RED OAK COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

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Red Oak Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2011 Election)	
Lee Fellers	President	2011
Charla Schmid	Vice President	2011
Dr. Warren Hayes	Board Member	2011
Paul Griffen	Board Member	2013
Elizabeth Dilley	Board Member	2013
	Board of Education (After September 2011 Election)	
Lee Fellers	President	2015
Dr. Warren Hayes	Vice President	2015
Bill Drey	Board Member	2015
Paul Griffen	Board Member	2013
Elizabeth Dilley	Board Member	2013
	School Officials	
Terry Schmidt	Superintendent	2012
Shirley Maxwell	District Secretary/ Business Manager/Treasurer	2012
Ahlers & Cooney, P.C.	Attorney	2012
Engel Law Office	Attorney	2012

Red Oak Community School District

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
Red Oak Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Red Oak Community School District, Red Oak, 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 and the aggregate remaining fund information of Red Oak 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 January 7, 2013 on our consideration of Red Oak 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, the Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 46 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 Red Oak Community School District's basic financial statements. Another auditor previously audited the financial statements for the previous eight years ended June 30, 2011 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of 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 PC

NOLTE, CORNMAN & JOHNSON, P.C.

January 7, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Red Oak Community School District provides the 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 $13,604,524 in fiscal 2011 to $13,629,256 in fiscal 2012, while General Fund expenditures increased from $12,125,727 in fiscal 2011 to $12,618,246 in fiscal 2012. This resulted in an increase in the District's General Fund balance from $978,087 in fiscal 2011 to a balance of $1,989,097 in fiscal 2012, which is a 103.37% increase from the prior year.

- The increase in General Fund revenues was attributable to increases in local sources in fiscal 2012. The increase in expenditures was due primarily to increases in negotiated salaries and benefits received by District employees.

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 Red Oak 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 Red Oak 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 Red Oak Community School District acts solely as an agent or custodial for the benefit of those outside of 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 and Capital Project accounts. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

Figure A-1
Red Oak Community School District Annual Financial Report

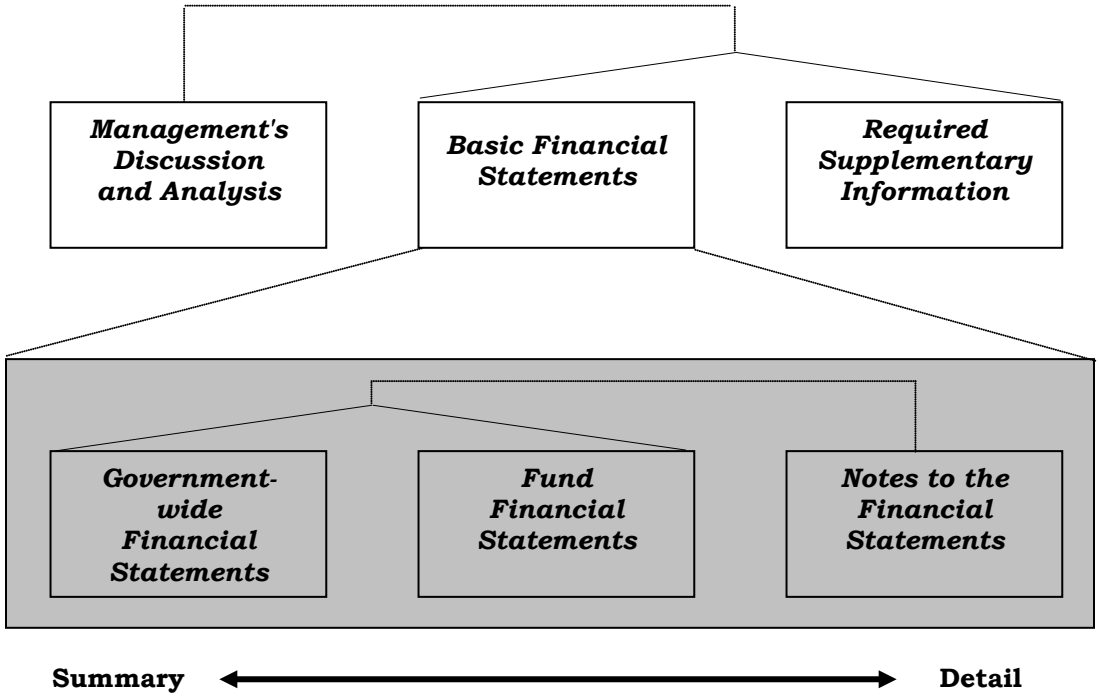

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or 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 programs as well as the other miscellaneous accounts are 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, Capital Projects Fund and Debt Service Fund.

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 two Enterprise Funds, the School Nutrition Fund and the Miscellaneous Enterprise Fund.

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	$ 13,290,994	11,640,179	373,436	420,800	13,664,430	12,060,979	13.29%
Capital assets	9,284,764	9,391,904	77,809	83,871	9,362,573	9,475,775	-1.19%
Total assets	22,575,758	21,032,083	451,245	504,671	23,027,003	21,536,754	6.92%
Long-term obligations	5,774,163	6,360,202	21,974	-	5,796,137	6,360,202	-8.87%
Other liabilities	6,849,191	6,735,567	48,190	48,670	6,897,381	6,784,237	1.67%
Total liabilities	12,623,354	13,095,769	70,164	48,670	12,693,518	13,144,439	-3.43%
Net assets:							
Invested in capital assets, net of related debt	3,768,379	3,370,558	65,809	83,871	3,834,188	3,454,429	10.99%
Restricted	3,706,946	3,178,611	-	-	3,706,946	3,178,611	16.62%
Unrestricted	2,477,079	1,387,145	315,272	372,130	2,792,351	1,759,275	58.72%
Total net assets	$ 9,952,404	7,936,314	381,081	456,001	10,333,485	8,392,315	23.13%

The District's combined net assets increased by 23.13%, or $1,941,170, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of 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 16.62%, or $528,335, over the prior year. This increase in restricted net assets is mainly attributable to increases in carryover fund balance for the Management Levy Fund and the Statewide Sales, Services and Use Tax Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased $1,033,076, or 58.72%. The increase in unrestricted net assets is mainly attributable to the increase in carryover fund balance for 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 of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for services	$ 641,151	249,406	168,053	174,518	809,204	423,924	90.88%
Operating grants and contributions and restricted interest	2,475,542	3,460,523	493,793	419,372	2,969,335	3,879,895	-23.47%
Capital grants and contributions and restricted interest	81,496	-	15,000	-	96,496	-	100.00%
General revenues:							
Property tax	5,217,386	5,199,523	-	-	5,217,386	5,199,523	0.34%
Income surtax	840,984	893,166	-	-	840,984	893,166	-5.84%
Statewide sales, services and use tax	917,389	830,891	-	-	917,389	830,891	10.41%
Unrestricted state grants	5,593,687	5,559,372	-	-	5,593,687	5,559,372	0.62%
Nonspecific program federal grants	3,896	-	-	-	3,896	-	100.00%
Unrestricted investment earnings	7,318	4,756	545	-	7,863	4,756	65.33%
Other	117,999	111,669	-	-	117,999	111,669	5.67%
Total revenues	15,896,848	16,309,306	677,391	593,890	16,574,239	16,903,196	-1.95%
Program expenses:							
Governmental activities:							
Instructional	8,720,803	8,417,715	4,345	-	8,725,148	8,417,715	3.65%
Support services	4,227,335	3,729,728	20,963	-	4,248,298	3,729,728	13.90%
Non-instructional programs	1,250	1,632	727,003	601,831	728,253	603,463	20.68%
Long-term debt interest	184,465	168,045	-	-	184,465	168,045	9.77%
Other expenses	746,905	1,097,465	-	-	746,905	1,097,465	-31.94%
Total expenses	13,880,758	13,414,585	752,311	601,831	14,633,069	14,016,416	4.40%
Changes in net assets	2,016,090	2,894,721	(74,920)	(7,941)	1,941,170	2,886,780	-32.76%
Beginning net assets, as restated	7,936,314	5,041,593	456,001	463,942	8,392,315	5,505,535	52.43%
Ending net assets	$ 9,952,404	7,936,314	381,081	456,001	10,333,485	8,392,315	23.13%

In fiscal year 2012, property tax, income surtax and unrestricted state grants account for 73.30% of governmental activities revenue while charges for service and sales and operating grants, contributions and restricted interest accounted for 97.71% of business type activities revenue.

The District's total revenues were approximately $16.57 million of which approximately $15.89 million was for governmental activities and approximately $0.68 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.95% decrease in revenues and a 4.40% increase in expenses. Property tax increased $17,863 and statewide sales, services and use tax increased $86,498 to fund increases in expenditures. The increase in expenses related to increases in negotiated salary and benefits as well as increases in expenses related to the Net OPEB liability.

Governmental Activities

Revenues for governmental activities were $15,896,848 and expenses were $13,880,758 for the year ended June 30, 2012.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs, long-term debt interest and other expenses for the year ended June 30, 2012 compared to the year ended June 30, 2011.

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	$ 8,720,803	8,417,715	3.60%	6,079,158	5,436,809	11.81%
Support services	4,227,335	3,729,728	13.34%	4,140,723	3,538,769	17.01%
Non-instructional programs	1,250	1,632	-23.41%	1,250	1,632	-23.41%
Long-term debt interest	184,465	168,045	9.77%	184,465	168,045	9.77%
Other expenses	746,905	1,097,465	-31.94%	276,972	559,401	-50.49%
Totals	$ 13,880,758	13,414,585	3.48%	10,682,568	9,704,656	10.08%

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was $641,151.
- Federal and state governments subsidized certain programs with grants and contributions totaling $2,557,038.
- The net cost of governmental activities was financed with $5,217,386 in property tax, $840,984 in income surtax, $917,389 in statewide sales, services and use tax, $5,593,687 in unrestricted state grants, $3,896 in nonspecific program federal grants, $7,318 in interest income and $117,999 in other general revenues.

Business type Activities

Revenues of the District's business type activities during the year ended June 30, 2012 were $677,391, representing a 14.06% increase over the prior year, while expenses totaled $752,311, a 25.00% increase over the prior year. The District's business type activities are the School Nutrition Fund and the Miscellaneous Enterprise Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of $5,611,095, above last year's ending fund balances of $4,025,185. However, the primary reason for the increase in combined fund balances is because of the increase in fund balance in the General Fund and the Statewide Sales, Services and Use Tax Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in local source revenues resulted in an increase in revenues. The increase in salaries and benefits is one of the reasons for the increase in expenditures. The increase in revenues was enough to offset the increase in expenditures; the net result was an increase in fund balance from $978,087 in fiscal 2011 to $1,989,097 in fiscal 2012.

- The Capital Projects account balances overall increased from $2,603,900 in fiscal 2011 to $2,837,421 in fiscal 2012. The increase in fund balance for the Capital Projects accounts is a result of increased local taxes received during the year. Due to reclassification as a result of GASB Statement No. 54, the Physical Plant and Equipment Levy is considered a Capital Project account along with the Statewide Sales, Services and Use Tax Fund.

- During the year ended June 30, 2012, the Statewide Sales, Services and Use Tax Fund increased from $1,383,501 to $1,806,077. The increase in fund balance can be attributed to increased sales tax revenue received as compared to the previous year. The Physical Plant and Equipment Levy Fund decreased from $1,220,399 to $1,031,344.

Proprietary Fund Highlights

The School Nutrition Fund's increase in revenues was not enough to offset the continued increase in food costs, and salaries and benefits. Overall, net assets decreased from $444,196 at June 30, 2011 to $396,136 at June 30, 2012, representing a decrease of 16.90%.

The Miscellaneous Enterprise Fund's increase in revenues was enough to offset the increase in expenditures during the year. Overall, net assets increased from $11,805 at June 30, 2011 to $11,945 at June 30, 2012, representing an increase of 1.19%.

BUDGETARY HIGHLIGHTS

The District's revenues were $360,709 more than budgeted revenues, a variance of 2.22%. The most significant variances resulted from the District receiving more in federal sources than what was originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested $9,362,573, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.19% from last year. More detailed information about capital assets is available in Notes 5 and 12 to the financial statements. Depreciation expense for the year was $442,567.

The original cost of the District's capital assets was $17,038,426. Governmental funds account for $16,640,923 with the remainder of $397,503 in the Proprietary, School Nutrition Fund.
The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled $0 at June 30, 2011 as compared to $103,248 at June 30, 2012. During the year ended June 30, 2012, the District was embarking on a project to build a new playground (Cage Project) for use by the District's students.

Figure A-6
Capital Assets, Net of Depreciation as Restated

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	$ 190,930	190,930	-	-	190,930	190,930	0.00%
Construction in progress	103,248	-	-	-	103,248	-	100.00%
Buildings	8,338,646	8,490,340	-	-	8,338,646	8,490,340	-1.79%
Land improvements	198,657	216,511	-	-	198,657	216,511	-8.25%
Machinery and equipment	453,283	494,123	77,809	83,871	531,092	577,994	-8.11%
Total	$ 9,284,764	9,391,904	77,809	83,871	9,362,573	9,475,775	-1.19%

Long-Term Debt

At June 30, 2012, the District had $5,796,137 in a bus loan, general obligation bonds and other long-term debt outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had outstanding Bus Loan payable of $226,385 at June 30, 2012. Principal of $72,175 is due during fiscal 2013.

The District had outstanding General Obligation Bonds of $5,290,000 at June 30, 2012. Principal of $600,000 is due during fiscal 2013.

The District had outstanding Early Retirement benefits of $68,676 payable from the Special Revenue, Management Fund at June 30, 2012, all of which will be paid during fiscal 2013.

The District has a Net OPEB liability of $199,076 as of June 30, 2012. Governmental activities account for $189,102 while business type activities account for $9,974.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Bus Loan	$ 226,385	295,504	-	-	226,385	295,504	-23.39%
General Obligation Bonds	5,290,000	5,885,000	-	-	5,290,000	5,885,000	-10.11%
Early Retirement	68,676	51,326	-	-	68,676	51,326	33.80%
Dishwasher Lease	-	-	12,000	-	12,000	-	100.00%
Net OPEB liability	189,102	128,372	9,974	-	199,076	128,372	55.08%
Total	$ 5,774,163	6,360,202	21,974	-	5,796,137	6,360,202	-8.87%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- It is a concern of this District, as well as every District in the state, that certain costs will continue to increase, such as those associated with negotiated agreements with unions, i.e. salaries and benefits. The District continues to approve an Early Retirement Plan in an effort to achieve costs savings through higher paid teachers retiring early and hiring less experienced teachers as replacements that typically will be paid less, thus resulting in a cost savings to the General Fund. Other uncontrolled costs such as fuel also continue to be watched. With the legislature's hesitancy to fully fund and increase funding, knowing that these costs will continue to rise, the District remains vigilant to use completely and efficiently all the resources it has at its disposal.

- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District. Also continued budget concerns at state level will affect future projections. The District will continue to be forced to shift funding to property taxes.

- The District's certified enrollment in October of 2011 showed a decrease of 3.83 students. Increasing or at least maintaining enrollment in upcoming years will be necessary to help maintain the District's financial health.

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 Shirley Maxwell, District Secretary/Business Manager/Treasurer, Red Oak Community School District, 2011 North 8th Street, Red Oak, Iowa, 51566.

BASIC FINANCIAL STATEMENTS

Exhibit A

RED OAK COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business type Activities	Total
ASSETS			
Cash and pooled investments	$ 6,387,114	354,891	6,742,005
Receivables:			
Property tax:			
Delinquent	88,746	-	88,746
Succeeding year	5,420,599	-	5,420,599
Income surtax	865,885	-	865,885
Accounts	24,331	480	24,811
Due from other governments	504,319	9,346	513,665
Inventories	-	8,719	8,719
Capital assets, net of accumulated depreciation	9,284,764	77,809	9,362,573
TOTAL ASSETS	22,575,758	451,245	23,027,003
LIABILITIES			
Accounts payable	185,596	358	185,954
Salaries and benefits payable	1,207,819	41,493	1,249,312
Accrued interest payable	35,177	-	35,177
Deferred revenue:			
Succeeding year property tax	5,420,599	-	5,420,599
Unearned revenue	-	6,339	6,339
Long-term liabilities:			
Portion due within one year:			
Dishwasher lease payable	-	3,000	3,000
Bus loan payable	72,175	-	72,175
General obligation bonds payable	600,000	-	600,000
Early retirement payable	68,676	-	68,676
Portion due after one year:			
Dishwasher lease payable	-	9,000	9,000
Bus loan payable	154,210	-	154,210
General obligation bonds payable	4,690,000	-	4,690,000
Net OPEB liability	189,102	9,974	199,076
TOTAL LIABILITIES	12,623,354	70,164	12,693,518
NET ASSETS			
Invested in capital assets, net of related debt	3,768,379	65,809	3,834,188
Restricted for:			
Categorical funding	153,987	-	153,987
Management levy purposes	492,738	-	492,738
Student activities	222,800	-	222,800
School infrastructure	1,806,077	-	1,806,077
Physical plant and equipment	1,031,344	-	1,031,344
Unrestricted	2,477,079	315,272	2,792,351
TOTAL NET ASSETS	$ 9,952,404	381,081	10,333,485

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

RED OAK 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 Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern-mental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	$ 4,930,612	273,257	854,444	-	(3,802,911)	-	(3,802,911)
Special	1,674,711	86,939	347,287	-	(1,240,485)	-	(1,240,485)
Other	2,115,480	256,053	742,169	81,496	(1,035,762)	-	(1,035,762)
	8,720,803	616,249	1,943,900	81,496	(6,079,158)	-	(6,079,158)
Support services:							
Student	245,908	-	2,830	-	(243,078)	-	(243,078)
Instructional staff	1,016,695	-	58,879	-	(957,816)	-	(957,816)
Administration	1,205,315	5,000	-	-	(1,200,315)	-	(1,200,315)
Operation and maintenance of plant	1,255,054	-	-	-	(1,255,054)	-	(1,255,054)
Transportation	504,363	19,902	-	-	(484,461)	-	(484,461)
	4,227,335	24,902	61,709	-	(4,140,724)	-	(4,140,724)
Non-instructional programs:							
Food service operations	1,250	-	-	-	(1,250)	-	(1,250)
Long-term debt interest	184,465	-	-	-	(184,465)	-	(184,465)
Other expenses:	-	-	-	-	-	-	-
AEA flowthrough	469,933	-	469,933	-	-	-	-
Depreciation(unallocated)*	276,972	-	-	-	(276,972)	-	(276,972)
	746,905	-	469,933	-	(276,972)	-	(276,972)
Total governmental activities	13,880,758	641,151	2,475,542	81,496	(10,682,569)	-	(10,682,569)
Business Type activities:							
Instruction:							
Regular	4,345	-	-	-	-	(4,345)	(4,345)
Support services:							
Operation and maintenance of plant	18,817	-	-	-	-	(18,817)	(18,817)
Transportation	2,146	-	-	-	-	(2,146)	(2,146)
Total support services	20,963	-	-	-	-	(25,308)	(25,308)
Non-instructional programs:							
Nutrition services	727,003	163,666	493,731	15,000	-	(54,606)	(54,606)
Miscellaneous enterprise	-	4,387	62	-	-	4,449	4,449
Total non-instructional programs:	727,003	168,053	493,793	15,000	-	(50,157)	(50,157)
Total business type activities	752,311	168,053	493,793	15,000	-	(75,465)	(75,465)
Total	$ 14,633,069	809,204	2,969,335	96,496	(10,682,569)	(75,465)	(10,758,034)
General Revenues:							
Property tax levied for:							
General purposes					$ 5,055,696	-	5,055,696
Capital outlay					161,690	-	161,690
Income surtax					840,984	-	840,984
Statewide sales, services and use tax					917,389	-	917,389
Unrestricted state grants					5,593,687	-	5,593,687
Nonspecific program federal grants					3,896	-	3,896
Unrestricted investment earnings					7,318	545	7,863
Other					117,999	-	117,999
Total general revenues					12,698,659	545	12,699,204
Changes in net assets					2,016,090	(74,920)	1,941,170
Net assets beginning of year, as restated					7,936,314	456,001	8,392,315
Net assets end of year					$ 9,952,404	381,081	10,333,485

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

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit C

RED OAK COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Capital Projects	Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	$ 2,987,109	2,626,305	773,700	6,387,114
Receivables:				
Property tax:				
Delinquent	77,498	2,722	8,526	88,746
Succeeding year	4,740,981	179,618	500,000	5,420,599
Income surtax	501,302	364,583	-	865,885
Accounts	20,607	-	3,724	24,331
Due from other governments	275,176	229,143	-	504,319
TOTAL ASSETS	$ 8,602,673	3,402,371	1,285,950	13,290,994
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 163,474	20,749	1,373	185,596
Salaries and benefits payable	1,207,819	-	-	1,207,819
Deferred revenue:				
Succeeding year property tax	4,740,981	179,618	500,000	5,420,599
Income surtax	501,302	364,583	-	865,885
Total liabilities	6,613,576	564,950	501,373	7,679,899
Fund balances:				
Restricted for:				
Categorical funding	153,987	-	-	153,987
Management levy purposes	-	-	561,414	561,414
Student activities	-	-	222,800	222,800
School infrastructure	-	1,806,077	-	1,806,077
Physical plant and equipment	-	1,031,344	-	1,031,344
Committed for mentoring	12,826	-	-	12,826
Assigned	56,404	-	-	56,404
Unassigned:				
General	1,765,880	-	-	1,765,880
Student activities	-	-	363	363
Total fund balances	1,989,097	2,837,421	784,577	5,611,095
TOTAL LIABILITIES AND FUND BALANCES	$ 8,602,673	3,402,371	1,285,950	13,290,994

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit D

RED OAK COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total fund balances of governmental funds(page 20)	$	5,611,095
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		9,284,764
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		865,885
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.		(35,177)
Long-term liabilities, including bus loan payable, general obligation bonds payable, early retirement payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(5,774,163)
Net assets of governmental activities(page 18)	$	9,952,404

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit E

RED OAK COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	$ 5,066,199	1,449,514	501,060	7,016,773
Tuition	337,472	-	-	337,472
Other	281,441	85,276	272,756	639,473
State sources	7,187,785	-	-	7,187,785
Federal sources	751,589	-	-	751,589
Total revenues	13,624,486	1,534,790	773,816	15,933,092
EXPENDITURES:				
Current:				
Instruction:				
Regular	4,792,576	24,585	87,852	4,905,013
Special	1,653,434	-	-	1,653,434
Other	1,900,696	-	241,124	2,141,820
	8,346,706	24,585	328,976	8,700,267
Support services:				
Student	244,618	-	-	244,618
Instructional staff	823,520	188,615	1,943	1,014,078
Administration	1,138,092	-	59,286	1,197,378
Operation and maintenance of plant	1,153,858	66,390	31,564	1,251,812
Transportation	441,519	31,935	9,418	482,872
	3,801,607	286,940	102,211	4,190,758
Non-instructional programs:				
Food service operations	-	-	1,250	1,250
Capital outlay	-	148,865	-	148,865
Long-term debt:				
Principal	-	-	664,119	664,119
Interest and fiscal charges	-	-	176,760	176,760
	-	-	840,879	840,879
Other expenditures:				
AEA flowthrough	469,933	-	-	469,933
TOTAL EXPENDITURES	12,618,246	460,390	1,273,316	14,351,952
Excess(Deficiency) of revenues over(under) expenditures	1,006,240	1,074,400	(499,500)	1,581,140
Other financing sources(uses):				
Transfer in	-	-	840,879	840,879
Transfer out	-	(840,879)	-	(840,879)
Sale of equipment	4,770	-	-	4,770
Total other financing sources(uses)	4,770	(840,879)	840,879	4,770
Net change in fund balance	1,011,010	233,521	341,379	1,585,910
Fund balance beginning of year	978,087	2,603,900	443,198	4,025,185
Fund balance end of year	$ 1,989,097	2,837,421	784,577	5,611,095

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit F

RED OAK 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

Net change in fund balances - total governmental funds(page 22)		$ 1,585,910
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense in the current year are as follows:		
Expenditures for capital assets	$ 309,965	
Depreciation expense	(417,105)	(107,140)
Repayment of long-term liabilities 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		664,119
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.		(7,705)
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(41,014)
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.		
Early retirement	$ (17,350)	
Other postemployment benefits	(60,730)	(78,080)
Changes in net assets of governmental activities(page 19)		$ 2,016,090

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

RED OAK COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business Type Activities: Enterprise Funds		
	School Nutrition	Miscellaneous Enterprise	Total
ASSETS			
Current assets:			
Cash and pooled investments	$ 342,946	11,945	354,891
Accounts receivable	480	-	480
Due from other governments	9,346	-	9,346
Inventories	8,719	-	8,719
Total current assets	361,491	11,945	373,436
Non-current assets:			
Capital assets:			
Machinery and equipment, net of accumulated depreciation	77,809	-	77,809
Total non-current assets	77,809	-	77,809
TOTAL ASSETS	439,300	11,945	451,245
LIABILITIES			
Current liabilities:			
Accounts payable	358	-	358
Salaries and benefits payable	41,493	-	41,493
Unearned revenue	6,339	-	6,339
Total current liabilities	48,190	-	48,190
Long-term liabilities:			
Net OPEB liability	9,974	-	9,974
Dishwasher lease	12,000	-	12,000
Total long-term liabilities	21,974	-	21,974
TOTAL LIABILITIES	70,164	-	70,164
NET ASSETS			
Invested in capital assets, net of related debt	65,809	-	65,809
Unrestricted	303,327	11,945	315,272
TOTAL NET ASSETS	$ 369,136	11,945	381,081

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit H

RED OAK COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business Type Activities: Enterprise Funds		
	School Nutrition	Miscellaneous Enterprise	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	$ 163,666	4,387	168,053
Donations	-	62	62
TOTAL OPERATING REVENUES	163,666	4,449	168,115
OPERATING EXPENSES:			
Instruction:			
Regular:			
Supplies	-	4,345	4,345
Support services:			
Operation and maintenance of plant:			
Services	18,817	-	18,817
Transportation:			
Services	404	-	404
Supplies	1,742	-	1,742
	2,146	-	2,146
Total support services	20,963	-	20,963
Non-instructional programs:			
Food service operations:			
Salaries	205,064	-	205,064
Benefits	122,781	-	122,781
Services	10,383	-	10,383
Supplies	363,313	-	363,313
Depreciation	25,462	-	25,462
Total non-instructional programs	727,003	-	727,003
TOTAL OPERATING EXPENSES	747,966	4,345	752,311
OPERATING INCOME(LOSS)	(584,300)	104	(584,196)
NON-OPERATING REVENUES:			
State sources	5,950	-	5,950
Federal sources	487,781	-	487,781
Interest income	509	36	545
TOTAL NON-OPERATING REVENUES	494,240	36	494,276
Change in net assets before other financing sources	(90,060)	140	(89,920)
OTHER FINANCING SOURCES:			
Proceeds from dishwasher lease	15,000	-	15,000
Change in net assets	(75,060)	140	(74,920)
Net assets beginning of year, as restated	444,196	11,805	456,001
Net assets end of year	$ 369,136	11,945	381,081

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

RED OAK COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business Type Activities: Enterprise Funds		
	School Nutrition	Miscellaneous Enterprise	Total
Cash flows from operating activities:			
Cash received from operating activities	$ 163,018	4,387	167,405
Donations received	-	62	62
Cash payments to employees for services	(317,266)	-	(317,266)
Cash payments to suppliers for goods or services	(345,930)	(4,345)	(350,275)
Net cash provided by(used in) operating activities	(500,178)	104	(500,074)
Cash flows from non-capital financing activities:			
State grants received	5,950	-	5,950
Federal grants received	432,896	-	432,896
Net cash provided by non-capital financing activities	438,846	-	438,846
Cash flows from capital financing activities:			
Acquisition of assets	(4,400)	-	(4,400)
Proceeds from dishwasher lease	15,000	-	15,000
Yearly payment on dishwasher lease	(3,000)	-	(3,000)
Net cash provided by capital activities	7,600	-	7,600
Cash flows from investing activities:			
Interest on investment	509	36	545
Net increase(decrease) in cash and cash equivalents	(53,223)	140	(53,083)
Cash and cash equivalents at beginning of year	396,169	11,805	407,974
Cash and cash equivalents at end of year	$ 342,946	11,945	354,891
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	$ (584,300)	104	(584,196)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	45,539	-	45,539
Depreciation	25,462	-	25,462
Decrease in inventories	3,682	-	3,682
Increase in accounts receivable	(55)	-	(55)
Decrease in accounts payable	(492)	-	(492)
Increase in salaries and benefits payable	605	-	605
Decrease in unearned revenues	(593)	-	(593)
Increase in other postemployment benefits	9,974	-	9,974
Net cash provided by(used in) operating activities	$ (500,178)	104	(500,074)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at $45,539.

During the year ended June 30, 2012, the District entered into a $15,000 lease purchase agreement with Reinhart Food Services for a new dishwasher. The proceeds from the purchase of the dishwasher were capitalized on the District's capital assets listing.

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit J

RED OAK COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Private Purpose Trust
	Scholarship
ASSETS	
Cash and pooled investments	$ 222,018
LIABILITIES	-
NET ASSETS	
Restricted for scholarships	$ 222,018

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit K

RED OAK COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2012

	Private Purpose Trust Scholarship
ADDITIONS:	
Local sources:	
Interest	$ 1,213
Contributions	7,600
TOTAL ADDITIONS	8,813
DEDUCTIONS:	
Instruction:	
Regular:	
Scholarships awarded	3,875
Change in net assets	4,938
Net assets beginning of year	217,080
Net assets end of year	$ 222,018

SEE NOTES TO FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

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

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

B. Basis of Presentation

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

The Statement of Net Assets presents the District's non-fiduciary 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, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

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

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

The District's also reports two nonmajor proprietary funds which are the Enterprise, School Nutrition Fund and the Miscellaneous Enterprise Fund. The Nutrition Fund is used to account for the food service operations of the District while the Miscellaneous Enterprise Fund is used to account for school store and adult education operations.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under 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 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 – committed, assigned 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 Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year.

Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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 and 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	$ 2,000
Buildings	10,000
Land improvements	10,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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 years
Intangibles	5-10 years
Machinery and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July, 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.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned - Amounts are not available for appropriation but are set aside for a specific purpose. The assigned fund balances are for specific use at the high school, middle school and the elementaries.

Unassigned – All amounts not included in other spendable or nonspendable 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 non-instructional programs functional area exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2012 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; 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 no investments.

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	$ 336,035
Debt Service	Capital Projects: Pysical Plant and Equipment Levy	504,844
Total		$ 840,879

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for payments made on the District's revenue bond indebtedness.

The transfer from the Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was needed for payments made on the District's revenue bond indebtedness as well as payments made on the District's school bus loan indebtedness.

4) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Bus Loan	$ 295,504	-	69,119	226,385	72,175
General Obligation Bonds	5,885,000	-	595,000	5,290,000	600,000
Early Retirement	51,326	68,676	51,326	68,676	68,676
Net OPEB Liability	128,372	60,730	-	189,102	-
Total	$ 6,360,202	129,406	715,445	5,774,163	740,851

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Dishwasher Lease	$ -	15,000	3,000	12,000	3,000
Net OPEB Liability	-	9,974	-	9,974	-
Total	$ -	24,974	3,000	21,974	3,000

Bus Loan Payable

Detail of the District's June 30, 2012 bus loan indebtedness which is being paid from the Physical Plant and Equipment Levy Fund is as follows:

Year Ending June 30,	Bus Loan Dated August 4, 2011			
	Interest Rates	Principal	Interest	Total
2013	4.40 %	$ 72,175	10,127	82,302
2014	4.40	75,423	6,879	82,302
2015	4.40	78,787	3,515	82,302
Total		$ 226,385	20,521	246,906

General Obligation Bonds Payable

Detail of the District's June 30, 2012 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2010			
	Interest Rates	Principal	Interest	Total
2013	2.00 %	$ 600,000	152,365	752,365
2014	2.50	615,000	139,553	754,553
2015	2.50	625,000	124,115	749,115
2016	2.75-2.80	645,000	107,965	752,965
2017	2.90-3.10	660,000	89,680	749,680
2018	3.20-3.30	690,000	69,145	759,145
2019	3.40-3.55	710,000	46,205	756,205
2020	3.65-3.75	745,000	20,815	765,815
Total		$ 5,290,000	749,843	6,039,843

Dishwasher Lease Payable

During the year ended June 30, 2012, the District entered into a lease purchase agreement with Reinhart Food Services for a dishwasher. According to terms of the lease agreement, the lease has no interest charged to the District. During the life of the lease, the District is obligated to buy all detergents and other items for use in the dishwasher from Reinhart Food Services. In return, Reinhart Food Services agrees not to charge the District for repairs made on the dishwasher during the life of the lease. Yearly payments from the School Nutrition Fund to Reinhart Food Services are $3,000 through fiscal year 2016.

Early Retirement

The District offers a voluntary early retirement plan to any full-time licensed teacher who is eligible for full insurance coverage under the requirements of the District's insurer and who are currently performing their assigned duties within the District. Employees that are seeking early retirement benefits must be age 55 on or before June 30 of the year in which the employee wishes to retire. Employees wanting to retire must have completed ten years of consecutive service with the District and complete the early retirement application on or before January 16 of the current school year to be approved by the District's Board of Directors.

Employees that meet the eligibility requirements will be eligible for the early retirement amount of $15,000, plus an amount equal to 25% of the employee's accumulated sick leave times the current daily substitute teacher pay rate in effect for the fiscal year of retirement. Early retirement benefits will be paid to a tax sheltered annuity that participates in the State of Iowa Plan. Upon retirement, employees are eligible to continue participation in the District's group insurance plan at the employees' expense by meeting the requirements of the insurer. Early retirement benefits paid during the year ended June 30, 2012, totaled $51,326.

(5) Capital Assets

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

	Restated Beginning Balance	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	$ 378,103	19,400	-	397,503
Less accumulated depreciation	294,232	25,462	-	319,694
Business type activities capital assets, net	$ 83,871	(6,062)	-	77,809

	Restated Beginning Balance	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 190,930	-	-	190,930
Construction in progress	-	103,248	-	103,248
Total capital assets not being depreciated	190,930	103,248	-	294,178
Capital assets being depreciated:				
Buildings	13,493,334	107,424	-	13,600,758
Land improvements	1,136,907	-	-	1,136,907
Machinery and equipment	1,509,787	99,293	-	1,609,080
Total capital assets being depreciated	16,140,028	206,717	-	16,346,745
Less accumulated depreciation for:				
Buildings	5,002,994	259,118	-	5,262,112
Land improvements	920,396	17,854	-	938,250
Machinery and equipment	1,015,664	140,133	-	1,155,797
Total accumulated depreciation	6,939,054	417,105	-	7,356,159
Total capital assets being depreciated, net	9,200,974	(210,388)	-	8,990,586
Governmental activities capital assets, net	$ 9,391,904	(107,140)	-	9,284,764

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 28,201
Special	517
Other	13,852
Support services:	
Administration	511
Operation and maintenance	5,147
Transportation	91,905
	140,133
Unallocated depreciation	276,972
Total governmental activities depreciation expense	$ 417,105
Business type activities:	
Food services	$ 25,462

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were $563,763, $471,523 and $488,471, respectively, equal to the required contributions for each year.

(7) Other Postemployment Benefits (OPEB)

Plan Description – The District operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 169 active and 10 retired members in the plan. Employees must be age 55 or older at retirement.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Wellmark Blue Cross Blue Shield. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

The following table shows the components of the District's annual OPEB cost for June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	$ 102,741
Interest on net OPEB obligation	3,209
Adjustment to annual required contribution	(10,088)
Annual OPEB cost (expense)	95,862
Contributions made	(25,158)
Increase in net OPEB obligation	70,704
Net OPEB obligation - beginning of year	128,372
Net OPEB obligation - end of year	$ 199,076

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans 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:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 88,123	27.52%	$ 63,871
2011	95,090	24.90%	128,372
2012	95,862	26.24%	199,076

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 $1.810 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $0.654 million.

The covered payroll (annual payroll of active employees covered by the plan) was $6.508 million, and the ratio of the UAAL to the covered payroll was 10.0%. 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 events far into the future. Examples include assumptions about future employment, mortality and the healthcare 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 the 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 that are 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 include a 2.5% discount rate based on the District’s funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from information provided by the District.

Projected claim costs of the medical plan are $662 per month for retirees developed from a combination of age adjusted fully insured premiums and manual claims costs. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(8) Risk Management

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $469,933 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.

(10) Construction Commitment

As of June 30, 2012, costs of $103,248 had been incurred by the District for construction of a new playground area. The total cost of the improvements will be added to the District's capital asset listing upon completion.

(11) Categorical Funding

The District's ending restricted balances for categorical funding as of June 30, 2012 are broken out by the following projects:

Project	Amount
Gifted and talented	$ 19,682
Teacher salary supplement	52,689
Statewide voluntary preschool program grants	36,907
Professional development	14,013
Professional development, model core curriculum	30,696
Total	$ 153,987

(12) 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 non-instructional programs functional area exceeded the amount budgeted.

(13) Accounting Change/Restatement

The following beginning balances have been restated to properly reflect the capital assets and accumulated depreciation due to changes based on an appraisal completed by the District for the year ended June 30, 2012. Major changes due to the appraisal were reclassification and changes in class lives of assets in both the governmental and business type activities.

	Balance Beginning of Year	Increases	Decreases	Restated Beginning Balance
Business type activities:				
Machinery and equipment	$ 267,921	110,182	-	378,103
Less accumulated depreciation	244,159	50,073	-	294,232
Business type activities capital assets, net	$ 23,762	60,109	-	83,871

	Balance Beginning of Year	Increases	Decreases	Restated Beginning Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 190,930	-	-	190,930
Total capital assets not being depreciated	190,930	-	-	190,930
Capital assets being depreciated:				
Buildings	13,939,575	-	446,241	13,493,334
Land improvements	-	1,136,907	-	1,136,907
Machinery and equipment	2,174,569	-	664,782	1,509,787
Total capital assets being depreciated	16,114,144	1,136,907	1,111,023	16,140,028
Less accumulated depreciation for:				
Buildings	4,843,338	159,656	-	5,002,994
Land improvements	-	920,396	-	920,396
Machinery and equipment	1,910,674	-	895,010	1,015,664
Total accumulated depreciation	6,754,012	1,080,052	895,010	6,939,054
Total capital assets being depreciated, net	9,360,132	56,855	216,013	9,200,974
Governmental activities capital assets, net	$ 9,551,062	56,855	216,013	9,391,904

As a result of the capital asset restatement, the total net assets reported at the beginning of the year are summarized as follows:

	Governmental activities	Business type activities
Balances June 30, 2011, as previously reported	$ 8,095,472	$ 395,892
Net capital asset restatement	(159,158)	60,109
Restated balance beginning of year	$ 7,936,314	$ 456,001

REQUIRED SUPPLEMENTARY INFORMATION

RED OAK COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance
Revenues:						
Local sources	$ 7,993,718	168,660	8,162,378	8,018,949	8,018,949	143,429
State sources	7,187,785	5,950	7,193,735	7,331,325	7,331,325	(137,590)
Federal sources	751,589	487,781	1,239,370	884,500	884,500	354,870
Total revenues	15,933,092	662,391	16,595,483	16,234,774	16,234,774	360,709
Expenditures/Expenses:						
Instruction	8,700,267	4,345	8,704,612	9,926,400	9,926,400	1,221,788
Support services	4,190,758	20,963	4,211,721	5,179,050	5,179,050	967,329
Non-instructional programs	1,250	727,003	728,253	639,700	639,700	(88,553)
Other expenditures	1,459,677	-	1,459,677	1,764,687	1,764,687	305,010
Total expenditures/expenses	14,351,952	752,311	15,104,263	17,509,837	17,509,837	2,405,574
Excess(Deficiency) of revenues over(under) expenditures/expenses	1,581,140	(89,920)	1,491,220	(1,275,063)	(1,275,063)	2,766,283
Other financing sources, net	4,770	15,000	19,770	1,500	1,500	18,270
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	1,585,910	(74,920)	1,510,990	(1,273,563)	(1,273,563)	2,784,553
Balance beginning of year, as restated	4,025,185	456,001	4,481,186	1,934,901	1,934,901	2,546,285
Balance end of year	$ 5,611,095	381,081	5,992,176	661,338	661,338	5,330,838

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

RED OAK 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.

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, expenditures in the non-instructional programs functional area exceeded the amount budgeted.

RED OAK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(IN THOUSANDS)

REQUIRED SUPPLEMENTARY INFORMATION

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	$ -	$ 654	$ 654	0.0%	$7,531	8.7%
2011	July 1, 2009	$ -	$ 654	$ 654	0.0%	$6,910	9.5%
2012	July 1, 2009	$ -	$ 654	$ 654	0.0%	$6,508	10.0%

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

SUPPLEMENTARY INFORMATION

Schedule 1

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

	Special Revenue		
	Management Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	$ 553,273	220,427	773,700
Receivables:			
Property tax:			
Delinquent	8,526	-	8,526
Succeeding year	500,000	-	500,000
Accounts	-	3,724	3,724
TOTAL ASSETS	$ 1,061,799	224,151	1,285,950
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 385	988	1,373
Deferred revenue:			
Succeeding year property tax	500,000	-	500,000
Total liabilities	500,385	988	501,373
Fund balances:			
Restricted for:			
Management levy purposes	561,414	-	561,414
Student activities	-	222,800	222,800
Unassigned	-	363	363
Total fund balances	561,414	223,163	784,577
TOTAL LIABILITIES AND FUND BALANCES	$ 1,061,799	224,151	1,285,950

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

RED OAK 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	Total	Debt Service	Nonmajor Governmental Funds
REVENUES:					
Local sources:					
Local tax	$ 501,060	-	501,060	-	501,060
Other	16,061	256,695	272,756	-	272,756
TOTAL REVENUES	517,121	256,695	773,816	-	773,816
EXPENDITURES:					
Current:					
Instruction:					
Regular	87,852	-	87,852	-	87,852
Other	-	241,124	241,124	-	241,124
Support services:					
Instructional staff	1,943	-	1,943	-	1,943
Administration	59,286	-	59,286	-	59,286
Operation and maintenance of plant	31,564	-	31,564	-	31,564
Transportation	9,418	-	9,418	-	9,418
Non-instructional programs:					
Food service operations	1,250	-	1,250	-	1,250
Long-term debt:					
Principal	-	-	-	664,119	664,119
Interest and fiscal charges	-	-	-	176,760	176,760
TOTAL EXPENDITURES	191,313	241,124	432,437	840,879	1,273,316
Excess(Deficiency) of revenues over(under) expenditures	325,808	15,571	341,379	(840,879)	(499,500)
Other financing sources:					
Transfer in	-	-	-	840,879	840,879
Change in net assets	325,808	15,571	341,379	-	341,379
Net assets beginning of year	235,606	207,592	443,198	-	443,198
Net assets end of year	$ 561,414	223,163	784,577	-	784,577

SEE ACCOMPANYING INDEPENDENT AUDITOR’S REPORT.

Schedule 3

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

	Capital Projects		
	Statewide Sales Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	$ 1,597,683	1,028,622	2,626,305
Receivables:			
Property tax:			
Delinquent	-	2,722	2,722
Succeeding year	-	179,618	179,618
Income surtax	-	364,583	364,583
Due from other governments	229,143	-	229,143
TOTAL ASSETS	$ 1,826,826	1,575,545	3,402,371
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 20,749	-	20,749
Deferred revenue:			
Succeeding year property tax	-	179,618	179,618
Income surtax	-	364,583	364,583
Total liabilities	20,749	544,201	564,950
Fund balances:			
Restricted for:			
School infrastructure	1,806,077	-	1,806,077
Physical plant and equipment	-	1,031,344	1,031,344
Total fund balances	1,806,077	1,031,344	2,837,421
TOTAL LIABILITIES AND FUND BALANCES	$ 1,826,826	1,575,545	3,402,371

SEE ACCOMPANYING INDEPENDENT AUDITOR’S REPORT.

Schedule 4

RED OAK COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2012

	Capital Projects		
	Statewide Sales Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	$ 917,389	532,125	1,449,514
Other	2,199	83,077	85,276
TOTAL REVENUES	919,588	615,202	1,534,790
EXPENDITURES:			
Current:			
Instruction:			
Regular	20,749	3,836	24,585
Support services:			
Instructional staff	140,228	48,387	188,615
Operation and maintenance of plant	-	66,390	66,390
Transportation	-	31,935	31,935
Capital outlay	-	148,865	148,865
TOTAL EXPENDITURES	160,977	299,413	460,390
Excess of revenues over expenditures	758,611	315,789	1,074,400
Other financing uses:			
Transfer out	(336,035)	(504,844)	(840,879)
Change in net assets	422,576	(189,055)	233,521
Net assets beginning of year	1,383,501	1,220,399	2,603,900
Net assets end of year	$ 1,806,077	1,031,344	2,837,421

SEE ACCOMPANYING INDEPENDENT AUDITOR’S REPORT.

RED OAK 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	Balance End of Year
Boys track	$ -	1,088	-	1,088
Girls track	-	4,758	-	4,758
Bowling	-	5,930	-	5,930
MS music	-	68	-	68
MS Drama	6,053	1,784	1,101	6,736
MS band	4,431	5,246	4,788	4,889
MS art club	193	100	38	255
MS vending	3,841	-	64	3,777
MS FCCLA	201	607	175	633
MS general	7,421	54	6,766	709
MS science club	1,117	12,074	3,806	9,385
MS media	2,209	1,690	1,732	2,167
MS student council	7,472	14,598	12,428	9,642
MS yearbook	535	923	999	459
MS team 6	53	-	53	-
MS team 7	1,108	-	1,108	-
MS team 8	713	-	713	-
HS sadd	-	356	-	356
HS drama	3,129	3,652	4,420	2,361
HS vocal music	7,665	14,014	14,304	7,375
HS band	2,422	2,675	3,386	1,711
Cross country	-	469	-	469
Tennis	-	4,095	-	4,095
HS boys basketball	-	2,332	-	2,332
HS girls basketball	-	4,022	-	4,022
HS volleyball	-	3,574	-	3,574
HS athletics	36,469	97,500	105,552	28,417
HS FBLA	532	160	-	692
FFA	2,230	17,832	18,483	1,579
HS international club	1,116	-	788	328
HS general	1,016	3,142	3,737	421
HS graduation	34	-	-	34
Junior class	1,338	8,689	8,343	1,684
HS media	343	963	954	352
HS protech club	358	-	-	358
HS music trip	8	-	-	8
Senior class	2,859	2,635	2,608	2,886

Account	Balance Beginning of Year	Revenues	Expendi-tures	Balance End of Year
HS student council	2,223	2,408	1,717	2,914
HS yearbook	22,268	5,956	8,729	19,495
HS international club	-	531	-	531
HS general resale	373	-	-	373
Band boosters	81	100	-	181
HS minnisingers	598	1,045	698	945
HS wrestling cheerleaders	262	854	950	166
Band boosters fiesta bowl	496	-	-	496
HS football	-	2,773	-	2,773
HS baseball	-	100	-	100
HS letterman's club	802	-	211	591
Dance team	154	-	-	154
HS wrestling	-	598	-	598
Unity council	-	1,553	110	1,443
K-12 general	3,550	258	402	3,406
K-12 petty cash	44	-	-	44
Love our kids	1,189	-	-	1,189
Student needs	340	-	-	340
K-12 special olympics	355	-	-	355
K-12 interest	46,037	472	5,446	41,063
K-3 general	19,244	2,530	3,148	18,626
K-3 media	3,359	10,965	10,529	3,795
4-5 vending	477	-	140	337
4-5 general	8,979	769	1,291	8,457
4-5 media supplies	795	913	104	1,604
HS FHA	727	572	1,320	(21)
Cheerleader club	253	9,268	9,863	(342)
MS music	120	-	120	-
Total	$ 207,592	256,695	241,124	223,163

SEE ACCOMPANYING INDEPENDENT AUDITOR’S REPORT.

Schedule 6

RED OAK COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS
JUNE 30, 2012

	Private Purpose Trust - Scholarship Fund										
	Anderson Scholarship	Plank Scholarship	Klopping Scholarship	Bloom Scholarship	Kinnison Scholarship	Peterson Scholarship	Class of 38 Scholarship	Lingo Scholarship	Murphy Scholarship	Laughlin Scholarship	Total
ASSETS											
Cash and pooled investments	$ 42	10,072	22,437	20,350	4,846	1,153	269	139,596	15,733	7,520	222,018
LIABILITIES	.	.	.	.	.	.	.	.	.	.	.
NET ASSETS											
Restricted for scholarships	$ 42	10,072	22,437	20,350	4,846	1,153	269	139,596	15,733	7,520	222,018

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

Schedule 7

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

	Private Purpose Trust - Scholarship Fund										
	Anderson Scholarship	Plank Scholarship	Klopping Scholarship	Bloom Scholarship	Kinnison Scholarship	Peterson Scholarship	Class of 38 Scholarship	Lingo Scholarship	Murphy Scholarship	Laughlin Scholarship	Total
ADDITIONS:											
Local sources:											
Interest	$ -	60	134	126	32	9	-	804	28	20	1,213
Contributions	-	-	-	-	-	-	100	-	-	7,500	7,600
TOTAL ADDITIONS	-	60	134	126	32	9	100	804	28	7,520	8,813
DEDUCTIONS:											
Instruction:											
Regular:											
Scholarships awarded	-	175	500	100	500	1,000	250	850	500	-	3,875
Change in net assets	-	(115)	(366)	26	(468)	(991)	(150)	(46)	(472)	7,520	4,938
Net assets beginning of year	42	10,187	22,803	20,324	5,314	2,144	419	139,642	16,205	-	217,080
Net assets end of year	$ 42	10,072	22,437	20,350	4,846	1,153	269	139,596	15,733	7,520	222,018

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

RED OAK 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	$ 7,016,773	6,349,271	5,676,812	5,081,193	4,822,093	4,849,309	4,527,567	4,569,648	4,096,414
Tuition	337,472	219,149	281,984	217,275	155,224	174,615	162,978	144,052	79,707
Other	639,473	744,819	522,812	574,852	560,195	609,632	537,972	430,076	421,198
State sources	7,187,785	7,296,832	6,354,297	7,137,629	6,836,732	6,454,187	6,312,868	5,770,513	5,471,489
Federal sources	751,589	1,118,626	1,425,087	637,171	470,330	497,908	666,156	640,139	614,537
Total	$ 15,933,092	15,728,697	14,260,992	13,648,120	12,844,574	12,585,651	12,207,541	11,554,428	10,683,345
Expenditures:									
Instruction:									
Regular	$ 4,905,013	4,922,321	5,643,631	5,384,394	4,898,039	4,752,998	4,532,297	4,265,354	4,111,664
Special	1,653,434	1,669,780	1,588,858	2,070,061	1,774,822	1,512,329	1,390,903	1,419,426	1,368,280
Other	2,141,820	1,932,197	1,637,489	1,404,816	1,444,424	1,305,808	1,359,294	1,366,552	1,317,313
Support services:									
Student	244,618	375,600	424,490	392,315	361,392	346,603	314,905	299,819	360,943
Instructional staff	1,014,078	803,623	593,227	551,001	555,612	549,052	692,601	422,038	510,280
Administration	1,197,378	1,118,605	1,168,020	1,143,522	1,153,220	1,100,515	1,080,644	1,131,089	1,052,107
Operation and maintenance of plant	1,251,812	1,007,609	1,092,490	1,193,105	1,114,341	1,104,611	1,108,202	904,146	963,629
Transportation	482,872	762,816	387,943	468,161	531,977	456,792	338,170	345,271	258,896
Non-instructional programs:									
Food service operations	1,250	1,632	-	-	-	-	-	130	20
Community service operations	-	-	-	-	-	-	-	8,750	10,205
Capital outlays	148,865	59,664	105,303	107,967	321,210	141,852	90,464	356,386	653,176
Long-term debt:									
Principal	664,119	585,000	495,000	475,000	465,000	445,000	435,000	420,000	400,000
Interest and fiscal charges	176,760	169,499	363,573	330,205	347,873	363,668	377,781	390,510	402,560
Other expenditures:									
AEA flow-through	469,933	530,993	529,094	482,258	447,347	426,129	410,392	379,179	376,524
Total	$ 14,351,952	13,939,339	14,029,118	14,002,805	13,415,257	12,505,357	12,130,653	11,708,650	11,785,597

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

RED OAK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES	
DIRECT:				
U.S. DEPARTMENT OF EDUCATION:				
RURAL EDUATION ACHIEVEMENT PROGRAM	84.358	FY 12	$ 28,732	
INDIRECT:				
U.S. DEPARTMENT OF AGRICULTURE:				
IOWA DEPARTMENT OF EDUCATION:				
SCHOOL NUTRITION CLUSTER PROGRAMS:				
SCHOOL BREAKFAST PROGRAM	10.553	FY 12	92,744	
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 12	336,388	*
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 12	27,188	
			456,320	
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 12	31,461	
U.S. DEPARTMENT OF EDUCATION:				
IOWA DEPARTMENT OF EDUCATION:				
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	5463-G	313,295	
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	5463-GC	39,854	
			353,149	
SPECIAL EDUCATION GRANTS TO STATES (PART B HI COST CLAIMS)	84.027	FY 12	95,452	**
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 12	32,102	
MATH AND SCIENCE PARTNERSHIPS (TITLE IIB)	84.366	FY 12	3,225	
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 12	48,135	
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)	84.369	FY 12	7,592	
EDUCATION JOBS FUND	84.410	FY 12	3,896	
GREEN VALLEY AREA EDUCATION AGENCY:				
IOWA DEPARTMENT OF EDUCATION:				
SPECIAL EDUCATION GRANTS TO STATES (PART B)	84.027	FY 12	65,724	**
TOTAL			$ 1,125,788	

* - Includes $45,539 in non-cash awards.
** - Total expenditures for CFDA Number 84.027 are $161,176

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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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
Red Oak Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Red Oak 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 January 7, 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 Red Oak Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing out audit, we considered Red Oak 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 Red Oak Community School district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Red Oak Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be a material weakness 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 misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be material weakness.

A significant deficiency is a deficiency, or a 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 and Questioned Costs as items II-B-12 through II-E-12 to be significant deficiencies.

Compliance and Other Matters

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

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

Red Oak Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Red Oak 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 Red Oak Community School District and other parties to whom Red Oak Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Red Oak 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 PC

NOLTE, CORNMAN & JOHNSON, P.C.

January 7, 2013

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Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Board of Education of
Red Oak Community School District:

Compliance

We have audited the compliance of Red Oak Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Red Oak Community School District's major federal programs for the year ended June 30, 2012. Red Oak Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Red Oak Community School District's management. Our responsibility is to express an opinion on Red Oak Community School District's compliance based on our audit.

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

In our opinion, Red Oak Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-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 deficiency described in Part III of the accompanying Schedule of Findings and Questioned Costs as item III-B-12 to be significant deficiency.

Red Oak Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Red Oak 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 Red Oak Community School District and other parties to whom Red Oak Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

January 7, 2013

RED OAK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part I: Summary of the Independent Auditor's Results

(a) Unqualified opinions were issued on the financial statements.

(b) Significant deficiencies and a material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.

(c) The audit did not disclose any noncompliance which is material to the financial statements.

(d) A material weakness and a significant deficiency in internal control over the major programs was disclosed by the audit of the financial statements.

(e) An unqualified opinion was issued on compliance with requirements applicable to each major program.

(f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

(g) Major programs were as follows:

Clustered

- CFDA Number 10.553 - School Breakfast Program
- CFDA Number 10.555 - National School Lunch Program
- CFDA Number 10.559 - Summer Food Service Program for Children

Individual

- CFDA Number 84.010 - Title I - Grants to Local Educational Agencies

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) Red Oak Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We are always looking for ways to improve our internal controls and are willing to make changes that improve our situation.

Conclusion - Response accepted.

II-B-12 Student Activity Fund Interest - We noted during our audit that the Student Activity Fund has an interest account. It appears that interest earned during the year has not been allocated to individual accounts in the Student Activity Fund for several years.

Recommendation - Interest earned each year should be allocated out on an annual basis to the individual activity accounts. The District's board of directors should create a plan to distribute the balance of the interest account over the next few years to bring the balance down to zero at year end.

Response - The District will allocate interest earned to the individual student activity fund accounts that earned the interest at least once a year.

Conclusion - Response accepted.

II-C-12 Checks written to Cash - We noted during our audit that the District writes checks to "Cash" for meal money for students to pay for meals while at state tournament events.

Recommendation - Checks written to "Cash" are bearer paper and can be cashed by anyone in the event the check would be lost. A better procedure would be to write the check to the sponsor.

Response - In the future, checks for meal money will be written to the sponsor and the School District.

Conclusion - Response accepted.

II-D-12 Scholarship Awards - We noted during our audit that scholarship checks written from the Private-Purpose Trust were being written to the student only.

Recommendation - Checks written for scholarships should be written to the student and the college the student is attending once the student has provided proof of attendance. If the District wants to write the check directly to the student, the District should issue a W-2 to the student to be in compliance with Internal Revenue Service requirements.

Response - Checks will be made out to the university the student is attending once proof of attendance has been given to the District.

Conclusion - Response accepted.

II-E-12 Miscellaneous Enterprise Fund - We noted during our audit that the Miscellaneous Enterprise Fund contains several pop accounts and an unallocated interest account. The pop accounts appear to have revenues and expenses related to break room beverages for faculty members.

Recommendation - The faculty pop accounts should not be contained within an enterprise fund. Revenues and expenses related to faculty pop accounts more appropriate in the General Fund. The interest accumulated in the enterprise fund should be allocated to the individual accounts that earned the interest. Once the interest has been allocated, the funds in the faculty pop accounts should be transferred to the General Fund.

Response - Interest will be allocated and the pop accounts will be moved to the General Fund.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.559: Summer Food Service Program for Children
Federal Award Year: 2012
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010 Title I - Grants to Local Educational Agencies
Federal Award Year: 2012
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will study this situation and see what steps can be taken to help strengthen the internal control structure in cash handling of receipts.

Conclusion - Response accepted.

III-B-12 Free and Reduced Lunch Applications - We noted during our audit that one of the twelve lunch applications tested was an application with no income. The District properly determined that the application was a temporary free application for 45 days. However, after 45 days were over, the District did not request that the individual reapply for free and reduced meals.

Recommendation - The District should adopt procedures and policies to ensure that temporary approved applications require subsequent reapplication.

Response - The District will adopt procedures and policies that temporary approved free and reduced lunch applications will have to reapply after expiration of the 45 day limit.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - District disbursements for the year ended June 30, 2012 exceeded the amount budgeted in the non-instructional programs functional area.

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

Response – In the future, the District will amend the budget in accordance with Chapter 24.9 of the Code of Iowa before the budgeted amounts are exceeded..

Conclusion - Response accepted.

IV-B-12 Questionable Disbursements - During our audit we noted the following items as questionable disbursements. More specific examples of these instances of questioned items and recommendations are as follows:

Clothing Purchases: We noted during our audit that the District purchased clothing for athletic coaches from the Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - The District will request the Booster Club or other affiliated organizations to provide clothing such as team jackets for coaches in lieu of using public funds.

Conclusion - Response accepted.

Contract Disagreement: We noted during our audit that the District paid a former employee $3,000 from the Management Fund for a contract disagreement. The settlement for $3,000 did not appear to be a court ordered settlement and therefore we question the District's payment to the former employee from the Management Levy Fund.

Recommendation - According to Chapter 298.4 of the Code of Iowa, only court ordered settlements for tort liability, loss of property and environmental hazards are allowable from the Management Levy Fund. The settlement reached between the District and the former employee does not appear to meet these criteria. The District should make a corrective transfer from the General Fund to the Management Levy Fund for $3,000.

Response - The corrective transfer from the General fund to the Management Levy Fund for $3,000 will be made.

Conclusion - Response accepted.

IV-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, however we noted the following during our audit:

The District reimbursed three employees for the cost of meals plus tip without applying the discount that was offered for the entire meal plus adult beverages. When the District reimbursed the employees, none of the discount was applied to the cost of the meals, but rather all was applied to the cost of the adult beverages. This distorted the amount of reimbursement that should have been received by the employees. After the reimbursement for food purchased in the meal and tip were calculated, it was determined that the amount of the tip was nearly 40% of the entire bill for the meals purchased.

Recommendation - The District should review procedures in place when reimbursing employees for meals. The District may want to adopt a policy that if employees wish to have adult beverages with their meals while on District business that the cost of the adult beverages be put on a separate ticket than the one that will be turned into the District for reimbursement to avoid confusion for District staff processing the reimbursement.

Response - The District will place the following statement in the employee handbook: If employees wish to have adult beverages with their meals while on District business that the cost of the adult beverages be put on a separate ticket than the one that will be turned into the District office for reimbursement. This will avoid creating confusion for District office staff when processing reimbursements.

Conclusion - Response accepted.

IV-D-12 Business Transactions - No business transactions between the District and District officials were noted.

IV-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.

IV-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-12 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-12 Supplementary Weighting - No variances in the supplementary weighting data certified to the Iowa Department of Education were noted. However, we noted during our audit that two students were not reported on the English Language Learner summary on Project Easier. This caused an understatement in funding of .22 per student.

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

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

Conclusion - Response accepted.

IV-I-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-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.

IV-K-12 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

IV-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 following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2012 audit:

Beginning Balance		$ 1,383,501
Statewide sales and services tax revenue	$ 799,269	
School infrastructure supplemental amount	118,120	
Interest on investments	2,199	919,588
Total revenues		2,303,089
Expenditures/transfers out:		
School infrastructure:		
Equipment	$ 160,977	
Debt service for school infrastructure:		
General obligation debt	336,035	497,012
Ending balance		$ 1,806,077

For the year ended June 30, 2012, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per $1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	$ 1.06566	$ 336,035

IV-M-12 Financial Condition - During our audit we noted that the District had two negative account balances in the Student Activity Fund totaling $363.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts.

Response - By the end of July, the two accounts had positive balances.

Conclusion - Response accepted.

IV-N-12 Officiating Contracts - We noted during out audit that the Athletic Director was signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District needs to have the Board president sign all officiating contracts to be in compliance with 291.1 of the Code of Iowa.

Response - The Board President will sign all officiating contracts so the District will be in compliance with 291.1 of the Code of Iowa.

Conclusion - Response accepted.

IV-O-12 Payroll Authorization - We noted during our audit that the District does not have written authorization to mail substitute teachers' payroll checks. Chapter 91A.3 of the Code of Iowa requires that an employer have a written request from an employee before wages can be sent to an employee by mail.

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

Response - The District will obtain written authorization from each employee that wishes to receive a payroll check by mail.

Conclusion - Response accepted.

IV-P-12 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. More specific examples of these instances of questioned items and recommendations are as follows:

Questionable Accounts: Revenues and expenditures in the 4-5 Vending account in the Student Activity Fund appear to be a faculty pop account. After conversations with District officials, the remaining funds in the MS Vending account appear to be several years' accumulation of faculty pop money for the middle school building.

Recommendation - It would appear that these accounts are administratively maintained, rather than maintained by a club or organization. Revenues and expenditures for faculty pop would be more appropriate in the General Fund. The District should transfer the remaining funds in these two accounts to the General Fund to be in compliance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1).

Response - The District will transfer the remaining funds in the 4-5 Vending Account and the MS Vending Account into the General Fund to be incompliance with Chapter 298A of the Code of Iowa and Iowa Administrative Code 281-12-6(1).

Conclusion - Response accepted.

Questionable Revenues and Expenses: We noted during our audit that the District records PSAT revenues and expenses in the Student Activity Fund.

Recommendation - PSAT revenues and expenses are instructional in nature. Revenues and expenditures for instructional supplies are more appropriately handled in the General Fund. In the future, the District should record PSAT revenues and expenses in the General Fund.

Response - The District will handle all PSAT revenue and expenses through the General Fund since the expenses are instructional in nature.

Conclusion - Response accepted.

Instructional Items Purchased: We noted during our audit that the Middle School account fundraised for the purchase of a wind turbine that will be used for instructional classes at the middle school. At the time of the audit, the wind turbine had already been purchased but had not been erected. Selling of energy produced by the turbine would normally reduce the cost of utilities purchased by the District.

We also noted in the Middle School Student Council account that the District purchased three projectors to be used in instructional programs of the middle school.

Recommendation - The District should transfer any remaining fundraised monies for the wind turbine to the General Fund. Once the wind turbine is operational, proceeds from the sale of energy from the turbine should be receipted to the General Fund.

It would appear that the items purchased above would be more instructional in nature and not allowed from the Student Activity Fund. Revenues and expenses intended for instructional items are more appropriately handled in the General Fund.

Response - The District will abstain from purchasing instructional items from the Student Activity Fund. Remaining funds raised for the wind turbine will be moved to the General Fund. Once the wind turbine is operational, any proceeds from the sale of energy will be receipted to the General Fund. In the future, the District should abstain from purchasing instructional items from the Student Activity Fund.

Conclusion - Response accepted.