

**COLO-NESCO
COMMUNITY SCHOOL DISTRICT**

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

JUNE 30, 2007

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COLO-NESCO COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September, 2006 Election)		
John Fuller	President	2006
Greg Voga		2007
Casey Speake		2008
Paul Mens		2006
Kim Nelson		2006
Dennis Vaughn		2007
Brian Lawson		2008

(After September, 2006 Election)

John Fuller	President	2009
Kim Nelson		2009
Casey Speake		2008
Bob Jamison		2009
Greg Voga		2007
Dennis Vaughn		2007
Brian Lawson		2008

School Officials

Gary Pillman	Superintendent
Christine Pezetti	District Secretary/ Treasurer

BRUCE D. FRINK
Certified Public Accountant

Independent Auditor's Report

To the Board of Education of
Colo-Nesco 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 Colo-Nesco Community School District, McCallsburg, Iowa, as of and for the year ended June 30, 2007, 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 Colo-Nesco Community School District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2008 on our consideration of Colo-Nesco Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Colo-Nesco Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRUCE D. FRINK
Certified Public Accountant

March 27, 2008

COLO-NESCO COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Colo-Nesco Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,558,152 in fiscal year 2006 to \$4,500,826 in fiscal year 2007. There were no areas of significant change.
- General Fund expenditures increased from \$4,236,877 in fiscal year 2006 to \$4,303,443 in fiscal year 2007. This increase is really insignificant as salary, benefits, and health insurance costs have continued to rise but with attrition of staff this has kept the costs down. The General Fund balance has increased due to a reduction in discretionary expenditures.
- The interest earnings in the General Fund have increased from \$38,716 in fiscal year 2006 to \$73,344 due to carrying a higher balance in the account plus an increase in interest rates.
- The total expenditures in the Local Option Sales/Service Tax in the 2006-07 fiscal year was \$495,981. The majority of the money was spent on infrastructure projects.

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 Colo-Nesco 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 Colo-Nesco Community School District 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 Colo-Nesco Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details 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
Colo-Nesco Community School District Annual Financial Report

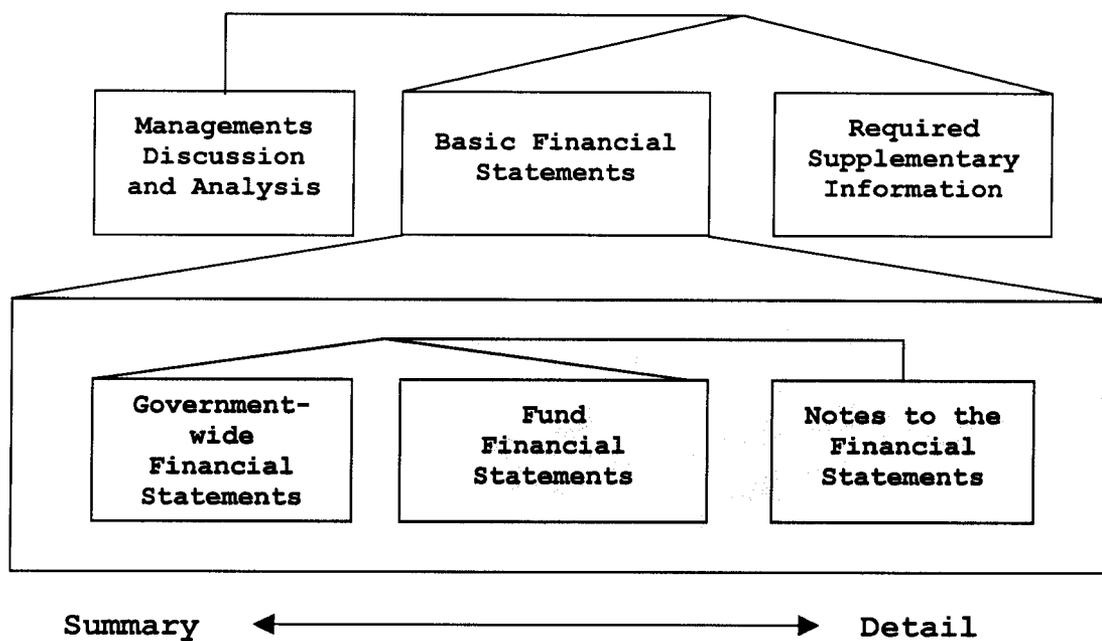


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • 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, 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 - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

The required financial statements for proprietary funds include a Statement of Net Assets, a statement of revenues, expenses, 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 Funds.

- *Agency Funds* - These are funds through which the District administers and accounts for outside groups' revenues and expenses on their behalf.

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

The required financial statements for fiduciary funds includes 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 for the year ended June 30, 2007 compared to June 30, 2006.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	
Current assets	3,737	3,994	8	33	3,745	4,027	-7.00%
Capital assets	<u>2,907</u>	<u>3,073</u>	<u>2</u>	<u>1</u>	<u>2,909</u>	<u>3,074</u>	-5.37%
Total assets	<u>6,644</u>	<u>7,067</u>	<u>10</u>	<u>34</u>	<u>6,654</u>	<u>7,101</u>	-6.29%
Current liabilities	1,628	2,045	112	97	1,740	2,142	-18.77%
Non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	0.00%
Total liabilities	<u>1,628</u>	<u>2,045</u>	<u>112</u>	<u>97</u>	<u>1,740</u>	<u>2,142</u>	-18.77%
Net Assets							
Invested in capital assets, net of related debt	2,907	3,073	2	1	2,909	3,074	-5.37%
Restricted	590	647	-	-	590	647	-8.81%
Unrestricted	<u>1,519</u>	<u>1,302</u>	<u>(104)</u>	<u>(64)</u>	<u>1,415</u>	<u>1,238</u>	14.30%
Total net assets	<u>5,016</u>	<u>5,022</u>	<u>(102)</u>	<u>(63)</u>	<u>4,914</u>	<u>4,959</u>	-0.91%

Unrestricted net assets increased over 14% due primarily to the increase in the General Fund. This was accomplished by staff attrition and reduction in discretionary spending. The Management and PPEL Funds accounted for the decrease in the restricted assets. No property taxes were levied for the Management Fund in an effort to hold down property tax increases.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Change in Net Assets
(Expressed in Thousands)

	Governmental		Business Type		Total		Total Change
	Activities		Activities		District		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Revenues:							
Program revenues:							
Charges for service and sales	120	148	305	304	425	452	-5.97%
Operating grants, contributions and restricted interest	730	720	103	110	833	830	0.36%
General revenues:							
Property tax	1,539	1,750	-	-	1,539	1,750	-12.06%
Income surtax	260	250	-	-	260	250	4.00%
Local option sales tax	588	464	-	-	588	464	26.72%
Unrestricted state grants	1,962	1,967	-	-	1,962	1,967	-0.25%
Unrestricted investment earnings	73	39	-	-	73	39	87.18%
Other	7	29	-	-	7	29	-75.86%
Total revenues	<u>5,279</u>	<u>5,367</u>	<u>408</u>	<u>414</u>	<u>5,687</u>	<u>5,781</u>	<u>-1.63%</u>
Program expenses:							
Governmental activities:							
Instruction	3,025	2,870	-	-	3,025	2,870	5.40%
Support Services	1,322	1,468	-	-	1,322	1,468	-9.95%
Non-instructional programs	-	3	446	406	446	409	9.05%
Other expenses	938	447	-	-	938	447	109.84%
Total expenses	<u>5,285</u>	<u>4,788</u>	<u>446</u>	<u>406</u>	<u>5,731</u>	<u>5,194</u>	<u>10.34%</u>
Change in net assets	<u>(6)</u>	<u>579</u>	<u>(38)</u>	<u>8</u>	<u>(44)</u>	<u>587</u>	<u>-107.50%</u>

Property tax and unrestricted state grants account for 62% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 76% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,279,065 and expenses were \$5,285,219.

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

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
	\$	\$		\$	\$	
Instruction	3,025	2,870	5.40%	2,353	2,205	6.71%
Support Services	1,322	1,468	-9.95%	1,305	1,451	-10.06%
Non-instructional programs	-	3	-100.00%	-	3	-100.00%
Other expenses	938	447	109.84%	777	261	197.70%
Totals	<u>5,285</u>	<u>4,788</u>	<u>10.38%</u>	<u>4,435</u>	<u>3,920</u>	<u>13.14%</u>

- The cost financed by users of the District's programs was \$120,032.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$444,784.
- The net cost of governmental activities was financed with \$1,538,827 in property tax, \$1,962,210 in state foundation aid, and \$73,344 in interest income.

Proprietary-type Funds

Revenues for the District's School Nutrition Fund were \$213,503 and expenses were \$241,051. The revenues include charges for services, contributions, and federal and state reimbursements.

The District's Child Care Fund decreased by almost \$11,000. Decreased revenues from outside sources did not cover operating losses as in the past.

INDIVIDUAL FUND ANALYSIS

The Colo-Nesco 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 the District completed the fiscal year, its governmental funds reported a combined fund balance of \$5,016,160, which is slightly less than last year's ending fund balance of \$5,022,314. The largest portion of this increase was in the General Fund.

Governmental Fund Highlights

Several factors contributed to the small increase of the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- The District generates over \$250,000 in instructional support levy revenues. These monies are being used to strengthen the General Fund balance as well as preserving and expanding educational opportunities.
- Increased spending was almost entirely attributable to instruction and support service programs.
- Increases in salaries were offset by not replacing retirees and reducing discretionary spending.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased by over \$27,000 in fiscal year 2007. Child Care Fund net assets decreased primarily due to decreased supplemental revenues. Usage of the facility continues to grow.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

Actual revenues were \$136,000 less than budgeted, primarily due to miscellaneous revenues not meeting expectations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District has invested more than \$2.9 million, net of accumulated depreciation, by the end of fiscal year 2007 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. The District made improvements and updated equipment at all three facilities during the year. Total depreciation expenses for the year exceeded \$405,000.

Long Term Debt

The District had no outstanding debt as of June 30, 2007.

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 significantly affect its financial health in the future:

- The SILO tax was passed in September 2002 and money began to be received by the District in September 2003 and the district continues to receive this money. It has been used for a number of needed facility improvement projects.
- The Instructional Support Levy was passed in 2001 and money began to be received by the District in the 2003-04 school year and the district continues to receive this money.
- The District has experienced declining enrollment the past several years and this has forced and continues to force us to reduce our work force.
- Allowable growth of 4% is inadequate to fund salary increases and ever changing classroom needs.
- Once again unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our 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 Gary Pillman, Superintendent, Colo-Nesco Community School District, 400 Latrobe Avenue, McCallsburg, IA 50154.

Basic Financial Statements

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,679,829	-	1,679,829
Receivables:			
Property tax:			
Current year	31,238	-	31,238
Succeeding year	1,619,689	-	1,619,689
Income surtax - succeeding year	229,032	-	229,032
Interfund receivable	112,382	-	112,382
Due from other governments	53,302	-	53,302
Other receivables	11,601	5,571	17,172
Inventories	-	2,766	2,766
Capital assets, net of accumulated depreciation	2,907,194	2,118	2,909,312
Total assets	<u>6,644,267</u>	<u>10,455</u>	<u>6,654,722</u>
Liabilities			
Accounts payable	5,769	-	5,769
Salaries and benefits payable	2,649	223	2,872
Interfund payables	-	112,382	112,382
Deferred revenue:			
Succeeding year property tax	1,619,689	-	1,619,689
Total liabilities	<u>1,628,107</u>	<u>112,605</u>	<u>1,740,712</u>
Net assets			
Invested in capital assets, net of related debt	2,907,194	2,118	2,909,312
Restricted for:			
Management levy	311,615	-	311,615
Student activities	54,872	-	54,872
Physical plant and equipment levy	52,184	-	52,184
Capital projects	171,688	-	171,688
Unrestricted	1,518,607	(104,268)	1,414,339
Total net assets	<u>5,016,160</u>	<u>(102,150)</u>	<u>4,914,010</u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

	Program Revenues				Governmental Activities	Business Type Activities	Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest				
	\$	\$	\$	\$			\$
Functions/Programs							
Governmental activities:							
Instruction:	3,024,625	120,032	551,907	(2,352,686)	-	(2,352,686)	
Support services:							
Student services	5,247	-	-	(5,247)	-	(5,247)	(5,247)
Instructional staff services	122,933	-	-	(122,933)	-	(122,933)	(122,933)
Administration services	506,452	-	-	(506,452)	-	(506,452)	(506,452)
Operation and maintenance of plant services	477,426	-	16,856	(460,570)	-	(460,570)	(460,570)
Transportation services	210,419	-	-	(210,419)	-	(210,419)	(210,419)
	1,322,477	-	16,856	(1,305,621)	-	(1,305,621)	
Other expenditures:							
AEA flowthrough	161,061	-	161,061	-	-	-	-
Facilities acquisition and construction	372,444	-	-	(372,444)	-	(372,444)	(372,444)
Depreciation (unallocated)*	404,612	-	-	(404,612)	-	(404,612)	(404,612)
	938,117	-	161,061	(777,056)	-	(777,056)	
Total governmental activities	5,285,219	120,032	729,824	(4,435,363)	-	(4,435,363)	(4,435,363)

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

	Program Revenues							
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total		
	\$	\$	\$	\$	\$	\$		
Business type activities:								
Non-instructional programs:								
Proprietary funds	446,428	304,991	102,991	-	(38,446)	(38,446)		
Total	<u>5,731,647</u>	<u>425,023</u>	<u>832,815</u>	<u>(4,435,363)</u>	<u>(38,446)</u>	<u>(4,473,809)</u>		
General revenues:								
Property tax levied for:								
General purposes				1,491,424	-	1,491,424		
Capital outlay				47,403	-	47,403		
Income surtax				260,006	-	260,006		
Local option sales tax				587,873	-	587,873		
Unrestricted state grants				1,962,210	-	1,962,210		
Unrestricted investment earnings				73,344	-	73,344		
Other				6,949	-	6,949		
Total general revenue				<u>4,429,209</u>	<u>-</u>	<u>4,429,209</u>		
Change in net assets				(6,154)	(38,446)	(44,600)		
Net assets beginning of year				5,022,314	(63,704)	4,958,610		
Net assets end of year				<u>5,016,160</u>	<u>(102,150)</u>	<u>4,914,010</u>		

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

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	<u>General</u>	<u>Capital</u>	<u>Nonmajor</u>	<u>Total</u>
	\$	Projects	Special	\$
	\$	\$	Revenue	\$
Assets				
Cash and pooled investments	1,141,134	131,604	407,091	1,679,829
Receivables:				
Property tax:				
Current year	30,244	-	994	31,238
Succeeding year	1,522,077	-	97,612	1,619,689
Income surtax - succeeding year	229,032	-	-	229,032
Interfund receivable	112,382	-	-	112,382
Other receivables	-	-	11,601	11,601
Due from other governments	13,218	40,084	-	53,302
	<u>3,048,087</u>	<u>171,688</u>	<u>517,298</u>	<u>3,737,073</u>
Total assets				
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	4,754	-	1,015	5,769
Salaries and benefits payable	2,649	-	-	2,649
Deferred revenue:				
Succeeding year property tax	1,522,077	-	97,612	1,619,689
Succeeding year income surtax	229,032	-	-	229,032
Total liabilities	<u>1,758,512</u>	<u>-</u>	<u>98,627</u>	<u>1,857,139</u>
Fund balances:				
Reserved for capital projects	-	171,688	-	171,688
Unreserved	1,289,575	-	418,671	1,708,246
Total fund balance	<u>1,289,575</u>	<u>171,688</u>	<u>418,671</u>	<u>1,879,934</u>
Total liabilities and fund balances	<u>3,048,087</u>	<u>171,688</u>	<u>517,298</u>	<u>3,737,073</u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2007

Total fund balances of governmental funds (Exhibit C)	\$ 1,879,934
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2007 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	229,032
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	<u>2,907,194</u>
Net assets of governmental activities (Exhibit A)	<u>\$ 5,016,160</u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2007

	General	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Revenues:				
Local sources				
Local tax	1,732,446	587,873	47,403	2,367,722
Tuition	120,032	-	-	120,032
Other	80,293	-	123,979	204,272
State sources	2,419,171	-	-	2,419,171
Federal sources	148,884	-	-	148,884
Total revenues	<u>4,500,826</u>	<u>587,873</u>	<u>171,382</u>	<u>5,260,081</u>
Expenditures:				
Current:				
Instruction:	<u>2,910,847</u>	-	113,778	<u>3,024,625</u>
Support services:				
Student services	5,247	-	-	5,247
Instructional staff services	116,241	-	6,692	122,933
Administration services	476,017	412	30,023	506,452
Operation and maintenance of plant services	423,611	-	53,815	477,426
Transportation services	<u>210,419</u>	-	<u>64,156</u>	<u>274,575</u>
	<u>1,231,535</u>	<u>412</u>	<u>154,686</u>	<u>1,386,633</u>
Non-instructional programs:				
Community service & education	-	-	-	-
Other expenditures:				
AEA flowthrough	161,061	-	-	161,061
Facilities acquisition and construction	-	495,569	51,912	547,481
	<u>161,061</u>	<u>495,569</u>	<u>51,912</u>	<u>708,542</u>
Total expenditures	<u>4,303,443</u>	<u>495,981</u>	<u>320,376</u>	<u>5,119,800</u>
Net change in fund balances	197,383	91,892	(148,994)	140,281
Fund balances beginning of year	<u>1,092,192</u>	<u>79,796</u>	<u>567,665</u>	<u>1,739,653</u>
Fund balances end of year	<u><u>1,289,575</u></u>	<u><u>171,688</u></u>	<u><u>418,671</u></u>	<u><u>1,879,934</u></u>

See notes to financial statements.

COLO-NESCO 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, 2007

Net change in fund balances - total governmental funds (Exhibit E)		\$ 140,281
 Amounts reported for governmental activities in the statement of activities are different because:		
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities		18,984
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	239,193	
Depreciation expense	<u>(404,612)</u>	<u>(165,419)</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ (6,154)</u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets
Proprietary Funds

June 30, 2007

	<u>School Nutrition</u>	<u>Child Care</u>	<u>Total</u>
	\$	\$	
Assets			
Cash and pooled investments	-	-	-
Other receivables	-	5,571	5,571
Inventories	2,766	-	2,766
Capital assets, net of accumulated depreciation	<u>988</u>	<u>1,130</u>	<u>2,118</u>
Total assets	<u>3,754</u>	<u>6,701</u>	<u>10,455</u>
Liabilities			
Accounts payable	-	223	223
Interfund payable	<u>34,521</u>	<u>77,861</u>	<u>112,382</u>
Total liabilities	<u>34,521</u>	<u>78,084</u>	<u>112,605</u>
Net assets			
Invested in capital assets, net of related debt	988	1,130	2,118
Unrestricted	<u>(31,755)</u>	<u>(72,513)</u>	<u>(104,268)</u>
Total net assets	<u>(30,767)</u>	<u>(71,383)</u>	<u>(102,150)</u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2007

	School Nutrition	Child Care	Total
	\$		
Operating revenue:			
Local sources:			
Charges for services	144,848	160,143	304,991
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	86,146	-	86,146
Benefits	26,167	-	26,167
Services	1,915	-	1,915
Supplies	126,343	-	126,343
Depreciation	480	-	480
	<u>241,051</u>	<u>-</u>	<u>241,051</u>
Other enterprise operations:			
Salaries	-	163,167	163,167
Benefits	-	24,644	24,644
Services	-	741	741
Supplies	-	16,545	16,545
Depreciation	-	280	280
	<u>-</u>	<u>205,377</u>	<u>205,377</u>
Total operating expenses	<u>241,051</u>	<u>205,377</u>	<u>446,428</u>
Operating (loss)	<u>(96,203)</u>	<u>(45,234)</u>	<u>(141,437)</u>
Non-operating revenues:			
Local sources	-	33,016	33,016
State sources	2,421	1,320	3,741
Federal sources	66,234	-	66,234
	<u>68,655</u>	<u>34,336</u>	<u>102,991</u>
Change in net assets	(27,548)	(10,898)	(38,446)
Net assets beginning of year	<u>(3,219)</u>	<u>(60,485)</u>	<u>(63,704)</u>
Net assets end of year	<u><u>(30,767)</u></u>	<u><u>(71,383)</u></u>	<u><u>(102,150)</u></u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2007

	School Nutrition	Child Care	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	144,848	173,233	318,081
Cash payments to employees for services	(129,338)	(201,635)	(330,973)
Cash payments to suppliers for goods or services	(116,128)	(15,935)	(132,063)
Net cash provided by (used in) operating activities	<u>(100,618)</u>	<u>(44,337)</u>	<u>(144,955)</u>
Cash flows from non-capital financing activities:			
Local grants and contributions	-	33,016	33,016
State grants received	2,421	1,320	3,741
Federal grants received	54,759	-	54,759
Net cash provided by non-capital financing activities	<u>57,180</u>	<u>34,336</u>	<u>91,516</u>
Cash flows from capital financing activities:			
Acquisition of capital assets	-	(1,410)	(1,410)
Net increase (decrease) in cash and cash equivalents	(43,438)	(11,411)	(54,849)
Cash and cash equivalents beginning of year	8,917	(66,450)	(57,533)
Cash and cash equivalents end of year	<u>(34,521)</u>	<u>(77,861)</u>	<u>(112,382)</u>
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(96,203)	(45,234)	(141,437)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	480	280	760
Commodities used	11,475	-	11,475
Decrease (increase) in other receivables	-	13,090	13,090
Decrease (increase) in inventory	655	1,128	1,783
Increase (decrease) in accounts payable	-	223	223
Increase (decrease) in accrued payroll and benefits	(17,025)	(13,824)	(30,849)
	<u>(100,618)</u>	<u>(44,337)</u>	<u>(144,955)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	<u>-</u>	<u>-</u>	<u>-</u>
Current liabilities:			
Interfund payable	<u>34,521</u>	<u>77,861</u>	<u>112,382</u>
Non-cash investing, capital and financing activities:			

During the year ended June 30, 2007, the District received federal commodities valued at \$11,475. See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2007

	<u>Agency Funds</u>
	\$
Assets	
Cash	928
Other receivables	<u>4,592</u>
Total assets	<u>5,520</u>
Liabilities:	
Other payables	<u>5,520</u>
Total liabilities	<u><u>5,520</u></u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

Colo-Nesco Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Colo, McCallsburg and Zearing, Iowa, and agricultural area in Story, Marshall and Hardin 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, Colo-Nesco Community School District has included all funds, organizations, account groups, 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. Colo-Nesco 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 Story County Assessor Conference Board.

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest 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.

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 expenditures, 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.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition and Child Care Funds. These funds are used to account for the food service and child care operations of the District.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balance

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 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 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 the 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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

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, furniture and equipment, 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 repair 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.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2007.

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the non-instructional programs function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments at June 30, 2007.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>34,857</u>	<u>-</u>	<u>-</u>	<u>34,857</u>
Capital assets being depreciated:				
Land improvements	371,425	25,962	-	397,387
Buildings	3,382,178	143,854	-	3,526,032
Furniture and Equipment	<u>2,802,906</u>	<u>69,377</u>	<u>-</u>	<u>2,872,283</u>
Total capital assets being depreciated	<u>6,556,509</u>	<u>239,193</u>	<u>-</u>	<u>6,795,702</u>
Less accumulated depreciation for:				
Land improvements	121,883	26,252	-	148,135
Buildings	1,627,861	73,050	-	1,700,911
Furniture and Equipment	<u>1,769,009</u>	<u>305,310</u>	<u>-</u>	<u>2,074,319</u>
Total accumulated depreciation	<u>3,518,753</u>	<u>404,612</u>	<u>-</u>	<u>3,923,365</u>
Total capital assets being depreciated, net	<u>3,037,756</u>	<u>(165,419)</u>	<u>-</u>	<u>2,872,337</u>
Governmental activities, capital assets, net	<u>3,072,613</u>	<u>(165,419)</u>	<u>-</u>	<u>2,907,194</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	5,875	1,410	-	7,285
Less accumulated depreciation	<u>4,407</u>	<u>760</u>	<u>-</u>	<u>5,167</u>
Business type activities capital assets, net	<u><u>1,468</u></u>	<u><u>650</u></u>	<u><u>-</u></u>	<u><u>2,118</u></u>

Depreciation expense was charged to the following functions:

Governmental activities:

Unallocated

404,612

Business Type activities:

Food service operations

480

Day care operations

280

Total

760

(4) 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$145,072, \$144,159, and \$147,270 respectively, equal to the required contributions for each year.

(5) 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 \$161,061 for year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Financial Condition

The District's Enterprise Fund - School Nutrition had a net assets deficit of \$30,767 at June 30, 2007. The District's Enterprise Fund - Child Care had a net assets deficit of \$71,383 at June 30, 2007.

(7) Risk Management

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

(8) Due From and Due to Other Funds

The detail of Interfund receivables/payable as of June 30, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise:	
	Child Care Fund	\$ 77,861
	Nutrition Fund	<u>34,521</u>
		<u>\$112,382</u>

This is to cover cash deficits in a joint checking account.

Required Supplementary Information

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund
Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts		Final to Actual Variance -
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,692,026	338,007	3,030,033	3,171,124	3,171,124	(141,091)
State sources	2,419,171	3,741	2,422,912	2,394,603	2,394,603	28,309
Federal sources	148,884	66,234	215,118	238,725	238,725	(23,607)
Total revenues	<u>5,260,081</u>	<u>407,982</u>	<u>5,668,063</u>	<u>5,804,452</u>	<u>5,804,452</u>	<u>(136,389)</u>
Expenditures:						
Instruction	3,024,625	-	3,024,625	3,358,374	3,358,374	333,749
Support services	1,386,633	-	1,386,633	1,554,771	1,554,771	168,138
Non-instructional programs	-	446,428	446,428	414,543	414,543	(31,885)
Other expenditures	708,542	-	708,542	885,681	885,681	177,139
Total expenditures	<u>5,119,800</u>	<u>446,428</u>	<u>5,566,228</u>	<u>6,213,369</u>	<u>6,213,369</u>	<u>647,141</u>
Excess (deficiency) of revenues over (under) expenditures	140,281	(38,446)	101,835	(408,917)	(408,917)	510,752
Other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	140,281	(38,446)	101,835	(408,917)	(408,917)	510,752
Balance beginning of year	<u>1,739,653</u>	<u>(63,704)</u>	<u>1,675,949</u>	<u>1,306,497</u>	<u>1,306,497</u>	<u>369,452</u>
Balance end of year	<u>1,879,934</u>	<u>(102,150)</u>	<u>1,777,784</u>	<u>897,580</u>	<u>897,580</u>	<u>880,204</u>

See accompanying independent auditor's report.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated 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, 2007, expenditures in the non-instructional programs function exceeded the budgeted amount. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2007

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	300,014	55,887	51,190	407,091
Property tax receivable:				
Current year	-	-	994	994
Succeeding year	50,000	-	47,612	97,612
Other receivables	11,601	-	-	11,601
	<u>361,615</u>	<u>55,887</u>	<u>99,796</u>	<u>517,298</u>
Total assets				
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	-	1,015	-	1,015
Deferred revenue:				
Succeeding year property tax	50,000	-	47,612	97,612
	<u>50,000</u>	<u>1,015</u>	<u>47,612</u>	<u>98,627</u>
Fund balance:				
Unreserved fund balance	311,615	54,872	52,184	418,671
	<u>361,615</u>	<u>55,887</u>	<u>99,796</u>	<u>517,298</u>
Total liabilities and fund balance				

See accompanying independent auditor's report.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2007

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	-	-	47,403	47,403
Other	11,601	107,123	5,255	123,979
State sources	-	-	-	-
Total revenues	<u>11,601</u>	<u>107,123</u>	<u>52,658</u>	<u>171,382</u>
Expenditures:				
Instruction:	-	113,778	-	113,778
Support services:				
Instructional support	6,692	-	-	6,692
Administration services	29,923	-	100	30,023
Plant operation and maintenance	53,110	-	705	53,815
Student transportation	-	-	64,156	64,156
Other expenditures:				
Facility acquisition and construction services	-	-	51,912	51,912
Total expenditures	<u>89,725</u>	<u>113,778</u>	<u>116,873</u>	<u>320,376</u>
Net change in fund balance	(78,124)	(6,655)	(64,215)	(148,994)
Fund balances beginning of year	<u>389,739</u>	<u>61,527</u>	<u>116,399</u>	<u>567,665</u>
Balance end of year	<u>311,615</u>	<u>54,872</u>	<u>52,184</u>	<u>418,671</u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
All Athletics	11,247	9,908	6,060	15,095
Basketball	24,877	7,859	6,155	26,581
Track	494	2,263	3,196	(439)
Cross Country	(25)	61	691	(655)
Golf	(1,404)	-	1,494	(2,898)
Football	1,978	9,924	8,583	3,319
Soccer	(606)	3,035	5,814	(3,385)
Baseball	628	1,992	3,327	(707)
Wrestling	2,300	417	100	2,617
Volleyball	4,668	4,334	2,539	6,463
Softball	278	1,439	3,556	(1,839)
Drama	3,669	1,615	2,177	3,107
Musical	956	-	-	956
Vocal/Instrumental	(1,327)	1,717	5,194	(4,804)
Band Uniforms	-	50	50	-
HS Student Pictures	1,521	539	-	2,060
Student Council	4,216	4,243	2,458	6,001
C-N FFA	1,599	6,185	4,542	3,242
Yearbook	(13,710)	1,944	5,812	(17,578)
Cheerleading	999	1,016	2,196	(181)
Band Resale	(2,543)	1,036	-	(1,507)
Spanish Club	5,716	-	252	5,464
Art Club	634	1,146	1,163	617
Anglo-Norman Club	(82)	-	-	(82)
C-N Drill Team	(1,739)	-	-	(1,739)
Flag Team	104	634	665	73
SADD	267	-	-	267
Class of 2008	-	11,142	12,193	(1,051)
Class of 2009	-	-	100	(100)
Class of 2006	(328)	-	-	(328)
Class of 2007	2,210	141	2,351	-
MS Student Pictures	304	123	-	427
MS Student Activities	1,168	17,003	17,333	838
MS Mall of America	67	-	-	67
MS Band Resale	(3,171)	33	189	(3,327)
MS Music Fund	4,384	8,839	11,943	1,280
Colo Publication	81	-	34	47
Elementary Student Pictures	1,895	761	697	1,959
Burg Publication	-	3,370	1,489	1,881
Elementary Student Activities	(368)	1,143	955	(180)
Malls 4 Schools	1,788	283	317	1,754
McCallsburg Student Birthday Club	50	-	-	50
District Wide Field Trips	223	586	104	705
Interest	8,509	2,342	49	10,802
Totals	<u>61,527</u>	<u>107,123</u>	<u>113,778</u>	<u>54,872</u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Changes in Assets and Liabilities
Agency Funds

Year ended June 30, 2007

	Benevolence	Trees Forever	King Music Memorial	MS Library Fund	Playground	Nancy Dole Memorial Fund	Preschool Child Care	Memorial Fund	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance beginning of year	302	148	1,103	1	-	2	573	18	2,147
Additions:									
Contributions	20	-	-	-	25	-	8,247	-	8,292
Deductions:									
Miscellaneous	-	-	-	-	-	-	4,919	-	4,919
Balance end of year	322	148	1,103	1	25	2	3,901	18	5,520

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,367,722	2,459,777	2,402,408	2,339,244
Tuition	120,032	148,329	180,570	162,825
Other	204,272	193,172	175,732	163,088
State sources	2,419,171	2,386,039	2,443,418	2,182,324
Federal sources	148,884	153,665	179,857	158,876
Total	<u>5,260,081</u>	<u>5,340,982</u>	<u>5,381,985</u>	<u>5,006,357</u>
Expenditures:				
Instruction	3,024,625	2,863,768	2,982,512	2,897,890
Support services:				
Student	5,247	17,463	20,691	12,303
Instructional staff	122,933	148,152	77,960	61,545
Administration	506,452	649,627	557,150	551,332
Operation and maintenance of plant	477,426	459,601	374,492	397,724
Transportation	274,575	193,857	211,734	272,007
Non-instructional programs				
Community service and education	-	3,000	3,000	25,767
Other expenditures:				
Facilities acquisition	547,481	551,161	464,347	389,353
Debt Service				
Principal	-	-	17,211	36,787
Interest and service charges	-	-	772	1,598
AEA flowthrough	161,061	160,011	158,117	162,887
Total	<u>5,119,800</u>	<u>5,046,640</u>	<u>4,867,986</u>	<u>4,809,193</u>

See accompanying independent auditor's report.

BRUCE D. FRINK
Certified Public Accountant

**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**

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

To the Board of Education of
Colo-Nesco 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 Colo-Nesco Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 27, 2008. 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.

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Colo-Nesco 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 our opinion on the effectiveness of Colo-Nesco Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Colo-Nesco 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Colo-Nesco Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Colo-Nesco Community School District's financial statements that is more than inconsequential will not be prevented or detected by Colo-Nesco Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Colo-Nesco Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item 07-I-A to be a material weakness.

Compliance and Other Matters

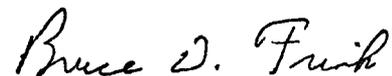
As part of obtaining reasonable assurance about whether Colo-Nesco Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

Colo-Nesco Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Colo-Nesco 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 Colo-Nesco Community School District and other parties to whom Colo-Nesco 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 Colo-Nesco 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.



BRUCE D. FRINK
Certified Public Accountant

March 27, 2008

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

07-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

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

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

07-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2007.

07-II-B Certified Budget - During the year ending June 30, 2007, expenditures in the non-instructional programs function exceeded the amounts budgeted.

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

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

07-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

07-II-D 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.

07-II-E 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.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

07-II-F Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
John Fuller, Board President	Coaching	\$ <u>2,427</u>
Casey Speake Board Member	Sub bus driver	\$ <u>59</u>
Robert Jamison Board Member	Coaching	\$ <u>996</u>

None of the transactions appear to violate Chapter 279.7A of the Code of Iowa as they do not exceed the \$2,500 limit.

Recommendation - The District should review these types of transactions annually to ensure legal compliance.

Response - We will review these on an annual basis and consult with our attorney when needed.

Conclusion - Response accepted.

07-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

07-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

07-II-I 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.

07-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

07-II-K Financial Condition - At June 30, 2007, the District's Student Activity Account had several deficit accounts, the School Nutrition Fund had net assets deficit of \$30,767 and the Child Care Fund had a net assets deficit of \$71,383. Substantial progress was noted during the past fiscal year.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits in order to return the District to a sound financial condition. Significant progress was noted in both funds during the current fiscal year.

Response - We will continue to monitor these accounts.

Conclusion - Response accepted.