

COLO-NESCO COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

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Gary E. Horton CPA

902 Central Ave. E.-PO Box 384
Clarion, IA 50525-0384
(515)532-6681 Phone
(515) 532-2405 Fax
BETCO@mchsi.com E-mail

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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our reports dated June 23, 2011, 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, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 38 through 40 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.

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 year ended June 30, 2009, (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the five years ended June 30, 2008, (which are not presented herein) were audited by other auditors who 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

June 23, 2011

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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,530,340 in fiscal 2009 to \$4,221,805 in fiscal 2010, while General Fund expenditures increased from \$4,837,375 in fiscal 2009 to \$4,853,246 in fiscal 2010. The District's General Fund balance decreased from \$928,321 in fiscal 2009 to \$296,880 in fiscal 2010, a 68% decrease.
- The decrease in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2009. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2009. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

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

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 funds.

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

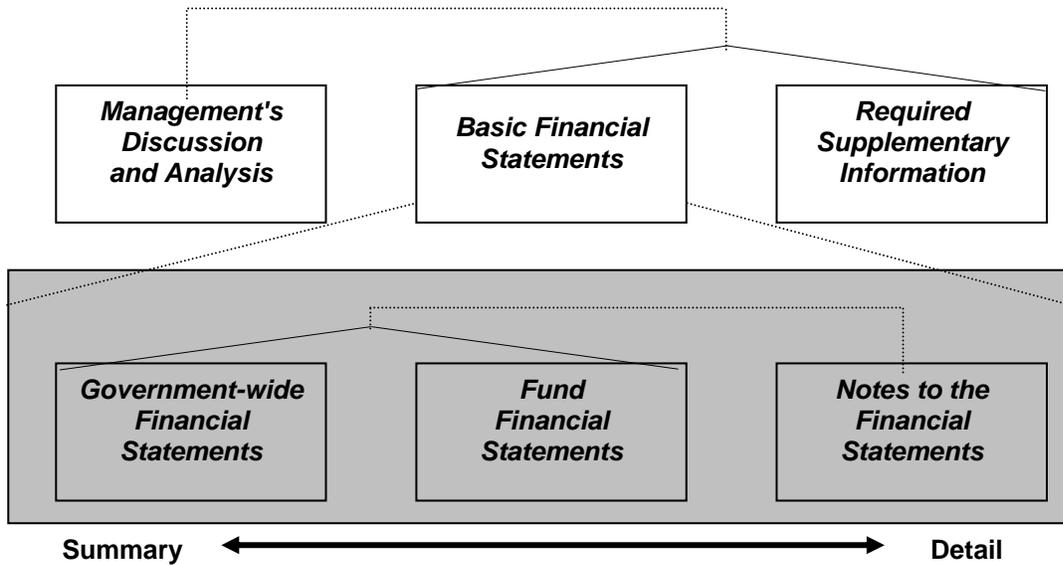


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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 – are 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 cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

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

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

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

- Agency Funds – These are funds through which the District administers and accounts for certain monies behalf of other entities.

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

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

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, 2010 compared to June 30, 2009.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2009-2010
	Governmental Activities		Business-type Activities		Total School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Current and other assets	4,319,462	6,177,791	(189,393)	(285,880)	4,130,069	5,891,911	43%
Capital assets	2,834,423	4,220,960	728	527	2,835,151	4,221,487	49%
Total assets	7,153,885	10,398,751	(188,665)	(285,353)	6,965,220	10,113,398	45%
Long-term liabilities	-	3,632,193	-	573	-	3,632,766	100%
Other liabilities	2,426,892	2,725,006	46,150	41,975	2,473,042	2,766,981	12%
Total liabilities	2,426,892	6,357,199	46,150	42,548	2,473,042	6,399,747	159%
Net Assets:							
Invested in capital assets, net of related debt	2,834,423	2,933,819	728	527	2,835,151	2,934,346	3%
Restricted	922,564	740,024	-	-	922,564	740,024	-20%
Unrestricted	970,006	367,709	(235,543)	(328,428)	734,463	39,281	-95%
TOTAL NET ASSETS	4,726,993	4,041,552	(234,815)	(327,901)	4,492,178	3,713,651	-17%

The District’s combined total net assets decreased by nearly 17%, or approximately \$778,527, over the prior year. The largest portion of the District’s net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with 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 decreased approximately \$182,540 or 20% over the prior year. The decrease was primarily a result of increased expenditures in the Physical Plant and Equipment Levy 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 – decreased approximately \$695,182, or 95%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the years ended June 30, 2010 and 2009.

Figure A-4

	Change in Net Assets						Percentage Change 2009-2010
	Governmental Activities		Business-type Activities		Total School District		
	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	
Revenues							
Program Revenues:							
Charges for services	500,413	316,539	381,186	365,558	881,599	682,097	-23%
Operating grants & contributions	693,281	853,277	132,101	119,749	825,382	973,026	18%
Capital grants & contributions	-	-	-	-	-	-	0%
General Revenues:							
Property taxes	1,440,145	1,741,259	-	-	1,440,145	1,741,259	21%
Income Surtax	199,347	237,937	-	-	199,347	237,937	19%
Statewide sales and services tax	550,991	464,623	-	-	550,991	464,623	-16%
Unrestricted state grants	1,848,621	1,303,276	-	-	1,848,621	1,303,276	-30%
Unrestricted investment earnings	32,315	8,648	50	-	32,365	8,648	-73%
Other revenue	138	(2,429)	-	-	138	(2,429)	-1860%
Total Revenues	5,265,251	4,923,130	513,337	485,307	5,778,588	5,408,437	-6%
Expenses:							
Instruction	3,359,185	3,476,748	-	-	3,359,185	3,476,748	3%
Support services	1,560,980	1,497,769	-	-	1,560,980	1,497,769	-4%
Non-instructional programs	164	281	600,343	578,393	600,507	578,674	-4%
Other expenditures	543,053	633,773	-	-	543,053	633,773	17%
Total expenses	5,463,382	5,608,571	600,343	578,393	6,063,725	6,186,964	2%
CHANGE IN NET ASSETS	(198,131)	(685,441)	(87,006)	(93,086)	(285,137)	(778,527)	-173%
Net assets beginning of year	4,925,124	4,726,992	(147,809)	(234,815)	4,777,315	4,492,178	-6%
Net assets end of year	4,726,993	4,041,551	(234,815)	(327,901)	4,492,178	3,713,651	-17%

In fiscal year 2010 property tax and unrestricted state grants account for 56% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 80% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,923,130 and expenses were \$5,608,571.

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 Cost of Services			Net Cost of Services		
	2009	2010	Change 2009-2010	2009	2010	Change 2009-2010
	\$	\$		\$	\$	
Instruction	3,359,185	3,476,748	3%	2,340,602	2,488,666	6%
Support Services	1,560,980	1,497,769	-4%	1,557,486	1,495,576	-4%
Non-instructional Programs	164	281	71%	164	281	71%
Other Expenses	543,053	633,773	17%	371,436	454,232	22%
TOTAL	5,463,382	5,608,571	3%	4,269,688	4,438,755	4%

For the year ended June 30, 2010

- The cost financed by users of the District's programs was \$316,539. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$853,277.
- The net cost of governmental activities was financed with \$2,443,819 in property and local other taxes and \$1,303,276 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$485,307 and expenses were \$578,393. The District's business type activities include the School Nutrition Fund and the Child Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2009, the District increased meal prices for the first time in three years. This increase resulted in increased revenue to the School Nutrition Fund that the District has obligated for replacement of obsolete kitchen equipment at two elementary buildings in the next fiscal year.

INDIVIDUAL FUND ANALYSIS

As previously noted, 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 well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,294,362, well above last year's ending fund balance of \$1,682,373. However, the primary reason for the increase in combined fund balances in fiscal 2010 is due to approximately \$3 million of unexpended general obligation bond proceeds received in fiscal 2010.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.

- The General Fund balance decreased from \$928,321 to \$296,880, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PEEL) Fund balance increased from \$64,766 in fiscal 2009 to \$98,220 in fiscal 2010. While revenues remained approximately the same, the District substantially reduced spending from the PEEL Fund in order to reduce the prior year deficit and improve the financial condition of the fund.
- The Capital Projects Fund balance increased from \$470,769 in fiscal 2009 to \$2,664,287 in fiscal 2010.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$(79,926) at June 30, 2009 to \$(129,012) at June 30, 2010, representing a decrease of approximately 61%. For fiscal 2009, the District increased meal prices, resulting in the increase in net assets. The District also revamped its school lunch program to provide students with the option of salad and/or pasta bars at lunch with little additional cost to the program. This change resulted in an increase in meals served and a related increase in revenue and net assets.

The Day Care Fund net assets decreased from \$(154,889) at June 30, 2009 to \$(198,889) at June 30, 2010, representing a decrease of approximately 28%. Preschool has been part of the daycare program and expenditures increased during the fiscal year. The District was approved for the state wide preschool grant for fiscal year 2011.

BUDGETARY HIGHLIGHTS

The District's receipts were \$1,016,093 less than budgeted receipts, a variance of 19%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were more 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 other expenditures functional area due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$4.2 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 49% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$356,093.

The largest 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, 2009 compared to \$1,742,430 reported at June 30, 2010. This significant increase resulted from construction activity financed by the issuance of voter

approved general obligation bonds and revenue bonds totaling \$3,200,000 in fiscal 2009 for remodeling and addition of the middle school in Zearing and the Elementary school in McCallsburg.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2009-2010
	Activities		Activities		School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Land	34,856	34,856	-	-	34,856	34,856	0%
Construction in progress	-	1,742,430	-	-	-	1,742,430	100%
Buildings	1,712,144	1,641,328	-	-	1,712,144	1,641,328	-4%
Improvements	646,191	599,042	-	-	646,191	599,042	-7%
Equipment & furniture	441,231	203,304	728	527	441,959	203,831	-54%
TOTAL	2,834,422	4,220,960	728	527	2,835,151	4,221,487	49%

Long-Term Debt

At June 30, 2010 the District had \$3,632,766 in revenue bonds and other long-term debt outstanding. This represents an increase of approximately 100% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

In November 2009 the District's voters authorized the issuance of \$3,615,000 in revenue bonds to pay for construction of a new elementary building. Planning for the project started in fiscal 2009 and the bonds were sold during fiscal 2010.

Figure A-7

Outstanding Long-Term Obligations

	Total School District		Percentage
	2009	2010	Change 2009-2010
	\$	\$	%
Governmental activities:			
Revenue bonds	-	3,615,000	100%
Net OPEB liability	-	17,193	100%
Total	-	3,632,193	100%
Business type activities:			
Net OPEB liability	-	573	100%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- School financing is highly dependent upon student enrollment. The District's October 2009 enrollment decreased by ten students. This drop in enrollment will decrease the District's funding for fiscal year 2011.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, buses must be replaced during fiscal 2011. To pay for these buses, the District will use a combination of resources from the General Fund and the Physical Plant and Equipment Levy Fund.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lisa Waddell, District Secretary/Treasurer and Business Manager, Colo-NESCO Community School District, 919 West St. Colo, IA 50056.

BASIC FINANCIAL STATEMENTS

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	3,697,982	33,125	3,731,107
Receivables:			
Property tax:			
Delinquent	17,311	-	17,311
Succeeding year	1,749,553	-	1,749,553
Accounts	-	5,632	5,632
Internal balances	349,826	(349,826)	-
Due from other governments	304,353	20,104	324,457
Inventories	-	5,085	5,085
Unamortized bond issue costs	58,766	-	58,766
Capital assets, net of accumulated depreciation	4,220,960	527	4,221,487
Total assets	10,398,751	(285,353)	10,113,398
Liabilities			
Accounts payable	303,812	27	303,839
Salaries and benefits payable	462,883	41,410	504,293
Accrued interest payable	93,067	-	93,067
Deferred revenue:			
Succeeding year property tax	1,749,553	-	1,749,553
Other	103,090	538	103,628
Unamortized bond premium	12,601	-	12,601
Long-term liabilities:			
Portion due after one year:			
Revenue bonds payable	3,615,000	-	3,615,000
Net OPEB liability	17,193	573	17,766
Total liabilities	6,357,199	42,548	6,399,747
Net assets			
Invested in capital assets, net of related debt	2,933,819	527	2,934,346
Restricted for:			
Categorical funding	163,468	-	163,468
Management levy	124,761	-	124,761
Physical plant and equipment levy	98,220	-	98,220
Other special revenue purposes	16,940	-	16,940
Debt service	336,635	-	336,635
Unrestricted	367,709	(328,428)	39,281
Total net assets	4,041,552	(327,901)	3,713,651

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
			\$	\$
Governmental activities:				
Instruction:				
Regular	2,509,347	154,807	576,287	-
Special	429,520	-	43,923	-
Other	537,881	161,732	51,333	-
	<u>3,476,748</u>	<u>316,539</u>	<u>671,543</u>	<u>-</u>
Support services:				
Student	10,256	-	-	-
Instructional staff	139,622	-	-	-
Administration	585,653	-	-	-
Operation and maintenance of plant	518,075	-	-	-
Transportation	244,163	-	2,193	-
	<u>1,497,769</u>	<u>-</u>	<u>2,193</u>	<u>-</u>
Non-instructional programs	<u>281</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	38,284	-	-	-
Long-term debt interest	93,067	-	-	-
AEA flowthrough	179,541	-	179,541	-
Depreciation (unallocated)*	322,881	-	-	-
	<u>633,773</u>	<u>-</u>	<u>179,541</u>	<u>-</u>
Total governmental activities	<u>5,608,571</u>	<u>316,539</u>	<u>853,277</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	290,401	145,864	95,451	-
Student construction project	287,992	219,694	24,298	-
Total business-type activities	<u>578,393</u>	<u>365,558</u>	<u>119,749</u>	<u>-</u>
Total	<u>6,186,964</u>	<u>682,097</u>	<u>973,026</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

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

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>
(1,778,253)	-	(1,778,253)
(385,597)	-	(385,597)
<u>(324,816)</u>	-	<u>(324,816)</u>
<u>(2,488,666)</u>	-	<u>(2,488,666)</u>
(10,256)	-	(10,256)
(139,622)	-	(139,622)
(585,653)	-	(585,653)
(518,075)	-	(518,075)
<u>(241,970)</u>	-	<u>(241,970)</u>
<u>(1,495,576)</u>	-	<u>(1,495,576)</u>
(281)	-	(281)
(38,284)	-	(38,284)
(93,067)	-	(93,067)
-	-	-
<u>(322,881)</u>	-	<u>(322,881)</u>
<u>(454,232)</u>	-	<u>(454,232)</u>
<u>(4,438,755)</u>	-	<u>(4,438,755)</u>
-	(49,086)	(49,086)
-	(44,000)	(44,000)
-	<u>(93,086)</u>	<u>(93,086)</u>
<u>(4,438,755)</u>	<u>(93,086)</u>	<u>(4,531,841)</u>
1,687,680	-	1,687,680
53,579	-	53,579
237,937	-	237,937
464,623	-	464,623
1,303,276	-	1,303,276
8,648	-	8,648
<u>(2,429)</u>	-	<u>(2,429)</u>
<u>3,753,314</u>	-	<u>3,753,314</u>
(685,441)	(93,086)	(778,527)
<u>4,726,993</u>	<u>(234,815)</u>	<u>4,492,178</u>
<u>4,041,552</u>	<u>(327,901)</u>	<u>3,713,651</u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	525,649	2,836,636	335,697	3,697,982
Receivables:				
Property tax:				
Delinquent	16,755	-	556	17,311
Succeeding year	1,591,457	-	158,096	1,749,553
Interfund receivable	349,826	-	11,075	360,901
Due from other governments	229,212	75,141	-	304,353
Total assets	<u>2,712,899</u>	<u>2,911,777</u>	<u>505,424</u>	<u>6,130,100</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	42,189	247,490	14,133	303,812
Salaries and benefits payable	462,883	-	-	462,883
Interfund payable	11,075	-	-	11,075
Deferred revenue:				
Succeeding year property tax	1,591,457	-	158,096	1,749,553
Income surtax receivable	205,325	-	-	205,325
Other	103,090	-	-	103,090
Total liabilities	<u>2,416,019</u>	<u>247,490</u>	<u>172,229</u>	<u>2,835,738</u>
Fund balances:				
Reserved for:				
Categorical funding	163,488	-	-	163,488
Debt service	-	336,428	93,274	429,702
Unreserved reported in:				
General fund	133,392	-	-	133,392
Special revenue funds	-	-	239,921	239,921
Capital projects funds	-	2,327,859	-	2,327,859
Total fund balances	<u>296,880</u>	<u>2,664,287</u>	<u>333,195</u>	<u>3,294,362</u>
Total liabilities and fund balances	<u>2,712,899</u>	<u>2,911,777</u>	<u>505,424</u>	<u>6,130,100</u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

\$

Total fund balances of governmental funds (Exhibit C)	3,294,362
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,220,960
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	205,325
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.	(93,067)
Long-term liabilities, including bonds payable, bond premiums, 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.	<u>(3,586,028)</u>
Net assets of governmental activities (Exhibit A)	<u><u>4,041,552</u></u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,930,489	464,623	53,579	2,448,691
Tuition	111,084	-	-	111,084
Other	23,679	3,670	186,754	214,103
State sources	1,802,742	-	-	1,802,742
Federal sources	353,811	-	-	353,811
Total revenues	<u>4,221,805</u>	<u>468,293</u>	<u>240,333</u>	<u>4,930,431</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,477,081	-	2,718	2,479,799
Special	428,947	-	-	428,947
Other	383,826	-	154,055	537,881
	<u>3,289,854</u>	<u>-</u>	<u>156,773</u>	<u>3,446,627</u>
Support services:				
Student	9,683	-	-	9,683
Instructional staff	139,049	-	-	139,049
Administration	537,765	6,850	39,772	584,387
Operation and maintenance of plant	470,621	-	47,213	517,834
Transportation	226,733	-	-	226,733
	<u>1,383,851</u>	<u>6,850</u>	<u>86,985</u>	<u>1,477,686</u>
Non-instructional programs	-	-	281	281
Other expenditures:				
Facilities acquisition	-	1,742,429	38,284	1,780,713
AEA flowthrough	179,541	-	-	179,541
	<u>179,541</u>	<u>1,742,429</u>	<u>38,284</u>	<u>1,960,254</u>
Total expenditures	<u>4,853,246</u>	<u>1,749,279</u>	<u>282,323</u>	<u>6,884,848</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(631,441)</u>	<u>(1,280,986)</u>	<u>(41,990)</u>	<u>(1,954,417)</u>
Other financing sources (uses):				
Bonds issued	-	3,615,000	-	3,615,000
Bond premium	-	13,264	-	13,264
Bond issue costs	-	(61,858)	-	(61,858)
Operating transfers in	-	-	91,902	91,902
Operating transfers out	-	(91,902)	-	(91,902)
Total other financing sources (uses)	<u>-</u>	<u>3,474,504</u>	<u>91,902</u>	<u>3,566,406</u>
Net change in fund balances	(631,441)	2,193,518	49,912	1,611,989
Fund balances beginning of year	<u>928,321</u>	<u>470,769</u>	<u>283,283</u>	<u>1,682,373</u>
Fund balances end of year	<u>296,880</u>	<u>2,664,287</u>	<u>333,195</u>	<u>3,294,362</u>

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, 2010

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		1,611,989
 <i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
 Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	1,742,429	
Depreciation expense	<u>(355,892)</u>	1,386,537
 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.		 (4,872)
 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.		 (93,067)
 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, as follows:		
Other postemployment benefits		(17,193)
 Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		 <u>(3,568,835)</u>
 Changes in net assets of governmental activities (Exhibit B)		 <u><u>(685,441)</u></u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2010

	Enterprise Funds		
	School Nutrition	Daycare	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	30,175	2,950	33,125
Accounts receivable	460	5,172	5,632
Due from other governments	8,857	11,247	20,104
Interfund receivable	-	2,694	2,694
Inventories	5,085	-	5,085
Capital assets, net of accumulated depreciation	-	527	527
Total assets	44,577	22,590	67,167
Liabilities			
Accounts payable	-	27	27
Salaries and benefits payable	19,126	22,284	41,410
Interfund payable	153,352	199,168	352,520
Deferred revenue	538	-	538
Net OPEB liability	573	-	573
Total liabilities	173,589	221,479	395,068
Net assets			
Invested in capital assets	-	527	527
Unrestricted	(129,012)	(199,416)	(328,428)
Total net assets	(129,012)	(198,889)	(327,901)

COLO-NESCO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Enterprise Funds		
	School Nutrition	Daycare	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for service	145,864	219,694	365,558
Operating expenses:			
Non-instructional programs:			
Salaries	93,332	224,020	317,352
Benefits	25,686	34,670	60,356
Purchased services	6,710	2,512	9,222
Supplies	164,673	26,589	191,262
Depreciation	-	201	201
Total operating expenses	290,401	287,992	578,393
Operating gain (loss)	(144,537)	(68,298)	(212,835)
Non-operating revenue:			
State sources	1,951	13,220	15,171
Federal sources	93,500	11,078	104,578
Total non-operating revenue	95,451	24,298	119,749
Change in net assets	(49,086)	(44,000)	(93,086)
Net assets beginning of year	(79,926)	(154,889)	(234,815)
Net assets end of year	(129,012)	(198,889)	(327,901)

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2010

	Enterprise Funds		
	School Nutrition	Daycare	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	143,644	-	143,644
Cash received from daycare services	-	223,326	223,326
Cash payments to employees for services	(117,590)	(261,388)	(378,978)
Cash payments to suppliers for goods or services	(151,921)	(29,109)	(181,030)
Net cash used by operating activities	<u>(125,867)</u>	<u>(67,171)</u>	<u>(193,038)</u>
Cash flows from non-capital financing activities:			
Interfund loans	89,338	39,346	128,684
State grants received	1,951	19,247	21,198
Federal grants received	64,753	11,078	75,831
Net cash provided by non-capital financing activities	<u>156,042</u>	<u>69,671</u>	<u>225,713</u>
Cash flows from capital and related financing activities	-	-	-
Cash flows from investing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	30,175	2,500	32,675
Cash and cash equivalents at beginning of year	-	450	450
Cash and cash equivalents at end of year	<u>30,175</u>	<u>2,950</u>	<u>33,125</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:			
Operating gain (loss)	(144,537)	(68,298)	(212,835)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	19,890	-	19,890
Depreciation	-	201	201
Decrease (increase) in inventories	(428)	-	(428)
Decrease (increase) in accounts receivable	104	3,632	3,736
(Decrease) increase in accounts payable	-	(8)	(8)
(Decrease) increase in salaries and benefits payable	855	(2,698)	(1,843)
(Decrease) increase in other postemployment benefits	573	-	573
(Decrease) increase in deferred revenue	(2,324)	-	(2,324)
Net cash used by operating activities	<u>(125,867)</u>	<u>(67,171)</u>	<u>(193,038)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received \$19,890 of federal commodities.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2010

	<u>Agency</u>
	\$
Assets	
Cash and pooled investments	737
Liabilities	
Other payables	<u>737</u>
Net Assets	<u><u>-</u></u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

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. The geographic area served includes the Cities of Colo, McCallsburg and Zearing, Iowa and the predominately agricultural territory in a portion of 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, 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 Colo-NESCO Community School District has no component units that 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 County Assessor's 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 attributable 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, but 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 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 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 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 revenues 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 instruction, 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's major proprietary funds are the Enterprise, School Nutrition and Daycare 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 individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise 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 Equity

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, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is 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 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 became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009, through June 30, 2010, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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

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

Capital Assets – Capital assets, which include property, furniture 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 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
Intangibles	25,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Intangibles	3-10 years
Furniture 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 are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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 in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures in the other expenditures function exceeded the amount.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2010, the District had investment in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	1,929,106

The investment is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Nonmajor, Management Fund	General Fund	11,075
General Fund	School Nutrition Fund	150,658
General Fund	Daycare Fund	199,168
Daycare Fund	School Nutrition Fund	2,694

The General Fund has loaned money to the School Nutrition Fund and Daycare Fund for cash flow.

The other interfund receivable/payable is the result of depositing receipts in the wrong fund and is to be repaid next year.

4. Interfund Transfers

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

Transfer To	Transfer From	Amount
		\$
Nonmajor, Debt Service fund	Capital Projects Fund	91,902

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

5. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	-	1,742,430	-	1,742,430
Land	34,856	-	-	34,856
Total capital assets not being depr.	<u>34,856</u>	<u>1,742,430</u>	<u>-</u>	<u>1,777,286</u>
Capital assets being depreciated:				
Buildings	3,554,687	-	-	3,554,687
Improvements other than buildings	865,232	-	-	865,232
Furniture and equipment	2,991,405	-	-	2,991,405
Total capital assets being deprec.	<u>7,411,324</u>	<u>-</u>	<u>-</u>	<u>7,411,324</u>
Less accumulated depreciation for:				
Buildings	1,842,543	70,816	-	1,913,359
Improvements other than buildings	219,041	47,149	-	266,190
Furniture and equipment	2,550,174	237,927	-	2,788,101
Total accumulated depreciation	<u>4,611,758</u>	<u>355,892</u>	<u>-</u>	<u>4,967,650</u>
Total capital assets being depreciated, net	<u>2,799,566</u>	<u>(355,892)</u>	<u>-</u>	<u>2,443,674</u>
Governmental activities capital assets, net	<u>2,834,422</u>	<u>1,386,538</u>	<u>-</u>	<u>4,220,960</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	7,285	-	-	7,285
Less accumulated depreciation	<u>6,557</u>	<u>201</u>	<u>-</u>	<u>6,758</u>
Business type activities capital assets, net	<u>728</u>	<u>(201)</u>	<u>-</u>	<u>527</u>

Depreciation expense was charged to the following functions:

	Amount
	\$
Governmental activities:	
Instruction:	
Regular	15,793
Support services:	
Administration services	120
Operation and maintenance of plant services	241
Transportation	<u>16,857</u>
	33,011
Unallocated depreciation	<u>322,881</u>
Total depreciation expense – governmental activities	<u>355,892</u>
Business type activities:	
Day care operations	<u>201</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
Revenue bonds	-	3,615,000	-	3,615,000	-
Net OPEB liability	<u>-</u>	<u>17,193</u>	<u>-</u>	<u>17,193</u>	<u>-</u>
Total	<u>-</u>	<u>3,632,193</u>	<u>-</u>	<u>3,632,193</u>	<u>-</u>
Business type activities:					
Net OPEB liability	<u>-</u>	<u>573</u>	<u>-</u>	<u>573</u>	<u>-</u>

Revenue Bonds

Details of the District's June 30, 2010 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of November 2009			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2011	2.000	-	162,867	162,867
2012	2.000	-	139,600	139,600
2013	2.000	215,000	137,450	352,450
2014	3.000	215,000	132,075	347,075
2015	3.000	160,000	126,450	286,450
2016-2020	3.250-4.000	775,000	555,462	1,330,462
2021-2025	4.000-4.250	940,000	389,994	1,329,994
2026-2030	4.250-4.500	1,310,000	167,731	1,477,731
		<u>3,615,000</u>	<u>1,811,629</u>	<u>5,426,629</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$3,615,000 bonds issued in November 2009. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 75% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$5,426,629. For the current year, no principal or interest was paid on the bonds and total statewide sales, services and use tax revenues were \$464,623

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds include the following provisions:

- \$336,428 of the proceeds from the bonds issue have been placed in a reserve account with a trustee. The reserve account may be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The reserve account is part of the District's Capital Projects Fund.
- Proceeds from the statewide sales, services and use tax shall be placed in a revenue account. Monies in the revenue account shall be transferred from the revenue account to the sinking account. Money in the sinking account shall be used to pay the interest and principal on the bonds. Any surplus monies remaining in the revenue fund, after the required transfer to the sinking account, may be used for any lawful purpose. The sinking fund is part of the Debt Service Fund.

7. Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008

were \$203,574, \$184,439, and \$141,000 respectively, equal to the required contributions for each year.

8. 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.

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 \$179,541 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Other Postemployment Benefits (OPEB)

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

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 31 active and 1 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which 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 (ARC) of the District, 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 the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	\$
Annual required contribution	18,841
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>18,841</u>
Contributions made	<u>1,075</u>
Increase in net OPEB obligation	17,766
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>17,766</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$1,075 to the medical plan.

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u> %	<u>Net OPEB Obligation</u> \$
June 30, 2010	18,841	5.70	17,766

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$166,766, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$166,766. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,380,000 and the ratio of the UAAL to covered payroll was 12.1%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, projected 10 2000. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

11. Categorical Funding

The District's reserved fund balance for categorical funding at June 30, 2010 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
	\$
Gifted and talented	64,152
Teacher salary supplement	46,340
Home school assistance program	9,393
Educator quality, professional development	43,583
	<u>163,468</u>

12. Construction Commitments

The District has entered into construction contracts totaling \$3,973,121 of which \$2,259,627 was unearned as of June 30, 2010.

13. Financial Condition

The Enterprise School Nutrition Fund and the Daycare Fund have deficit net asset balances of \$129,012 and \$198,889 respectively, at June 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2010

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,773,878	365,558	3,139,436	3,476,805	3,476,805	(337,369)
Intermediate sources	-	-	-	13,000	13,000	(13,000)
State sources	1,802,742	15,171	1,817,913	2,612,026	2,612,026	(794,113)
Federal sources	353,811	104,578	458,389	330,000	330,000	128,389
Total revenues	<u>4,930,431</u>	<u>485,307</u>	<u>5,415,738</u>	<u>6,431,831</u>	<u>6,431,831</u>	<u>(1,016,093)</u>
Expenditures/Expenses:						
Instruction	3,446,627	-	3,446,627	3,670,380	3,670,380	223,753
Support services	1,477,686	-	1,477,686	1,853,503	1,853,503	375,817
Non-instructional programs	281	578,393	578,674	635,576	635,576	56,902
Other expenditures	1,960,254	-	1,960,254	1,294,505	1,294,505	(665,749)
Total expenditures/expenses	<u>6,884,848</u>	<u>578,393</u>	<u>7,463,241</u>	<u>7,453,964</u>	<u>7,453,964</u>	<u>(9,277)</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(1,954,417)	(93,086)	(2,047,503)	(1,022,133)	(1,022,133)	(1,025,370)
Other financing sources (uses) net	<u>3,566,406</u>	<u>-</u>	<u>3,566,406</u>	<u>-</u>	<u>-</u>	<u>3,566,406</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures/expenses	1,611,989	(93,086)	1,518,903	(1,022,133)	(1,022,133)	2,541,036
Balance beginning of year	<u>1,682,373</u>	<u>(234,815)</u>	<u>1,447,558</u>	<u>1,034,080</u>	<u>1,034,080</u>	<u>413,478</u>
Balance end of year	<u><u>3,294,362</u></u>	<u><u>(327,901)</u></u>	<u><u>2,966,461</u></u>	<u><u>11,947</u></u>	<u><u>11,947</u></u>	<u><u>2,954,514</u></u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2010

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

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

During the year ended June 30, 2010, expenditures in the other expenditures function exceeded the amount budgeted.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

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) %
July 1, 2008	-	166,776	166,776	0.0%	1,380,000	12.1%

See Note 10 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.

OTHER SUPPLEMENTARY INFORMATION

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2010

Assets	Special Revenue Funds				Total \$
	Management Levy \$	Student Activity Fund \$	Physical Plant and Equipment Levy \$	Debt Service \$	
	Cash and pooled investments	113,686	16,990	111,747	
Receivables:					
Property tax:					
Delinquent	-	-	556	-	556
Succeeding year	100,000	-	58,096	-	158,096
Interfund receivable	11,075	-	-	-	11,075
Total assets	224,761	16,990	170,399	93,274	505,424
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	-	50	14,083	-	14,133
Deferred revenue:					
Succeeding year property tax	100,000	-	58,096	-	158,096
Total liabilities	100,000	50	72,179	-	172,229
Fund balances:					
Reserved for debt service	-	-	-	93,274	93,274
Unreserved reported in:					
Special revenue funds	124,761	16,940	98,220	-	239,921
Total fund balances	124,761	16,940	98,220	93,274	333,195
Total liabilities and fund balances	224,761	16,990	170,399	93,274	505,424

COLO-NESCO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Special Revenue Funds				Total
	Management	Student	Physical	Debt	
	Levy	Activity	Plant and	Service	
		Equipment			
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	-	-	53,579	-	53,579
Other	11,940	150,445	22,997	1,372	186,754
Total revenues	<u>11,940</u>	<u>150,445</u>	<u>76,576</u>	<u>1,372</u>	<u>240,333</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,718	-	-	-	2,718
Other instruction	-	154,055	-	-	154,055
Support services:					
Administration services	39,257	-	515	-	39,772
Operation and maintenance of plant services	42,890	-	4,323	-	47,213
Non-instructional programs	-	281	-	-	281
Other expenditures:					
Facilities acquisition	-	-	38,284	-	38,284
Total expenditures	<u>84,865</u>	<u>154,336</u>	<u>43,122</u>	<u>-</u>	<u>282,323</u>
Excess (deficiency) of revenues over (under) expenditures	(72,925)	(3,891)	33,454	1,372	(41,990)
Other financing sources (uses):					
Operating transfers in	-	-	-	91,902	91,902
Net change in fund balances	(72,925)	(3,891)	33,454	93,274	49,912
Fund balances beginning of year	<u>197,686</u>	<u>20,831</u>	<u>64,766</u>	<u>-</u>	<u>283,283</u>
Fund balances end of year	<u><u>124,761</u></u>	<u><u>16,940</u></u>	<u><u>98,220</u></u>	<u><u>93,274</u></u>	<u><u>333,195</u></u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Colo elem. beautification	(164)	773	43	-	566
Benevolence fund	-	100	238	-	(138)
All athletics	8,449	35,535	38,797	1,275	6,462
Basketball	27,150	2,299	9,940	(27,151)	(7,642)
Track	(5,782)	919	8,663	5,782	(7,744)
Cross country	(1,008)	-	731	1,008	(731)
Golf	(6,755)	455	1,931	6,755	(1,476)
Football	6,111	11,532	7,470	(6,111)	4,062
Soccer	(7,788)	1,288	4,798	7,788	(3,510)
Baseball	(10,902)	11,500	4,470	-	(3,872)
Wrestling	2,617	-	-	(2,617)	-
Volleyball	1,079	3,160	3,125	(1,079)	35
Softball	(11,253)	4,354	3,806	11,253	548
Drama	38	1,002	305	-	735
Musical	2,048	2,056	1,277	-	2,827
Vocal/instrumental	(7,048)	2,257	1,678	-	(6,469)
HS student pictures	1,482	485	-	-	1,967
Student council	11,481	2,219	3,055	-	10,645
C-N FFA	(463)	15,926	12,559	-	2,904
Yearbook	(14,950)	3,830	5,148	-	(16,268)
"CAN"struction-ELP	-	17	-	-	17
Cheerleading	(1,531)	4,572	6,016	1,531	(1,444)
Band resale	(5,792)	-	771	-	(6,563)
Spanish club	5,279	169	148	-	5,300
Art club	991	678	804	-	865
Anglo-Norman club	(322)	-	-	322	-
C-N drill team	(1,739)	-	-	1,739	-
Flag team	20	798	1,359	-	(541)
SADD	253	-	-	-	253
FCS project	-	-	59	-	(59)
Class of 2007	(79)	-	-	79	-
Class of 2008	(2,504)	-	-	2,504	-
Class of 2009	149	-	751	-	(602)
Class of 2010	390	-	-	-	390
Class of 2011	-	853	435	-	418
Class of 2006	(328)	-	-	328	-
MS student pictures	797	135	759	-	173
MS student activities	250	37,436	21,874	-	15,812
MS Mall of America	228	-	-	-	228
MS band resale	(5,185)	-	1,258	-	(6,443)
MS music fund	4,857	3,083	9,583	-	(1,643)

See accompanying independent auditor's report.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Colo publication	106	-	-	-	106
Elementary student pictures	4,796	2,711	2,076	4,717	10,148
Burg publication	4,923	-	-	(4,923)	-
Elementary student activities	(543)	188	409	2,955	2,191
Malls 4 Schools	2,550	-	-	(2,550)	-
McCallsburg student birthday club	50	-	-	(50)	-
District wide field trips	677	5	-	-	682
Interest	18,196	110	-	(3,555)	14,751
	<u>20,831</u>	<u>150,445</u>	<u>154,336</u>	<u>-</u>	<u>16,940</u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2010

	Balance Beginnin g of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
Assets				
Cash	1,015	1,009	1,287	737
Due form other governments	<u>4,592</u>	<u>-</u>	<u>4,592</u>	<u>-</u>
Total assets	<u><u>5,607</u></u>	<u><u>1,009</u></u>	<u><u>5,879</u></u>	<u><u>737</u></u>
Liabilities				
Due to other governments	<u><u>5,607</u></u>	<u><u>1,009</u></u>	<u><u>5,879</u></u>	<u><u>737</u></u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Fund Types

For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$
Revenues:							
Local sources:							
Local tax	2,448,691	2,248,328	2,185,659	2,367,722	2,459,777	2,402,408	2,339,244
Tuition	111,084	144,155	160,834	120,032	148,329	180,570	162,825
Other	214,103	388,711	277,042	204,272	193,172	175,732	163,088
State sources	1,802,742	2,407,920	2,400,234	2,419,171	2,386,039	2,443,418	2,182,324
Federal sources	353,811	133,982	74,734	148,884	153,665	179,857	158,876
Total revenues	4,930,431	5,323,096	5,098,503	5,260,081	5,340,982	5,381,985	5,006,357
Expenditures:							
Instruction:							
Regular instruction	2,479,799	2,329,822	3,129,147	3,024,625	2,863,768	2,982,512	2,897,890
Special instruction	428,947	490,006	-	-	-	-	-
Other instruction	537,881	523,564	-	-	-	-	-
Support services:							
Student services	9,683	62,535	10,040	5,247	17,463	20,691	12,303
Instructional staff services	139,049	158,661	89,851	122,933	148,152	77,960	61,545
Administration services	584,387	545,791	542,669	506,452	649,627	557,150	551,332
Operation and maintenance	517,834	477,215	489,383	477,426	459,601	374,492	397,724
Transportation services	226,733	299,560	363,321	274,575	193,857	211,734	272,007
Non-instructional programs	281	164	3,000	-	3,000	3,000	25,767
Other expenditures:							
Facilities acquisition	1,780,713	516,400	249,426	547,481	551,161	464,347	389,353
Long-term debt:							
Principal	-	-	-	-	-	17,211	36,787
Interest and other charges	-	-	-	-	-	772	1,598
AEA flowthrough	179,541	171,617	166,988	161,061	160,011	158,117	162,887
Total expenditures	6,884,848	5,575,335	5,043,825	5,119,800	5,046,640	4,867,986	4,809,193

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
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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated June 23, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 an 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 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 Responses, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items 10-I-A thru 10-I-G to be material weaknesses.

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 and Responses.

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

Colo-NESCO Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. 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 and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

June 23, 2011

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2010

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Internal Control Deficiencies:

10-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparing and posting general journal entries, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important that District officials are aware that the condition exists.

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

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

Conclusion: Response accepted.

10-I-B Financial Reporting: During the audit, we identified material amounts of receivables, payables and capital assets additions not recorded in the District's financial records. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation: The District should implement procedures to ensure all receivables, payables and capital assets additions are identified and included in the District's financial statements.

District Response: We will double check these in the future to avoid missing any receivables, payables or capital asset transactions.

Conclusion: Response accepted.

10-I-C Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2010

Part I: Findings Related to the Financial Statements (continued):

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

10-I-D Signature Stamp: We noted that a stamp bearing the signature of the Board President is used to cosign checks. The board secretary, the other co-signer or the checks has access to the stamp. This practice negates the internal control procedure established by requiring two signatures on a check

Recommendation: We recommend that this practice cease. The board may designate a person other than the board president to cosign checks. If a signature stamp is used, it should remain under the control of the person whose name the stamp bears at all times.

District Response: We will discuss methods to limit access to the signature stamp.

Conclusion: Response accepted.

10-I-E Bank Reconciliations: One of the main internal controls over the cash balances reported in the accounting records is the preparation of a monthly reconciliation of the bank statements to the cash balances in the financial records. The cash balances in the computer financial accounting records were not reconciled to the bank monthly.

Recommendation: Bank reconciliations should be prepared monthly. Any variances between the bank reconciliation and the cash balances in the financial statements should be investigated and resolved.

District Response: Monthly bank reconciliations will be prepared.

Conclusion: Response accepted.

10-I-F Accounting System: We noted that the computer accounting system was not fully utilized to prepare financial reports and budget comparisons. Additionally, the bank accounts are not reconciled to the system on a regular basis.

Recommendation: The District should fully utilize its accounting system and reconcile it on a monthly basis.

District Response: We are working towards this goal.

Conclusion: Response accepted.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2010

Part I: Findings Related to the Financial Statements (continued):

10-I-G Cash Receipts: We noted that Day Care receipts were not deposited daily or reported timely to the board secretary.

Recommendation: Day Care receipts should be deposited daily and reported and reconciled to the District records.

District Response: We will begin requiring daily deposits and reconciliations.

Conclusion: Response accepted.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

10-II-A Certified Budget: Expenditures for the year ended June 30, 2010, exceeded the amounts budgeted in the other expenditures function.

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

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

Conclusion: Response accepted.

10-II-B Questionable Expenditures: No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

10-II-C Travel Expenses: 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.

10-II-D 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 Member	Coaching	2,500
Bob Jamison, Board Member	Coaching	2,227

The transactions do not appear to represent a conflict of interest since the dollar amount was less than \$2,500.

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

10-II-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.

10-II-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

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

10-II-I Deposits and Investments: 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 were noted.

10-II-J Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2010

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

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

According to administrative rules, "Categorical funding shall not be commingled with other funding. School districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year some categorical funding expenditures were commingled with other General Fund expenditures, then were reclassified as categorical spending at the end of the year.

Recommendation: All categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred.

Response: We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts as incurred.

Conclusion: Response accepted.

10-II-L 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. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

	\$	\$
Beginning balance		470,769
Statewide sales and services tax	464,623	
Sale of revenue bonds	3,566,406	
Other income	<u>3,670</u>	4,034,699
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements	1,749,279	
Debt service for school infrastructure:		
Revenue debt	<u>91,902</u>	<u>1,841,181</u>
Ending balance		<u>2,664,287</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
	\$	\$
Debt service Levy	.5671	91,902
Physical plant and equipment levy	2.2999	372,721

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2010

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

10-II-M Deficit Balances: The District has a \$129,012 deficit fund balance in the Nutrition Fund and \$198,889 deficit fund balance in the Day Care Fund as of June 30, 2010; also, the Student Activity Fund has several accounts with deficit balances at June 30, 2010.

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

District Response: We are working on ways to eliminate these deficits.

Conclusion: Response accepted.

10-II-N Reclassification of Student Activity Fund Accounts: In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), monies in the Student Activity Fund should be used of support only the extracurricular and co-curricular activities offered as part of the District's educational program. Some accounts reported in the Special Revenue, Student Activity Fund do not appear to be extracurricular or co-curricular in nature.

Recommendation: The District should review and reclassify these accounts to the appropriate fund in accordance with the guidelines.

District Response: We will review the activity in the accounts and make any necessary fund reclassifications.

Conclusion: Response accepted.

10-II-O Interfund loans: The Iowa Department of Education issued a declaratory order covering interfund loans. The Order states that all loans between funds must be approved by the board of directors, interest must be paid on the interfund loans and the loans must be repaid before the October 1, after each year-end.

Recommendation: The District should follow the declaratory order with respect to the interfund loans that are listed in Note 3 to the financial statements and any future interfund loans.

District Response: We will review our procedures for interfund loans and will follow the declaratory order.

Conclusion: Response accepted.

10-II-P General Fund Subsidizing Daycare Fund: The Iowa Department of Education has issued an opinion that General Fund money may not be used to cover Daycare Fund deficits. Currently the General Fund has loaned the Daycare Fund \$199,168 to cover deficits that the Daycare Fund has incurred over the past several years

Recommendation: The District should discuss this issue with its attorney and the Iowa Department of Education.

District Response: We will discuss this with our attorney and the Iowa Department of Education.

Conclusion: Response accepted.