-instructional programs	0	0	750	0	0	0	0	1,830	9,607
Capital outlay	536,309	203,774	273,448	1,156,038	1,222,873	817,998	347,813	280,178	412,623
Long-term debt:									
Principal	406,667	373,333	520,000	300,000	145,000	140,000	130,000	125,000	115,000
Interest	61,446	72,476	94,583	114,878	74,558	24,295	37,493	44,079	49,558
Other expenditures:									
AEA flow-through	374,005	412,962	411,195	355,317	333,811	318,582	298,926	293,352	290,290
Total	\$ 10,017,049	9,486,345	10,363,447	11,409,542	10,621,729	10,061,876	8,996,887	8,254,380	8,261,124

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
**(a professional corporation)**  
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Telephone (641) 792-1910

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

To the Board of Education of the  
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, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 21, 2013. 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

The management of Osage Community School District is responsible for establishing and maintaining effective internal controls 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, 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 I of the accompanying Schedule of Findings as item I-A-12 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 Findings as items I-B-12 and I-C-12 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 II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 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. 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.

February 21, 2013

OSAGE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-12 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. At the District's school buildings 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. We also noted that one individual has the ability to modify pay rates, process the payroll and generate payroll checks and direct deposits.

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.

I-B-12 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchasing process, however we noted 4 out of 23 purchase orders that were tested were completed after the product had been ordered in the Student Activity Fund.

Recommendation -The advantage of using a purchase order system is that approvals of the items being purchased are noted prior to ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore allowing the person who approves purchase orders the insight to know if there is still available funding to make the purchase.

Although districts are not required to use a purchase order system, the benefits to financial management make the system desirable. The District's current purchase order system should be reviewed and necessary changes made so that all disbursements are approved by the appropriate administrator before ordering of supplies takes place.

Response - We will continue to review our procedures to insure that purchase orders are utilized appropriately

Conclusion - Response accepted.

I-C-12 Gate Admissions - It was noted that the District utilizes pre-numbered tickets for event admissions and a reconciliation is performed after the event. However, through discussion with personnel, it was discovered that the ticket takers are not counting the funds before turning the money over for depositing. In addition it was noted that the

reconciliation is not being signed off by the ticket takers after the event. This procedure significantly impacts the intended controls of using the pre-numbered tickets.

Recommendation - The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - We will continue to monitor and utilize the Osage Gate Reconciliation Verification Process for the handling and reconciliation of cash at events.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-12 Certified Budget - District expenditures for the year ended June 30, 2012 exceeded the certified amounts in the other expenditures function.

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

Response - We will amend the budget, if necessary, in the future.

Conclusion - Response accepted.

- II-B-12 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.
- II-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-12 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-12 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by 0.28.

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

Response - The District's auditor will contact the Iowa Department of Education and Department of Management to resolve this matter. The District has corrected its aid and levy to show the adjustment.

Conclusion - Response accepted.

- II-H-12 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-12 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-K-12 Categorical Funding - No instance were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-12 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.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 416,949
Revenues:		
Sales tax revenues	\$ 706,730	
Other local revenues	<u>3,399</u>	<u>710,129</u>
		1,127,078
Expenditures/transfers out:		
School infrastructure construction	437,051	
Other	631	
Transfers to other funds:		
Debt service fund	<u>353,260</u>	<u>790,942</u>
Ending balance		<u><u>\$ 336,136</u></u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

II-M-12 Certification of Self-Insurance Plan - The District currently operates a partially self-funded insurance plan which Chapter 509A.15 of the Code of Iowa requires the District to file with the commissioner of insurance a certificate of compliance, actuarial opinion, and an annual financial report within ninety days following the end of the fiscal year if the yearly claims of the plan exceed two percent of the District's General Fund budget. We noted that the District did not file a certificate of compliance. However, it appears that the record keeping is not sufficient to determine the actual claims paid.

Recommendation - Although it does not appear reasonable that claims exceeded two percent of the General Fund budget, the District should document the case and file the costs and perform the calculations to determine if filing with the Iowa Insurance Commission is required.

Response - We will contact Wellmark to determine the annual claims amount paid and document this to determine that the 2% is not exceeded.

Conclusion - Response accepted.