

ALGONA COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis (MD&A)		7-16
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	24
Statement of Revenues, Expenses and Changes in Net Assets	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	27
Notes to Financial Statements		28-41
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		44
Notes to Required Supplementary Information - Budgetary Reporting		45
Schedule of Funding Progress for the Retiree Health Plan		46
Combining Statement of Assets, Liabilities, and Net Assets - Cash Basis - Discrete Component Units		47
Combining Statement of Revenues and Expenses and Changes in Net Assets - Cash Basis - Discrete Component Units		48
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	51
Capital Projects Funds:		
Combining Balance Sheet	3	52
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	4	53
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	54-55
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	6	56
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	7	57
Schedule of Expenditures of Federal Awards	8	58
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 <u>Government Auditing Standards</u>		59-60
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		61-62
Schedule of Findings and Questioned Costs		63-66

Algona Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Floyd Lavrenz	President	2011
Marc Singer	Vice President	2011
Keith Kuecker	Board Member	2013
Cheryl Grether	Board Member	2013
Jay Limbaugh	Board Member	2013
Bruce Knudsen	Board Member	2011
Rodney Davis	Board Member	2011
School Officials		
Marty Fonley	Superintendent	2011
Gail Carroll	District Secretary	2011
Mary Beth Wubben	District Treasurer	2011
Stephen Avery	Attorney	2011
Tom Lipps	Attorney	2011

Algona Community School District

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Algona 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 Algona Community School District, Algona, Iowa, as of and for the year ended June 30, 2011, 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 Algona Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2012 on our consideration of Algona Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information, Schedule of Funding Progress for the Retiree Health Plan and Component Unit Financial Statements on pages 7 through 16 and 44 through 48 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Algona 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 nine years ended June 30, 2010 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

March 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona 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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$13,502,881 in fiscal 2010 to \$14,458,248 in fiscal 2011, while General Fund expenditures increased from \$12,734,455 in fiscal 2010 to \$13,880,486 in fiscal 2011. This resulted in an increase in the District's General Fund balance from \$678,202 in fiscal 2010 to \$1,255,964 in fiscal 2011.
- The increase in General Fund revenues was attributable to increases in local tax and state sourced revenue in fiscal 2011. The increase in expenditures was due primarily to increases in negotiated salaries and benefits.

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 Algona 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 Algona 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 Algona Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

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

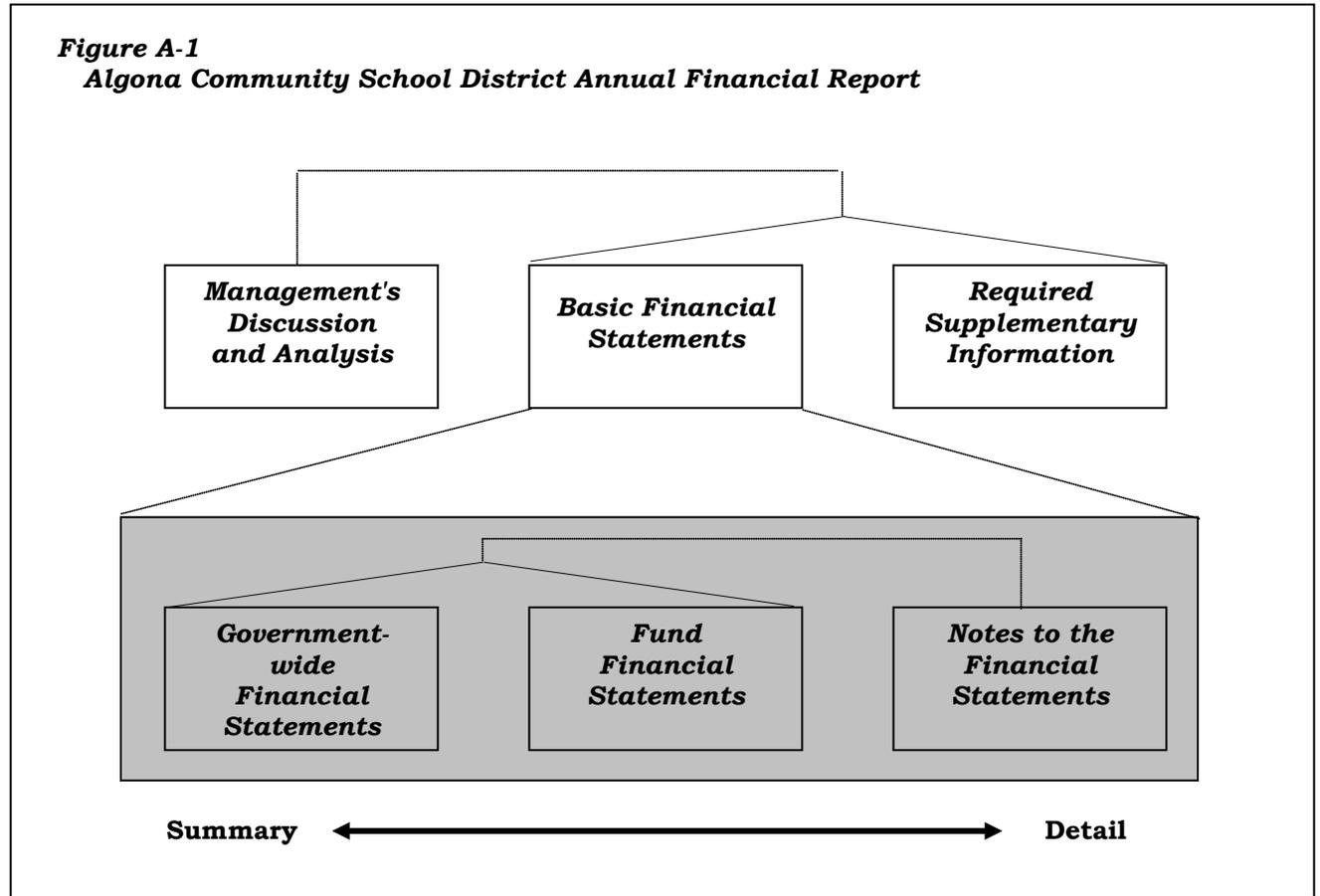


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • 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 revenues, expenses and changes in 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, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

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

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

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

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

- Agency Fund - These are funds through which the District administers and accounts for certain outside organizations.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 13,330,859	16,116,045	40,354	152,453	13,371,213	16,268,498	-17.81%
Capital assets	12,747,820	9,746,918	57,157	31,041	12,804,977	9,777,959	30.96%
Total assets	26,078,679	25,862,963	97,511	183,494	26,176,190	26,046,457	0.50%
Long-term obligations	9,557,869	9,992,886	6,710	5,568	9,564,579	9,998,454	-4.34%
Other liabilities	7,738,672	7,159,785	17,771	11,949	7,756,443	7,171,734	8.15%
Total liabilities	17,296,541	17,152,671	24,481	17,517	17,321,022	17,170,188	0.88%
Net assets:							
Invested in capital assets, net of related debt	3,497,820	3,597,128	57,157	31,041	3,554,977	3,628,169	-2.02%
Restricted	2,352,351	2,292,033	29,597	131,610	2,381,948	2,423,643	-1.72%
Unrestricted	2,931,967	2,821,131	(13,724)	3,326	2,918,243	2,824,457	3.32%
Total net assets	\$ 8,782,138	8,710,292	73,030	165,977	8,855,168	8,876,269	-0.24%

The District's combined net assets decreased by 0.24%, or \$21,101, over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$41,695, or 1.72% over the prior year. The decrease in restricted net assets can be attributed to the decrease in fund balance of the Capital Projects Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$93,786 or 3.32%. The increase in unrestricted net assets can be attributed to the increase in fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4
Changes of Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Revenues and Transfers							
Program revenues:							
Charges for services	\$ 1,678,030	1,747,509	257,886	241,088	1,935,916	1,988,597	-2.65%
Operating grants, contributions and restricted interest	1,392,531	2,796,870	280,759	514,651	1,673,290	3,311,521	-49.47%
Capital grants, contributions and restricted interest	91,020	-	-	-	91,020	-	100.00%
General revenues:							
Property tax	5,978,029	5,409,266	-	-	5,978,029	5,409,266	10.51%
Income surtax	585,463	686,234	-	-	585,463	686,234	-14.68%
Statewide sales, services and use tax	991,721	926,115	-	-	991,721	926,115	7.08%
Unrestricted state grants	5,118,223	3,727,934	-	-	5,118,223	3,727,934	37.29%
Nonspecific program federal grants	211,313	-	-	-	211,313	-	100.00%
Other	313,774	233,246	14,535	13,364	328,309	246,610	33.13%
Transfers	101,144	-	(101,144)	-	-	-	0.00%
Total revenues and transfers	16,461,248	15,527,174	452,036	769,103	16,913,284	16,296,277	3.79%
Program expenses:							
Governmental activities:							
Instruction	10,201,919	9,677,659	25,085	147,693	10,227,004	9,825,352	4.09%
Support services	4,707,201	3,216,322	11,669	9,636	4,718,870	3,225,958	46.28%
Non-instructional programs	-	-	508,229	483,577	508,229	483,577	5.10%
Other expenses	1,480,282	1,053,250	-	-	1,480,282	1,053,250	40.54%
Total expenses	16,389,402	13,947,231	544,983	640,906	16,934,385	14,588,137	16.08%
Change in net assets	71,846	1,579,943	(92,947)	128,197	(21,101)	1,708,140	-101.24%
Net assets beginning of year	8,710,292	7,130,349	165,977	37,780	8,876,269	7,168,129	23.83%
Net assets end of year	\$ 8,782,138	8,710,292	73,030	165,977	8,855,168	8,876,269	-0.24%

In fiscal 2011, property tax, income surtax, statewide sales and services tax and unrestricted state grants account for 76.99% of the revenue from governmental activities while charges for services and operating grants and contributions account for 97.37% of the revenue from business type activities.

The District's total revenues were approximately \$16.9 million of which approximately \$16.5 million was for governmental activities and approximately \$0.4 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 3.79% in revenues and a 16.08% increase in expenses. The increase in expenses was related to the increase in negotiated salaries and benefits and support services costs during the year. The increase in revenues was related to increases in local tax and state revenues.

Governmental Activities

Revenues for governmental activities were \$16,461,248 and expenses were \$16,389,402.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 10,201,919	9,677,659	5.42%	7,809,938	5,786,080	34.98%
Support services	4,707,201	3,216,322	46.35%	4,515,398	3,118,938	44.77%
Other expenses	1,480,282	1,053,250	40.54%	902,485	497,834	81.28%
Totals	<u>\$ 16,389,402</u>	<u>13,947,231</u>	<u>17.51%</u>	<u>13,227,821</u>	<u>9,402,852</u>	<u>40.68%</u>

- The cost financed by users of the District's programs was \$1,678,030.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,483,551.
- The net cost of governmental activities was financed with \$5,978,029 in property tax, \$585,463 in income surtax, \$991,721 in statewide sales, services and use tax, \$5,118,223 in unrestricted state grants, \$211,313 in nonspecific program federal grants, \$38,718 in interest income and \$376,200 in other general revenues net of transfers.

Business type Activities

Revenues, net of transfers, for the District's business type activities were \$452,036 and expenses were \$544,983. The District's business type activities include the School Nutrition Fund and the Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$3,243,961, compared to last year's ending fund balances of \$6,612,477. However, the primary reason for the decrease was due to the decrease in fund balance of the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund balance increased from \$678,202 on June 30, 2010 to \$1,255,964 on June 30, 2011. The District's General Fund financial position is the product of many factors. Increases in local and state source revenues in 2011 lead to an increase in revenues for the General Fund when compared to the previous year.

-
- The Capital Projects Fund balance decreased from a restated balance of \$3,849,753 at the beginning of the fiscal year 2011 to a deficit \$131,154. The beginning balance was restated as a result of the Capital Projects: Physical Plant and Equipment Levy Fund reclassification as a Capital Projects Fund account in accordance with GASB Statement No. 54. This decrease was a result of the District completing the middle school building project.
 - The Debt Service Fund balance increased from \$1,434,340 to \$1,444,143, due transfers of the from the Capital Projects: Statewide Sales, Services and Use Tax Fund in excess of principal and interest expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$66,063 at June 30, 2010 to \$73,213 at June 30, 2011, representing an increase of 10.82%. The District's Preschool Fund net assets decreased from \$99,914 at June 30, 2010 to a deficit balance of \$183 at June 30, 2011, representing a decrease of 100.18%. The District moved current year revenues and expenses along with the prior year carryover balance of statewide voluntary preschool money to the General Fund as required by the Iowa Department of Education.

BUDGETARY HIGHLIGHTS

The District's revenues were \$344,906 less than budgeted revenues, a variance of less than 2.00%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were more than budgeted, primarily to the District's budget for the Capital Projects 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 support services and other expenditures functional areas.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$12,804,977, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 30.96% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$606,386.

The original cost of the District's capital assets was \$23,060,561. Governmental funds account for \$22,931,204 with the remainder of \$129,357 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$2,341,494 at June 30, 2010 compared to \$11,703,559 at June 30, 2011. This increase resulted from the completion of construction on the new middle school building project during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 87,674	87,674	-	-	87,674	87,674	0.00%
Construction in progress	-	6,677,239	-	-	-	6,677,239	-100.00%
Buildings	11,703,559	2,341,494	-	-	11,703,559	2,341,494	399.83%
Land improvements	87,714	90,363	-	-	87,714	90,363	-2.93%
Machinery and equipment	868,873	550,148	57,157	31,041	926,030	581,189	59.33%
Total	\$ 12,747,820	9,746,918	57,157	31,041	12,804,977	9,777,959	30.96%

Long-Term Debt

At June 30, 2011, the District had long-term debt outstanding of \$9,564,579 in long-term debt outstanding. This represents a decrease of 4.34% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding Revenue Bonds payable of \$9,250,000 at June 30, 2011.

The District had outstanding early retirement payable from the Special Revenue, Management Fund of \$190,088 at June 30, 2011.

The District had a net OPEB liability of \$124,491 at June 30, 2011.

Figure A-7
Outstanding Long-Term Obligations

			Business Type		Total		Total
			Activities		School		Change
					June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Revenue bonds	\$ 9,250,000	9,645,000	-	-	9,250,000	9,645,000	4.10%
Early retirement	190,088	250,148	-	-	190,088	250,148	24.01%
Net OPEB liability	117,781	97,738	6,710	5,568	124,491	103,306	-20.51%
Total	\$ 9,557,869	9,992,886	6,710	5,568	9,564,579	9,998,454	-4.34%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- A pattern of declining enrollment persists in the District. Enrollment has declined for the past 8 years, and projections of enrollment and the birth rate indicate several more years of decline. This will reduce the amount of revenue available to fund educational programs and service in the future.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- The elimination of the "budget guarantee" at 10% each year is reducing revenues to the District each year.

-
- Rapid and persistent increases in insurance costs and energy costs will create more financial hardships for the District in the future.

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 Mary Beth Wubben, District Treasurer, Algona Community School District, Box 717, 200 North Phillips, Algona, Iowa, 50511.

BASIC FINANCIAL STATEMENTS

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Algona Community School Foundation
Assets				
Cash and pooled investments:	\$ 5,804,683	12,270	5,816,953	3,168,607
Receivables:				
Property tax:				
Delinquent	83,385	-	83,385	-
Succeeding year	6,130,914	-	6,130,914	-
Income surtax	554,387	-	554,387	-
Accounts	5,581	13,958	19,539	-
Due from other governments	751,909	-	751,909	-
Inventories	-	14,126	14,126	-
Capital assets, net of accumulated depreciation	12,747,820	57,157	12,804,977	-
Assets	26,078,679	97,511	26,176,190	3,168,607
Liabilities				
Accounts payable	1,142,714	5,497	1,148,211	-
Salaries and benefits payable	69,257	-	69,257	-
Accrued interest payable	35,319	-	35,319	-
Retainage payable	20,000	-	20,000	-
Incurred but not reported	150,000	-	150,000	-
Deferred revenue:				
Succeeding year property tax	6,130,914	-	6,130,914	-
Other	190,468	-	190,468	-
Unearned revenue	-	12,274	12,274	-
Long-term liabilities:				
Portion due within one year:				
Revenue bonds	395,000	-	395,000	-
Early retirement	67,954	-	67,954	-
Portion due after one year:				
Revenue bonds	8,855,000	-	8,855,000	-
Early retirement	122,134	-	122,134	-
Net OPEB liability	117,781	6,710	124,491	-
Total Liabilities	17,296,541	24,481	17,321,022	-
Net Assets				
Invested in capital assets, net of related debt	3,497,820	57,157	3,554,977	-
Restricted for:				
Investment	-	-	-	2,957,053
Categorical funding	293,752	29,597	323,349	-
School infrastructure	117,399	-	117,399	-
Debt service	1,444,143	-	1,444,143	-
Management levy purposes	323,944	-	323,944	-
Student activities	173,113	-	173,113	-
Unrestricted	2,931,967	(13,724)	2,918,243	211,554
Total Net Assets	\$ 8,782,138	73,030	8,855,168	3,168,607

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

**ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Algona Community School Foundation
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government		Total	
					Governmental Activities	Business Type Activities		
Functions/Programs:								
Governmental activities:								
Instruction:								
Regular	\$ 4,905,372	680,855	171,140	-	(4,053,377)	-	(4,053,377)	-
Special	2,931,721	619,701	86,187	-	(2,225,833)	-	(2,225,833)	-
Other	2,364,826	373,372	460,726	-	(1,530,728)	-	(1,530,728)	-
	10,201,919	1,673,928	718,053	-	(7,809,938)	-	(7,809,938)	-
Support services:								
Student	350,910	-	-	-	(350,910)	-	(350,910)	-
Instructional staff	442,500	-	10,214	-	(432,286)	-	(432,286)	-
Administration	1,042,165	-	-	-	(1,042,165)	-	(1,042,165)	-
Operation and maintenance of plant	2,123,430	-	-	91,020	(2,032,410)	-	(2,032,410)	-
Transportation	748,196	4,102	86,467	-	(657,627)	-	(657,627)	-
	4,707,201	4,102	96,681	91,020	(4,515,398)	-	(4,515,398)	-
Other expenditures:								
Long-term debt interest	431,910	-	-	-	(431,910)	-	(431,910)	-
AEA flowthrough	577,797	-	577,797	-	-	-	-	-
Depreciation(unallocated)*	470,575	-	-	-	(470,575)	-	(470,575)	-
	1,480,282	-	577,797	-	(902,485)	-	(902,485)	-
Total governmental activities	16,389,402	1,678,030	1,392,531	91,020	(13,227,821)	-	(13,227,821)	-
Business Type activities:								
Instruction:								
Regular	25,085	-	-	-	-	(25,085)	(25,085)	-
Support services:								
Administration	2,811	-	-	-	-	(2,811)	(2,811)	-
Operation and maintenance of plant	8,858	-	-	-	-	(8,858)	(8,858)	-
	11,669	-	-	-	-	(11,669)	(11,669)	-
Non-instructional programs:								
Nutrition services	508,229	257,886	280,759	-	-	30,416	30,416	-
Total business type activities	544,983	257,886	280,759	-	-	(6,338)	(6,338)	-
Total primary government	\$ 16,934,385	1,935,916	1,673,290	91,020	(13,227,821)	(6,338)	(13,234,159)	-
Total component unit	\$ 331,093	812,390	-	91,020	-	-	-	481,297
General Revenues and Transfers:								
General revenues								
Property tax levied for:								
General purposes					\$ 5,818,238	-	5,818,238	-
Capital outlay					159,791	-	159,791	-
Income surtax					585,463	-	585,463	-
Statewide sales, service and use tax					991,721	-	991,721	-
Unrestricted state grants					5,118,223	-	5,118,223	-
Nonspecific program federal grants					211,313	-	211,313	-
Unrestricted investment earnings					38,718	65	38,783	69,232
Realized gain or loss on investments					-	-	-	107,364
Unrealized gain on investments					-	-	-	161,814
Other general revenues					275,056	14,470	289,526	-
Transfers					101,144	(101,144)	-	-
Total general revenues and transfers					13,299,667	(86,609)	13,213,058	338,410
Changes in net assets					71,846	(92,947)	(21,101)	819,707
Net assets beginning of year					8,710,292	165,977	8,876,269	2,348,900
Net assets end of year					\$ 8,782,138	73,030	8,855,168	3,168,607

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Capital Projects	Debt Service	Nonmajor	Total
Assets					
Cash and pooled investments:	\$ 1,264,236	437,998	1,444,143	679,148	3,825,525
Receivables:					
Property tax:					
Delinquent	76,974	2,224	-	4,187	83,385
Succeeding year	5,665,210	165,706	-	299,998	6,130,914
Income surtax	554,387	-	-	-	554,387
Accounts	5,231	88	-	262	5,581
Due from other governments	603,456	148,445	-	8	751,909
Due from other funds	-	470	-	-	470
Total Assets	\$ 8,169,494	754,931	1,444,143	983,603	11,352,171
Liabilities and Fund Balances					
Liabilities:					
Due to other funds	\$ -	470	-	-	470
Accounts payable	434,208	699,909	-	8,597	1,142,714
Salaries and benefits payable	69,257	-	-	-	69,257
Retainage payable	-	20,000	-	-	20,000
Deferred revenue:					
Succeeding year property tax	5,665,210	165,706	-	299,998	6,130,914
Income surtax	554,387	-	-	-	554,387
Other	190,468	-	-	-	190,468
Total Liabilities	6,913,530	886,085	-	308,595	8,108,210
Fund balances:					
Restricted for:					
Categorical funding	293,752	-	-	-	293,752
School infrastructure	-	117,399	-	-	117,399
Debt service	-	-	1,444,143	-	1,444,143
Management levy purposes	-	-	-	514,032	514,032
Student activities	-	-	-	173,113	173,113
Unassigned:					
General	962,212	-	-	-	962,212
Physical plant and equipment	-	(248,553)	-	-	(248,553)
Student activities	-	-	-	(12,137)	(12,137)
Total fund balances	1,255,964	(131,154)	1,444,143	675,008	3,243,961
Total Liabilities and Fund Balances	\$ 8,169,494	754,931	1,444,143	983,603	11,352,171

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2011

Total fund balances of governmental funds(page 20)	\$ 3,243,961
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	12,747,820
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	1,829,158
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	554,387
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(35,319)
Long-term liabilities, including bonds payable, early retirement payable and other postemployment benefits payable are not due and payable in the current period and, therefore are not reported in governmental funds.	<u>(9,557,869)</u>
Net assets of governmental activities(page 18)	<u><u>\$ 8,782,138</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General	Capital Projects	Debt Service	Nonmajor	Total
REVENUES:					
Local sources:					
Local tax	\$ 6,127,483	1,151,512	-	300,137	7,579,132
Tuition	1,290,813	-	-	-	1,290,813
Other	240,513	146,631	1,256	428,867	817,267
State sources	6,161,284	-	-	-	6,161,284
Federal sources	535,527	-	-	-	535,527
Total revenues	<u>14,355,620</u>	<u>1,298,143</u>	<u>1,256</u>	<u>729,004</u>	<u>16,384,023</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	5,094,827	-	-	112,254	5,207,081
Special	2,875,963	-	-	-	2,875,963
Other	1,936,335	-	-	418,438	2,354,773
	<u>9,907,125</u>	<u>-</u>	<u>-</u>	<u>530,692</u>	<u>10,437,817</u>
Support services:					
Student	287,188	-	-	5,788	292,976
Instructional staff	371,956	12,545	-	-	384,501
Administration	908,641	69,577	-	9,294	987,512
Operation and maintenance of plant	1,234,955	664,144	-	158,404	2,057,503
Transportation	592,824	81,249	-	-	674,073
	<u>3,395,564</u>	<u>827,515</u>	<u>-</u>	<u>173,486</u>	<u>4,396,565</u>
Other expenditures:					
Facilities acquisitions	-	3,614,761	-	-	3,614,761
Long-term debt:					
Principal	-	-	395,000	-	395,000
Interest	-	-	433,227	-	433,227
AEA flowthrough	577,797	-	-	-	577,797
	<u>577,797</u>	<u>3,614,761</u>	<u>828,227</u>	<u>-</u>	<u>5,020,785</u>
Total expenditures	<u>13,880,486</u>	<u>4,442,276</u>	<u>828,227</u>	<u>704,178</u>	<u>19,855,167</u>
Excess(Deficiency) of revenues over(under) expenditures	475,134	(3,144,133)	(826,971)	24,826	(3,471,144)
Other financing sources(uses):					
Sale of equipment	1,484	-	-	-	1,484
Transfers in	101,144	-	836,774	-	937,918
Transfers out	-	(836,774)	-	-	(836,774)
Total other financing sources(uses)	<u>102,628</u>	<u>(836,774)</u>	<u>836,774</u>	<u>-</u>	<u>102,628</u>
Net change in fund balances	577,762	(3,980,907)	9,803	24,826	(3,368,516)
Fund balance beginning of year, as restated	<u>678,202</u>	<u>3,849,753</u>	<u>1,434,340</u>	<u>650,182</u>	<u>6,612,477</u>
Fund balance end of year	<u>\$ 1,255,964</u>	<u>(131,154)</u>	<u>1,444,143</u>	<u>675,008</u>	<u>3,243,961</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA 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, 2011

Net change in fund balances - total governmental funds(page 22) \$ (3,368,516)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures, depreciation expense and loss on disposal of assets in the current year are as follows:

Capital expenditures	\$ 3,605,271	
Depreciation expense	(599,415)	
Loss on disposal of assets	(4,954)	3,000,902

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	395,000
---	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	1,317
--	-------

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	(23,919)
---	----------

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.	27,045
--	--------

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 fund.

Early retirement	\$ 60,060	
Other postemployment benefits	(20,043)	40,017

Changes in net assets of governmental activities(page 19)	\$ <u>71,846</u>
---	------------------

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Funds		
	School			Self-Funded	Flex	Total
	Nutrition	Preschool	Total	Insurance	Benefit	
Assets						
Cash and cash equivalents	\$ 5,970	6,300	12,270	1,957,559	21,599	1,979,158
Accounts receivable	13,898	60	13,958	-	-	-
Inventories	14,126	-	14,126	-	-	-
Capital assets, net of accumulated depreciation	57,157	-	57,157	-	-	-
Total Assets	91,151	6,360	97,511	1,957,559	21,599	1,979,158
Liabilities						
Current liabilities:						
Accounts payable	-	5,497	5,497	-	-	-
Unearned revenue	12,274	-	12,274	-	-	-
Incurred but not reported	-	-	-	150,000	-	150,000
Total current liabilities	12,274	5,497	17,771	150,000	-	150,000
Long-term liabilities:						
Net OPEB liability	5,664	1,046	6,710	-	-	-
Total long-term liabilities	5,664	1,046	6,710	-	-	-
Total Liabilities	17,938	6,543	24,481	150,000	-	150,000
Net Assets						
Invested in capital assets	57,157	-	57,157	-	-	-
Restricted for categorial funding	-	29,597	29,597	-	-	-
Unrestricted	16,056	(29,780)	(13,724)	1,807,559	21,599	1,829,158
Total Net Assets	\$ 73,213	(183)	73,030	1,807,559	21,599	1,829,158

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Funds		
	School			Self-Funded	Flex	Total
	Nutrition	Preschool	Total	Insurance	Benefit	
OPERATING REVENUE:						
Local sources:						
Charges for services	\$ 257,886	-	257,886	-	-	-
Contributions	-	4,000	4,000	-	-	-
Miscellaneous	7,352	7,118	14,470	1,814,765	63,380	1,878,145
	<u>265,238</u>	<u>11,118</u>	<u>276,356</u>	<u>1,814,765</u>	<u>63,380</u>	<u>1,878,145</u>
OPERATING EXPENSES:						
Instructional:						
Regular:						
Salaries	-	11,605	11,605	-	-	-
Benefits	-	8,082	8,082	-	-	-
Supplies	-	5,398	5,398	-	-	-
	<u>-</u>	<u>25,085</u>	<u>25,085</u>	<u>-</u>	<u>-</u>	<u>-</u>
Support services:						
Administration:						
Benefits	-	-	-	1,446,814	-	1,446,814
Services	2,811	-	2,811	346,628	65,019	411,647
Supplies	-	-	-	13	-	13
Operation and maintenance of plant:						
Services	8,858	-	8,858	-	-	-
	<u>11,669</u>	<u>-</u>	<u>11,669</u>	<u>1,793,455</u>	<u>65,019</u>	<u>1,858,474</u>
Non-instructional programs:						
Food service operations:						
Salaries	144,162	-	144,162	-	-	-
Benefits	74,337	-	74,337	-	-	-
Supplies	282,759	-	282,759	-	-	-
Depreciation	6,971	-	6,971	-	-	-
	<u>508,229</u>	<u>-</u>	<u>508,229</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>519,898</u>	<u>25,085</u>	<u>544,983</u>	<u>1,793,455</u>	<u>65,019</u>	<u>1,858,474</u>
OPERATING INCOME(LOSS)	<u>(254,660)</u>	<u>(13,967)</u>	<u>(268,627)</u>	<u>21,310</u>	<u>(1,639)</u>	<u>19,671</u>
NON-OPERATING REVENUES(EXPENSES):						
Interest	17	48	65	7,373	1	7,374
State sources	5,204	14,966	20,170	-	-	-
Federal sources	256,589	-	256,589	-	-	-
Transfers out	-	(101,144)	(101,144)	-	-	-
TOTAL NON-OPERATING REVENUES(EXPENSES)	<u>261,810</u>	<u>(86,130)</u>	<u>175,680</u>	<u>7,373</u>	<u>1</u>	<u>7,374</u>
Change in net assets	7,150	(100,097)	(92,947)	28,683	(1,638)	27,045
Net assets beginning of year	66,063	99,914	165,977	1,778,876	23,237	1,802,113
Net assets end of year	<u>\$ 73,213</u>	<u>(183)</u>	<u>73,030</u>	<u>1,807,559</u>	<u>21,599</u>	<u>1,829,158</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	Business Type Activities:			Governmental Activities		
	Enterprise Funds			Internal Service Funds		
	School Nutrition	Preschool	Total	Self-Funded Insurance	Flex Benefit	Total
Cash flows from operating activities:						
Cash received from sale of lunches and breakfasts	\$ 260,600	-	260,600	-	-	-
Cash received from miscellaneous operating activities	7,352	11,058	18,410	1,814,765	63,380	1,878,145
Cash payments to employees for services	(218,376)	(19,509)	(237,885)	(1,446,814)	(65,019)	(1,511,833)
Cash payments to suppliers for goods or services	(264,959)	(1,211)	(266,170)	(346,641)	-	(346,641)
Net cash provided by(used in) operating activities	(215,383)	(9,662)	(225,045)	21,310	(1,639)	19,671
Cash flows from non-capital financing activities:						
Transfer to the General Fund	-	(101,144)	(101,144)	-	-	-
State grants received	5,204	14,966	20,170	-	-	-
Federal grants received	227,283	-	227,283	-	-	-
Net cash provided by non-capital financing activities	232,487	(86,178)	146,309	-	-	-
Cash flows from investing activities:						
Interest on investments	17	48	65	7,373	1	7,374
Cash flows from capital financing activities:						
Purchase of assets	(33,087)	-	(33,087)	-	-	-
Net increase(decrease) in cash and cash equivalents	(15,966)	(95,792)	(111,758)	28,683	(1,638)	27,045
Cash and cash equivalents at beginning of year	21,936	102,092	124,028	1,928,876	23,237	1,952,113
Cash and cash equivalents at end of year	\$ 5,970	6,300	12,270	1,957,559	21,599	1,979,158
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:						
Operating income(loss)	\$ (254,660)	(13,967)	(268,627)	21,310	(1,639)	19,671
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:						
Commodities consumed	29,306	-	29,306	-	-	-
Depreciation	6,971	-	6,971	-	-	-
Decrease in inventories	1,492	-	1,492	-	-	-
Increase in accounts receivable	(1,091)	(60)	(1,151)	-	-	-
Increase(Decrease) in accounts payable	(1,329)	4,187	2,858	-	-	-
Decrease in salaries and benefits payable	(841)	-	(841)	-	-	-
Increase in unearned revenue	3,805	-	3,805	-	-	-
Increase in other postemployment benefits payable	964	178	1,142	-	-	-
Net cash provided by(used in) operating activities	\$ (215,383)	(9,662)	(225,045)	21,310	(1,639)	19,671

Non-cash investing, capital and financing activities:
During the year ended June 30, 2011, the District received \$29,306 of federal commodities.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Agency</u>
ASSETS	
Cash and pooled investments	\$ 3,483
TOTAL ASSETS	<u>\$ 3,483</u>
LIABILITIES	
Due to other groups	\$ 3,483
TOTAL LIABILITIES	<u>\$ 3,483</u>

ALGONA COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies

The Algona Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Algona and Burt, Iowa, and the predominate agricultural territory in Kossuth County. 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, Algona Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District.

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

Discretely Presented Component Unit - The Algona Community School Foundation was created to financially support the Algona Community School system and post high school scholarship support to graduates of the school. The Foundation is a separate legal entity with its own accounting records and board of trustees. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a component unit in these financial statements with the year ending December 31, 2010.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do 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 Kossuth County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

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

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

The District reports the following nonmajor propriety funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund, the Enterprise, Preschool Fund, the Internal Service, Self-Funded Insurance Fund and the Internal Service, Flex Benefit Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool Fund is used to account for preschool operations of the District. The Internal Service, Self-Funded Insurance Fund is used to account for the District's self-funded health insurance plan. The Internal Service, Flex Benefit Fund is used to account for the flexible health and childcare benefits program offered by 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 funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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

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

Capital Assets - Capital assets, which include property, machinery and equipment and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,500
Buildings	3,500
Land improvements	3,500
Machinery and equipment:	
Intangibles	75,000
School Nutrition Fund equipment	500
Other machinery and equipment	3,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more
Machinery and equipment	5-12 years

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

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

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

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

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

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

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

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011 expenditures in the support services and other expenditures functions exceeded the budgeted amounts.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2011 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, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$565 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) **Transfers**

The detail of transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Preschool	101,144
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>836,774</u>
Total		<u>\$ 937,918</u>

The transfer from the Preschool Fund to the General Fund was for statewide voluntary preschool money received into the Preschool Fund.

The transfer from the Capital Projects Fund to the Debt Service Fund was to pay interest on the District's revenue bond indebtedness.

(4) Due From and Due to Other Funds

At June 30, 2011 the interfund receivable and payable consisted of the following:

Receivable Fund	Payable Fund	Amount
Capital Projects: Physical Plant and Equipment Levy	Capital Projects: Statewide Sales, Services and Use Tax	\$ 470

The Capital Projects: Statewide Sales, Services and Use Tax Fund is repaying the Capital Projects: Physical Plant and Equipment Levy Fund for money borrowed for cash flow purposes.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 87,674	-	-	87,674
Construction in progress	6,677,239	2,876,161	9,553,400	-
Total capital assets not being depreciated	<u>6,764,913</u>	<u>2,876,161</u>	<u>9,553,400</u>	<u>87,674</u>
Capital assets being depreciated:				
Buildings	8,482,165	9,816,991	-	18,299,156
Land improvements	651,732	13,000	-	664,732
Machinery and equipment	3,487,474	452,519	60,351	3,879,642
Total capital assets being depreciated	<u>12,621,371</u>	<u>10,282,510</u>	<u>60,351</u>	<u>22,843,530</u>
Less accumulated depreciation for:				
Buildings	6,140,671	454,926	-	6,595,597
Land improvements	561,369	15,649	-	577,018
Machinery and equipment	2,937,326	128,840	55,397	3,010,769
Total accumulated depreciation	<u>9,639,366</u>	<u>599,415</u>	<u>55,397</u>	<u>10,183,384</u>
Total capital assets being depreciated, net	<u>2,982,005</u>	<u>9,683,095</u>	<u>4,954</u>	<u>12,660,146</u>
Governmental activities capital assets, net	<u>\$ 9,746,918</u>	<u>12,559,256</u>	<u>9,558,354</u>	<u>12,747,820</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 96,270	33,087	-	129,357
Less accumulated depreciation	65,229	6,971	-	72,200
Business type activities capital assets, net	<u>\$ 31,041</u>	<u>26,116</u>	<u>-</u>	<u>57,157</u>

Depreciation expense was charged by the District as follows:

Governmental activities:			
Instruction:			
Regular			\$ 32,527
Other			13,192
Support services:			
Administration services			6,091
Operation and maintenance of plant services			20,535
Transportation			56,495
			<u>128,840</u>
Unallocated depreciation			<u>470,575</u>
Total governmental activities depreciation expense			<u>\$ 599,415</u>
Business type activities:			
Food services			<u>\$ 6,971</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Revenue bonds	9,645,000	-	395,000	9,250,000	395,000
Early retirement	\$ 250,148	-	60,060	190,088	67,954
Net OPEB liability	97,738	20,043	-	117,781	-
Total	<u>\$ 9,992,886</u>	<u>20,043</u>	<u>455,060</u>	<u>9,557,869</u>	<u>462,954</u>
Business type activities:					
Net OPEB liability	\$ 5,568	1,142	-	6,710	-

Revenue Bonds Payable

Details of the District's June 30, 2011 revenue bond indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 28, 2009				
	Interest Rate		Principal	Interest	Total
2012	4.00	% \$	395,000	415,928	810,928
2013	4.00		400,000	400,028	800,028
2014	4.00		405,000	383,928	788,928
2015	4.00		410,000	367,628	777,628
2016	4.00		420,000	279,275	699,275
2017-2021	4.00-4.50		2,240,000	1,559,104	3,799,104
2022-2026	4.63-5.00		2,580,000	939,981	3,519,981
2027-2030	5.00-5.20		2,400,000	253,364	2,653,364
Total			\$ 9,250,000	4,599,236	13,849,236

The District has pledged future statewide sales, services and use tax revenues to repay the \$9,645,000 bonds issued July 28, 2009. The bonds were issued for the purpose of defraying a portion of the cost of construction for the new Middle School for the District. 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 limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 89 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$13,849,236. For the current year \$395,000 in principal and \$431,728 in interest was paid on the bonds and total statewide sales and services tax revenues were \$991,721.

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

- a) \$818,828 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

During the year ended June 30, 2008, the District offered a voluntary early retirement plan to its employees. Eligible employees must be a full-time teacher or administrator that will reach age 55 before June 30, 2009. Eligible employees must have completed fourteen years of full-time service to the District and

must be currently under contract with the District. Employees must complete an application which is required to be approved by the Board of Education.

The early retirement incentive for each eligible employee is equal to \$7,500 per year for a maximum of five years. Two equal payments are made on July 30 and January 30 of each year. Eligible employees have the option to use the early retirement incentive to pay premiums to remain on the District's health insurance plan.

Early retirement incentive benefits of \$60,060 were paid during the year ended June 30, 2011. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund early retirement.

(7) Other Postemployment Benefits(OPEB)

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 170 active and 10 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through 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, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 135,923
Interest on net OPEB obligation	2,053
Adjustment to annual required contribution	(24,996)
Annual OPEB cost	<u>112,980</u>
Contributions made	(91,795)
Increase in net OPEB obligation	<u>21,185</u>
Net OPEB obligation beginning of year	103,306
Net OPEB obligation end of year	<u><u>\$ 124,491</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. 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, 2011.

For the year ended June 30, 2011, the District contributed \$91,795 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

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, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 128,249	49.40%	\$ 64,851
2010	126,849	69.68%	103,306
2011	112,980	81.25%	124,491

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$1,360,117, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,360,117. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$7,837,500, and the ratio of the UAAL to covered payroll was 17.4%. As of June 30, 2011, 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, 2008 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 health cost trend rate is 6% a year.

Mortality rates are from a modest table (light) was assumed.

Projected claim costs of the medical plan are \$543 per month for retirees and spouses less than 65. The implicit subsidy portion of UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$555,313, \$504,294 and \$455,617, respectively, equal to the required contributions for each year.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$577,797 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

Programs	Amount
Gifted and talented	\$ 50,669
LEP weighting	6,350
Model core curriculum	68,567
Market factor	8,697
Statewide voluntary preschool	156,453
Educator quality, professional development	95
Empowerment	29,597
Nonpublic textbook services	2,921
Total	\$ 323,349

(12) Deficit Fund Balance/Net Assets

The District had deficit unrestricted net assets in the Enterprise: Preschool Fund of \$29,780 and total deficit unrestricted net assets in the Enterprise Funds of \$13,724. The District had a deficit unassigned fund balance in the Special Revenue: Student Activity Fund of \$12,137. The District had a deficit unassigned fund balance in the Capital Projects: Capital Projects: Physical Plant and Equipment Levy of \$248,553 and a total unassigned fund balance in the Capital Projects Fund of \$131,154.

(13) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassification is as follows:

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010 as previously reported	\$ 3,626,194	\$ 223,559
Change in fund type classification per implementation of GASB Statement No. 54	<u>223,559</u>	<u>(223,559)</u>
Balance July 1, 2010 as restated	<u><u>\$ 3,849,753</u></u>	<u><u>\$ 0</u></u>

ALGONA COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2011

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 9,687,212	276,421	9,963,633	9,925,135	9,925,135	38,498
State sources	6,161,284	20,170	6,181,454	6,841,974	6,841,974	(660,520)
Federal sources	535,527	256,589	792,116	515,000	515,000	277,116
Total revenues	16,384,023	553,180	16,937,203	17,282,109	17,282,109	(344,906)
Expenditures/expenses:						
Instruction	10,437,817	25,085	10,462,902	11,630,000	11,630,000	1,167,098
Support services	4,396,565	11,669	4,408,234	4,152,500	4,152,500	(255,734)
Non-instructional programs	-	508,229	508,229	510,000	510,000	1,771
Other expenditures	5,020,785	-	5,020,785	585,793	585,793	(4,434,992)
Total expenditures/expenses	19,855,167	544,983	20,400,150	16,878,293	16,878,293	(3,521,857)
Excess(Deficiency) of revenues over(under) expenditures/expenses	(3,471,144)	8,197	(3,462,947)	403,816	403,816	(3,866,763)
Other financing sources(uses), net	102,628	(101,144)	1,484	(818,828)	(818,828)	820,312
Deficiency of revenues and other financing sources under expenditures/expenses and other financing uses	(3,368,516)	(92,947)	(3,461,463)	(415,012)	(415,012)	(3,046,451)
Balance beginning of year	6,612,477	165,977	6,778,454	1,665,983	1,665,983	5,112,471
Balance end of year	\$ 3,243,961	73,030	3,316,991	1,250,971	1,250,971	2,066,020

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2011

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

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

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

During the year ended June 30, 2011 expenditures in the support Services and other expenditures functions exceeded the budgeted amounts.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	\$ -	\$ 1,360,117	\$ 1,360,117	0.0%	\$ 6,971,296	19.5%
2010	July 1, 2008	-	1,360,117	1,360,117	0.0%	6,545,082	20.8%
2011	July 1, 2008	-	1,360,117	1,360,117	0.0%	7,837,500	17.4%

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

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS
COMPONENT UNIT
DECEMBER 31, 2010

	Algona Community School Foundation
ASSETS	
Cash, savings, and investments	\$ 3,168,607
TOTAL ASSETS	3,168,607
LIABILITIES	-
NET ASSETS	
Restricted	2,957,053
Unrestricted	211,554
NET ASSETS	\$ 3,168,607

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2010

	Algona Community School Foundation
Revenue:	
Contributions, gifts, grants and similar amounts	\$ 812,390
Interest	69,232
Unrealized gain or loss on investments	161,814
Realized gain or loss on investments	107,364
Total revenue	1,150,800
Expenses:	
Grants	97,109
Scholarships	216,804
Management	6,911
Accounting	3,690
Advertising and promotion	225
Insurance	200
Fundraising supplies	3,938
Postage and shipping	1,607
Garrigan reimbursement	259
Dues	350
Total expenses	331,093
Excess of revenue over expenses	819,707
Net assets beginning of year	2,348,900
Net assets end of year	\$ 3,168,607

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OTHER SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
Assets			
Cash and pooled investments	\$ 509,837	169,311	679,148
Receivables:			
Property tax:			
Delinquent	4,187	-	4,187
Succeeding year	299,998	-	299,998
Accounts	-	262	262
Due from other governments	8	-	8
Total Assets	\$ 814,030	169,573	983,603
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	8,597	8,597
Deferred revenue:			
Succeeding year property tax	299,998	-	299,998
Total liabilities	299,998	8,597	308,595
Fund balances:			
Restricted for:			
Management levy purposes	514,032	-	514,032
Student activities	-	173,113	173,113
Unassigned	-	(12,137)	(12,137)
Total fund balances	514,032	160,976	675,008
Liabilities and Fund Balances	\$ 814,030	169,573	983,603

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2011

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 300,137	-	300,137
Other	19,715	409,152	428,867
TOTAL REVENUES	319,852	409,152	729,004
EXPENDITURES:			
Current:			
Instruction:			
Regular	112,254	-	112,254
Other	-	418,438	418,438
	112,254	418,438	530,692
Support services:			
Student	5,788	-	5,788
Administration	9,294	-	9,294
Operation and maintenance of plant	158,404	-	158,404
	173,486	-	173,486
TOTAL EXPENDITURES	285,740	418,438	704,178
Net change in fund balances	34,112	(9,286)	24,826
Fund balance beginning of year, as restated	479,920	170,262	650,182
Fund balance end of year	\$ 514,032	160,976	675,008

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ -	437,998	437,998
Receivables:			
Delinquent	-	2,224	2,224
Succeeding year	-	165,706	165,706
Accounts	88	-	88
Due from other governments	148,441	4	148,445
Due from other funds	-	470	470
Total assets	\$ 148,529	606,402	754,931
Liabilities and fund balances			
Liabilities:			
Due to other funds	\$ 470	-	470
Accounts payable	10,660	689,249	699,909
Retainage payable	20,000	-	20,000
Deferred revenue			
Succeeding year property tax	-	165,706	165,706
Total liabilities	31,130	854,955	886,085
Fund balances:			
Restricted for School infrastructure	117,399	-	117,399
Unassigned	-	(248,553)	(248,553)
Total fund balances	117,399	(248,553)	(131,154)
Total liabilities and fund balances	\$ 148,529	606,402	754,931

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 991,721	159,791	1,151,512
Other	55,240	91,391	146,631
Total revenues	<u>1,046,961</u>	<u>251,182</u>	<u>1,298,143</u>
Expenditures:			
Current:			
Support services:			
Instructional staff	5,200	7,345	12,545
Adminstration	69,577	-	69,577
Operation and maintenance of plant	29,444	634,700	664,144
Transportation	-	81,249	81,249
Other expenditures:			
Facilities acquisitions	3,614,761	-	3,614,761
Total expenditures	<u>3,718,982</u>	<u>723,294</u>	<u>4,442,276</u>
Deficiency of revenues under expenditures	(2,672,021)	(472,112)	(3,144,133)
Other financing uses:			
Transfer out	(836,774)	-	(836,774)
Net change in fund balances	(3,508,795)	(472,112)	(3,980,907)
Fund balances beginning of year, as restated	<u>3,626,194</u>	<u>223,559</u>	<u>3,849,753</u>
Fund balances end of year	<u>\$ 117,399</u>	<u>(248,553)</u>	<u>(131,154)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Concession	\$ (11,140)	55,805	53,563	(8,898)
Concession equipment	3,530	141	3,243	428
Interest	-	690	655	35
Public broadcasting	952	137	475	614
Special advertising	27,133	15,191	14,587	27,737
Special tournament	-	164	164	-
Leadership-Bertha Godfrey	475	6,679	7,154	-
Leadership-Bryant	501	-	501	-
Leadership-Lucia Wallace	-	9,547	9,547	-
MS boys baseball	2,318	-	296	2,022
MS-vocal music	171	112	271	12
MS-instrumental music	535	830	-	1,365
MS-vocal/band uniforms	1,923	379	753	1,549
MS-cheerleaders	472	-	-	472
MS-quiz bowl	730	380	386	724
MS-science fair	93	607	598	102
MS-student senate	3,539	386	2,434	1,491
MS-teams	655	6,293	6,948	-
MS-teams 6th grade	4,351	787	5,138	-
MS-teams 7th grade	2,743	787	3,530	-
MS-teams 8th grade	-	2,088	2,088	-
MS-yearbook	(343)	2,178	1,835	-
HS drama/speech	2,582	20,418	16,526	6,474
HS-vocal music	442	-	442	-
HS-instrumental music	556	366	528	394
HS-vocal/band uniforms	272	816	1,978	(890)
HS swing choir & band	1,329	943	1,179	1,093
HS band tour	18,015	24,128	28,332	13,811
HS vocal tour	9,368	11,326	8,637	12,057
HS athletics general	26,262	20,670	24,796	22,136
HS cross country	-	1,169	1,169	-
HS boys basketball	-	6,012	6,012	-
HS boys football	-	13,647	13,647	-
HS baseball	44	8,219	8,263	-
HS boys track	-	3,960	3,960	-
HS boys golf	-	897	897	-
HS wrestling	-	8,468	8,468	-
HS girls basketball	-	3,945	3,945	-
HS volleyball	-	5,893	5,893	-
HS softball	112	4,656	4,768	-
HS girls track	-	1,893	1,893	-
HS girls golf	-	611	611	-
HS academics	(210)	10,792	6,334	4,248
HS-ACT-ELC	3,110	6,169	6,906	2,373
HS AFS	6,833	-	6,833	-
TNT	-	560	189	371

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS cheerleaders	2,239	6,032	4,628	3,643
Class of 2011	724	-	724	-
Class of 2012	1,907	806	2,692	21
Class of 2013	1,352	2,561	2,484	1,429
Class of 2014	1,253	101	-	1,354
Class of 2015	562	389	-	951
Class of 2016	435	389	-	824
Class of 2017	-	288	-	288
HS drill team	2,602	13,297	15,727	172
FFA	132	62,572	45,453	17,251
Construction club	244	-	105	139
Env. science	1,064	-	-	1,064
Hosa	10	2,554	1,519	1,045
HS leadership	460	-	460	-
MMH	2,614	2,518	2,614	2,518
HS mock trial/ACAD	-	948	1,463	(515)
Model UN	735	1,276	993	1,018
National honor society	480	-	374	106
Outdoor club	494	1,043	51	1,486
P.E. club	15,557	-	7,372	8,185
Peer helpers	1,245	225	38	1,432
Pep council	1	-	1	-
Prom improvement	669	674	370	973
HS quiz bowl	1,838	633	468	2,003
HS spanish club	2,690	-	82	2,608
HS student senate	468	934	878	524
TV. productions	2,582	13,309	15,469	422
Weight lifting club	(230)	683	79	374
HS yearbook	4,914	16,848	16,031	5,731
HS special math	44	-	44	-
HS special bowling	377	-	377	-
HS special cross country	7	1,563	1,804	(234)
HS special swim team	4,625	1,636	938	5,323
HS special boys basketball	1,604	1,327	1,529	1,402
HS special football	1,349	4,488	1,422	4,415
HS special baseball	3,434	1,033	4,952	(485)
HS special boys track	1,425	1,143	2,354	214
HS special boys golf	1,268	323	424	1,167
HS special wrestling	428	1,000	456	972
HS special girls basketball	(2,327)	1,709	474	(1,092)
HS special volleyball	2,178	2,972	2,780	2,370
HS special softball	673	1,465	709	1,429
HS special girls track	459	2,814	3,296	(23)
HS special girls golf	324	860	432	752
Total	\$ 170,262	409,152	418,438	160,976

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2011

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 4,132	26,329	26,978	3,483
LIABILITIES				
Due to other groups	\$ 4,132	26,329	26,978	3,483

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues:										
Local sources:										
Local tax	\$ 7,579,132	6,968,941	6,592,594	5,497,239	5,469,034	5,614,630	5,742,171	5,725,990	5,161,361	5,047,733
Tuition	1,290,813	1,267,199	1,296,138	1,404,416	1,262,663	1,247,756	1,112,659	886,818	840,316	650,778
Other	817,267	739,104	746,318	771,663	734,547	720,612	649,007	689,877	560,056	747,444
Intermediate sources	-	-	-	1,050	1,050	1,050	-	-	-	-
State sources	6,161,284	5,157,985	5,913,874	5,632,742	5,375,888	5,447,395	5,285,230	5,335,106	5,512,326	5,730,077
Federal sources	535,527	1,341,271	297,727	314,753	370,835	487,067	676,384	427,455	323,790	307,432
Total	\$ 16,384,023	15,474,500	14,846,651	13,621,863	13,214,017	13,518,510	13,465,451	13,065,246	12,397,849	12,483,464
Expenditures:										
Instruction:										
Regular	\$ 5,207,081	4,823,820	4,831,081	5,263,175	5,608,779	4,965,295	4,920,243	5,123,535	4,831,378	4,865,825
Special	2,875,963	2,912,652	2,825,044	2,758,170	2,519,046	2,531,517	2,610,995	2,538,533	2,414,339	2,311,376
Other	2,354,773	2,191,078	1,888,804	1,776,378	1,376,050	1,591,941	1,526,829	1,344,987	1,245,368	1,279,893
Support services:										
Student	292,976	291,112	103,162	335,840	318,336	298,708	294,861	302,558	284,007	278,741
Instructional staff	384,501	249,453	283,131	209,754	221,585	317,399	207,896	283,626	241,899	218,150
Administration	987,512	995,206	1,026,874	1,214,120	1,106,860	1,167,238	1,092,163	935,202	886,629	836,813
Operation and maintenance of plant	2,057,503	1,264,561	1,356,167	1,186,106	1,220,355	1,282,805	1,043,524	941,734	905,488	814,676
Transportation	674,073	495,754	437,541	658,449	484,594	605,476	482,887	318,694	249,530	306,768
Non-instructional programs	-	-	-	-	-	-	-	17,800	8,432	7,375
Other expenditures:										
Facilities acquisitions	3,614,761	6,211,994	561,541	93,584	459,868	737,059	416,316	576,657	515,566	510,240
Long-term debt:										
Principal	395,000	-	-	-	-	-	-	600,000	24,180	235,285
Interest	433,227	188,092	-	-	-	-	-	34,740	1,059	8,486
AEA flowthrough	577,797	555,416	492,441	465,680	450,954	434,384	430,727	440,718	472,533	477,549
Total	\$ 19,855,167	20,179,138	13,805,786	13,961,256	13,766,427	13,931,822	13,026,441	13,458,784	12,080,408	12,151,177

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 11	\$ 39,622
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 11	216,967 *
			<u>256,589</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0126-G	132,938
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 11	67,823
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 10	1,881
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 11	8,333
			<u>10,214</u>
STATE FISCAL STABILIZATION FUND CLUSTER:			
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 11	69,718
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - GOVERNMENT SERVICES, RECOVERY ACT	84.397	FY 11	62,185
			<u>201,621</u>
EDUCATION JOBS FUND	84.410	FY 11	79,410
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION CLUSTER:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 11	80,576
SPECIAL EDUCATION - PRESCHOOL GRANTS	84.173	FY 11	608
			<u>81,184</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 11	12,130
IOWA LAKES COMMUNITY COLLEGE:			
COMPREHENSIVE CENTERS (TECH-PREP EDUCATION)	84.243	FY 10	2,500
TOTAL			<u>\$ 774,691</u>

* -Includes \$29,306 in non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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

To the Board of Education of the
Algona 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 Algona Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 8, 2012. 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 Algona Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Algona Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Algona Community School District's internal control over financial reporting.

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

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 deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-11 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Algona 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

Members American Institute & Iowa Society of Certified Public Accountants

express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Algona Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 8, 2012

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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

To the Board of Education of
Algona Community School District

Compliance

We have audited the compliance of Algona Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Algona Community School District's major federal programs for the year ended June 30, 2011. Algona Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Algona Community School District's management. Our responsibility is to express an opinion on Algona Community School District's compliance based on our audit.

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

In our opinion, Algona Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

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

Handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson P.C." with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

March 8, 2012

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No matters in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual Program:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Algona Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing and bank reconciliations were being done by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major programs were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified Budget - District expenditures for the year ended June 30, 2011 exceeded the certified amounts in the support services and other expenditures functions.

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

Response - The District will amend its budget in the future if necessary.

Conclusion - Response accepted.

IV-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-11 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Chris Gerhardt, Teacher Owns C&D Construction	Services	\$ 1,309
Zoe Fett Spouse	Official	\$ 370
Theresea Kuecker, High School Secretary Spouse owns Kuecker Landscaping	Services	\$ 4,420
Sandi Rodemeyer, Teacher Spouse	Official	\$ 340
Rodney Davis, Board Member Winter sports duty	Services	\$ 797
Paul and Theresa DeLange, Bus Drivers Owns Premier Choice	Fundraising items	\$ 27,992

Name, Title and Business Connection	Transaction Description	Amount
Paul and Theresa DeLange, Bus Drivers Owns Premier Pizza	Pizza/Concession	\$ 9,207
Jan Struck, Building Secretary Spouse	Official	\$ 745
Rich Collision, Teacher Father	Official	\$ 110
Jay Limbaugh, Board Member Father owns Jacks's OK Tires	Purchased goods	\$ 4,179

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with Chris Gerhardt and Paul and Theresa DeLange do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with son, spouse, father and mother of the District's employees and board members do not appear to represent a conflict of interest.

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Member Rodney Davis does not appear to be a conflict of interest.

IV-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-11 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of nonpublic students was overstated by 3.96.

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

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

Conclusion - Response accepted.

IV-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

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

IV-J-11 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-K-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-11 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.3 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified annual reports (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 3,626,194
Revenues:		
Sales tax revenues	\$ 991,721	
Other local revenues	55,240	1,046,961
		<u>4,673,155</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 2,998,335	
Equipment	505,845	
Other	214,802	
Transfers to other funds:		
Debt service fund	836,774	4,555,756
		<u>4,555,756</u>
Ending balance		<u>\$ 117,399</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

IV-M-11 Financial Condition - The District had deficit unrestricted net assets in the Enterprise: Preschool Fund of \$29,780 and total deficit unrestricted net assets in the Enterprise Funds of \$13,724. The District had a deficit unassigned fund balance in the Special Revenue: Student Activity Fund of \$12,137. The District had a deficit unassigned fund balance in the Capital Projects: Physical Plant and Equipment Levy of \$248,553 and a total unassigned fund balance in the Capital Projects Fund of \$131,154.

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

Response - The District will monitor these funds and work towards a positive fund balance in each fund.

Conclusion - Response accepted.