

COLO-NESCO COMMUNITY SCHOOL DISTRICT

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

June 30, 2011

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Independent Auditor's Report

To the Board of Education of
Colo-NESCO Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Colo-NESCO Community School District, McCallsburg, Iowa, as of and for the year ended June 30, 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 Colo-NESCO Community School District as of 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 reports dated August 2, 2012, on our consideration of Colo-NESCO Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 38 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Colo-NESCO Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2010 and 2009, (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the five years ended June 30, 2008, (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 10, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

August 2, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Colo-NESCO Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 \$4,221,805 in fiscal 2010 to \$4,590,867 in fiscal 2011, while General Fund expenditures increased from \$4,853,246 in fiscal 2010 to \$5,282,235 in fiscal 2011. The District's General Fund balance decreased from \$296,880 in fiscal 2010 to \$(390,084) in fiscal 2011, a 231% decrease.
- The increase in General Fund revenues was attributable to an increase in state revenue in fiscal 2011. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2011. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Colo-NESCO Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Colo-NESCO Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Colo-NESCO Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Colo-NESCO Community School District Annual Financial Report

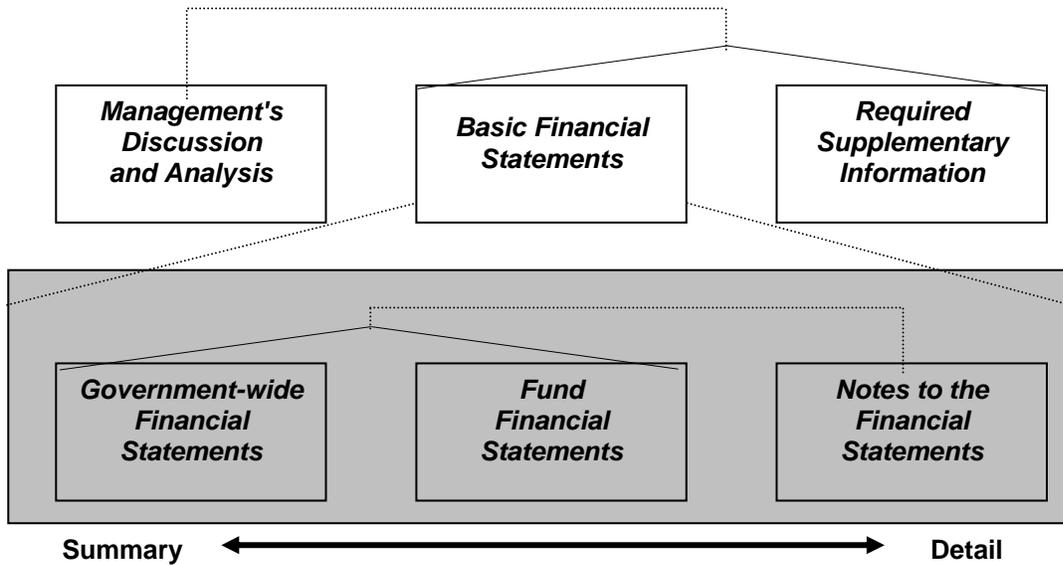


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

| Figure A-2 Major Features of the Government-wide and Fund Financial Statements | | | | |
|---|--|--|--|---|
| | Government-wide Statements | Fund Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire District (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance | Activities the District operates similar to private businesses: food services, preschool and daycare | Instances in which the District administers resources on behalf of someone else, such as scholarship programs |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances | <ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/ liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/ outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

| | Condensed Statement of Net Assets | | | | | | Percentage Change 2010-2011 |
|--|-----------------------------------|-------------------|-----------------------------|------------------|--------------------------|-------------------|-----------------------------------|
| | Governmental Activities | | Business-type Activities | | Total School District | | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Current and other assets | 4,018,309 | 6,177,791 | (311,762) | (285,880) | 3,706,547 | 5,891,911 | -37% |
| Capital assets | 6,028,874 | 4,220,960 | 13,360 | 527 | 6,042,234 | 4,221,487 | 43% |
| Total assets | 10,047,183 | 10,398,751 | (298,402) | (285,353) | 9,748,781 | 10,113,398 | -4% |
| Long-term liabilities | 3,698,542 | 3,632,193 | 1,141 | 573 | 3,699,683 | 3,632,766 | 2% |
| Other liabilities | 3,771,975 | 2,725,006 | 41,336 | 41,975 | 3,813,311 | 2,766,981 | 38% |
| Total liabilities | 7,470,517 | 6,357,199 | 42,477 | 42,548 | 7,512,994 | 6,399,747 | 17% |
| Net Assets: | | | | | | | |
| Invested in capital assets, net of related debt | 2,413,874 | 2,933,819 | 13,360 | 527 | 2,427,234 | 2,934,346 | -17% |
| Restricted | 939,344 | 740,024 | - | - | 939,344 | 740,024 | 27% |
| Unrestricted | (776,552) | 367,709 | (354,239) | (328,428) | (1,130,791) | 39,281 | -2,979% |
| TOTAL NET ASSETS | 2,576,666 | 4,041,552 | (340,879) | (327,901) | 2,235,787 | 3,713,651 | -40% |

The District’s combined total net assets decreased by nearly 40%, or approximately \$1,477,864, over the prior year. The largest portion of the District’s net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets increased approximately \$199,320 or 27% over the prior year. The increase was primarily a result of state categorical funding that was received in fiscal year 2011, but was not spent.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$1,170,072, or 2,979%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4

| | Change in Net Assets | | | | | | Percentage Change 2010-2011 |
|---------------------------------------|----------------------------|------------------|-----------------------------|-----------------|--------------------------|------------------|-----------------------------------|
| | Governmental Activities | | Business-type Activities | | Total School District | | |
| | 2011 \$ | 2010 \$ | 2011 \$ | 2010 \$ | 2011 \$ | 2010 \$ | |
| Revenues | | | | | | | |
| Program Revenues: | | | | | | | |
| Charges for services | 351,508 | 316,539 | 334,235 | 365,558 | 685,743 | 682,097 | 1% |
| Operating grants & contributions | 935,920 | 853,277 | 103,543 | 119,749 | 1,039,463 | 973,026 | 7% |
| Capital grants & contributions | - | - | - | - | - | - | 0% |
| General Revenues: | | | | | | | |
| Property taxes | 1,769,064 | 1,741,259 | - | - | 1,769,064 | 1,741,259 | 2% |
| Income Surtax | 178,245 | 237,937 | - | - | 178,245 | 237,937 | -25% |
| Statewide sales and services tax | 488,678 | 464,623 | - | - | 488,678 | 464,623 | 5% |
| Unrestricted state grants | 1,668,675 | 1,303,276 | - | - | 1,668,675 | 1,303,276 | 28% |
| Unrestricted investment earnings | 2,993 | 8,648 | - | - | 2,993 | 8,648 | -65% |
| Other revenue | 13,434 | (2,429) | - | - | 13,434 | (2,429) | 653% |
| Total Revenues | 5,408,517 | 4,923,130 | 437,778 | 485,307 | 5,846,295 | 5,408,437 | 8% |
| Expenses: | | | | | | | |
| Instruction | 4,057,254 | 3,476,748 | - | - | 4,057,254 | 3,476,748 | 17% |
| Support services | 1,768,276 | 1,497,769 | - | - | 1,768,276 | 1,497,769 | 18% |
| Non-instructional programs | 40 | 281 | 464,975 | 578,393 | 465,015 | 578,674 | -20% |
| Other expenditures | 1,033,614 | 633,773 | - | - | 1,033,614 | 633,773 | 63% |
| Total expenses | 6,859,184 | 5,608,571 | 464,975 | 578,393 | 7,324,159 | 6,186,964 | 18% |
| Change in net assets before transfers | (1,450,667) | (685,441) | (27,197) | (93,086) | (1,477,864) | (778,527) | -90% |
| Transfers | (14,219) | - | 14,219 | - | - | - | - |
| CHANGE IN NET ASSETS | (1,464,886) | (685,441) | (12,978) | (93,086) | (1,477,864) | (778,527) | -90% |
| Net assets beginning of year | 4,041,552 | 4,726,993 | (327,901) | (234,815) | 3,713,651 | 4,492,178 | -17% |
| Net assets end of year | 2,576,666 | 4,041,552 | (340,879) | (327,901) | 2,235,787 | 3,713,651 | -40% |

In fiscal year 2011 property tax and unrestricted state grants account for 59% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 80% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,408,517 and expenses were \$6,859,184.

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

Figure A-5

| | Total Cost of Services | | | Net Cost of Services | | |
|----------------------------|------------------------|------------------|---------------------|----------------------|------------------|---------------------|
| | 2011 \$ | 2010 \$ | Change 2010-2011 | 2011 \$ | 2010 \$ | Change 2010-2011 |
| Instruction | 4,057,254 | 3,476,748 | 17% | 2,958,642 | 2,488,666 | 19% |
| Support Services | 1,768,276 | 1,497,769 | 18% | 1,765,232 | 1,495,576 | 18% |
| Non-instructional Programs | 40 | 281 | -86% | 40 | 281 | -86% |
| Other Expenses | 1,033,614 | 633,773 | 63% | 847,842 | 454,232 | 87% |
| TOTAL | 6,859,184 | 5,608,571 | 22% | 5,571,756 | 4,438,755 | 26% |

For the year ended June 30, 2011

- The cost financed by users of the District's programs was \$351,508. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$935,920.
- The net cost of governmental activities was financed with \$2,435,987 in property and local other taxes and \$1,668,675 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$437,778 and expenses were \$464,975. The District's business type activities include the School Nutrition Fund, the Daycare 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, Colo-NESCO Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$78,279, well below last year's ending fund balance of \$3,294,362. However, the primary reason for the increase in combined fund balances in fiscal 2010 is due to approximately \$3 million of unexpended general obligation bond proceeds received in fiscal 2010.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$296,880 to \$(390,084), due to the negotiated salary and benefits settlement, certified enrollment decreased and the prior year reduction in state aid and existing expenditure commitments of the District.

- The Capital Project Fund includes revenues from sales tax and from the physical plant and equipment property tax levy. These two revenue streams and the related expenditures are tracked separately in the District's accounting records, but are combined into one Capital Projects Fund for financial reporting. The monies in the Capital Projects fund will be used for future capital improvements and equipment purchases.
- The Physical Plant and Equipment Levy account balance increased from \$98,220 at June 30, 2010 to \$112,902 at June 30, 2011.
- The Statewide Sales Service and Use Tax account balance decreased from \$2,664,287 at June 30, 2010 to \$66,322 at June 30, 2011. The large balance was due to the expenditure of the proceeds from a bond issue in the previous year.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$(129,012) at June 30, 2010 to \$(102,955) at June 30, 2011, representing an increase of approximately 20%. During fiscal year 2011 labor and food costs were decreased.

The Daycare Fund net assets increased from \$(198,889) at June 30, 2010 to \$(188,485) at June 30, 2011, representing an increase of approximately 5%. Some of the preschool expenditures had been part of the daycare program in the prior year. The District was approved for the state wide preschool grant for fiscal year 2011 and has separated the preschool and daycare program.

The Preschool Fund net assets at June 30, 2011 were \$(49,439). The Preschool fund was set up for a 3 year old preschool expenditures. The District no longer provides a 3 year old Preschool effective FY2012.

BUDGETARY HIGHLIGHTS

The District's receipts were \$537,284 less than budgeted receipts, a variance of 9%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

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 due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$6 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 43% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$437,928.

The largest change in capital asset activity during the year occurred in the building category. This significant increase resulted from construction activity financed by the issuance of voter approved general obligation bonds and revenue bonds totaling \$3,200,000 in fiscal 2010 for remodeling and addition of the middle school in Zearing and the Elementary school in McCallsburg. The project in Zearing was completed in fiscal year 2011. The District has committed \$150,000 to complete the project in McCallsburg.

Figure A-6

Capital Assets (net of depreciation)

| | Governmental Activities | | Business type Activities | | Total School District | | Percentage Change 2010-2011 |
|--------------------------|----------------------------|------------------|-----------------------------|------------|--------------------------|------------------|-----------------------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Land | 34,856 | 34,856 | - | - | 34,856 | 34,856 | 0% |
| Construction in progress | 1,539,240 | 1,742,430 | - | - | 1,539,240 | 1,742,430 | -12% |
| Buildings | 3,895,776 | 1,641,328 | - | - | 3,895,776 | 1,641,328 | 137% |
| Improvements | 551,893 | 599,042 | - | - | 551,893 | 599,042 | -8% |
| Equipment & furniture | 7,109 | 203,304 | 13,360 | 527 | 20,469 | 203,831 | -90% |
| TOTAL | 6,028,874 | 4,220,960 | 13,360 | 527 | 6,042,234 | 4,221,487 | 43% |

Long-Term Debt

At June 30, 2011 the District had \$3,699,683 in revenue bonds and other long-term debt outstanding. This represents an increase of approximately 2% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7

Outstanding Long-Term Obligations

| | Total School District | | Percentage Change 2010-2011 |
|---------------------------|-----------------------|------------------|-----------------------------------|
| | 2011 | 2010 | |
| | \$ | \$ | % |
| Governmental activities: | | | |
| Revenue bonds | 3,615,000 | 3,615,000 | 0% |
| Termination benefits | 49,302 | - | 100% |
| Net OPEB liability | 34,240 | 17,193 | 99% |
| Total | 3,698,542 | 3,632,193 | 2% |
| Business type activities: | | | |
| Net OPEB liability | 1,141 | 573 | 99% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- School financing is highly dependent upon student enrollment. The District's October 2011 enrollment decreased . This drop in enrollment will decrease the District's funding for fiscal year 2013.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, buses must be replaced.. To pay for these buses, the District will use a combination of resources from the General Fund and the Physical Plant and Equipment Levy Fund.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2011

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|--------------------------------|------------------|
| | \$ | \$ | \$ |
| Assets | | | |
| Cash and cash equivalents | 848,214 | - | 848,214 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 23,803 | - | 23,803 |
| Succeeding year | 2,370,624 | - | 2,370,624 |
| Accounts | 3,503 | 1,944 | 5,447 |
| Internal balances | 321,346 | (321,346) | - |
| Due from other governments | 395,145 | 545 | 395,690 |
| Inventories | - | 7,095 | 7,095 |
| Unamortized bond issue costs | 55,674 | - | 55,674 |
| Capital assets, net of accumulated depreciation | 6,028,874 | 13,360 | 6,042,234 |
| Total assets | 10,047,183 | (298,402) | 9,748,781 |
| Liabilities | | | |
| Warrants in excess of bank balance | 443,490 | - | 443,490 |
| Accounts payable | 358,613 | 1,827 | 360,440 |
| Salaries and benefits payable | 442,695 | 36,900 | 479,595 |
| Accrued interest payable | 69,800 | - | 69,800 |
| Deferred revenue: | | | |
| Succeeding year property tax | 2,370,624 | - | 2,370,624 |
| Other | 74,815 | 2,609 | 77,424 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Termination benefits | 17,176 | - | 17,176 |
| Portion due after one year: | | | |
| Unamortized bond premium | 11,938 | - | 11,938 |
| Revenue bonds payable | 3,615,000 | - | 3,615,000 |
| Termination benefits | 32,126 | - | 32,126 |
| Net OPEB liability | 34,240 | 1,141 | 35,381 |
| Total liabilities | 7,470,517 | 42,477 | 7,512,994 |
| Net assets | | | |
| Invested in capital assets, net of related debt | 2,413,874 | 13,360 | 2,427,234 |
| Restricted for: | | | |
| Categorical funding | 319,977 | - | 319,977 |
| Management levy | 135,554 | - | 135,554 |
| Physical plant and equipment levy | 112,902 | - | 112,902 |
| Student activities | 34,483 | - | 34,483 |
| Debt service | 336,428 | - | 336,428 |
| Unrestricted | (776,552) | (354,239) | (1,130,791) |
| Total net assets | 2,576,666 | (340,879) | 2,235,787 |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

| Functions/Programs | Expenses | Charges for Services | Program Revenues | |
|--------------------------------------|------------------|----------------------|---|---|
| | | | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| | \$ | \$ | \$ | \$ |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | 3,038,278 | 207,451 | 563,346 | - |
| Special | 477,459 | 8,664 | 38,602 | - |
| Other | 541,517 | 135,243 | 145,306 | - |
| | <u>4,057,254</u> | <u>351,358</u> | <u>747,254</u> | <u>-</u> |
| Support services: | | | | |
| Student | 41,815 | - | - | - |
| Instructional staff | 133,771 | - | - | - |
| Administration | 706,543 | - | - | - |
| Operation and maintenance of plant | 585,562 | 150 | - | - |
| Transportation | 300,585 | - | 2,894 | - |
| | <u>1,768,276</u> | <u>150</u> | <u>2,894</u> | <u>-</u> |
| Non-instructional programs | 40 | - | - | - |
| Other expenditures: | | | | |
| Facilities acquisition | 705,813 | - | - | - |
| Long-term debt interest | 142,029 | - | - | - |
| AEA flowthrough | 185,772 | - | 185,772 | - |
| | <u>1,033,614</u> | <u>-</u> | <u>185,772</u> | <u>-</u> |
| Total governmental activities | <u>6,859,184</u> | <u>351,508</u> | <u>935,920</u> | <u>-</u> |
| Business type activities: | | | | |
| Non-instructional programs: | | | | |
| Food service operations | 229,613 | 145,716 | 95,735 | - |
| Preschool | 60,604 | 11,165 | - | - |
| Daycare | 174,758 | 177,354 | 7,808 | - |
| Total business-type activities | <u>464,975</u> | <u>334,235</u> | <u>103,543</u> | <u>-</u> |
| Total | <u>7,324,159</u> | <u>685,743</u> | <u>1,039,463</u> | <u>-</u> |
| General Revenues: | | | | |
| Property taxes levied for: | | | | |
| General purposes | | | | |
| Capital outlay | | | | |
| Income surtax | | | | |
| Statewide sales and services tax | | | | |
| Unrestricted state grants | | | | |
| Unrestricted investment earnings | | | | |
| Other | | | | |
| Total general revenues | | | | |
| Transfers | | | | |
| Total general revenues and transfers | | | | |

Change in net assets

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets

| Governmental Activities | Business Type Activities | Total |
|----------------------------|--------------------------------|--------------------|
| \$ | \$ | \$ |
| (2,267,481) | - | (2,267,481) |
| (430,193) | - | (430,193) |
| <u>(260,968)</u> | - | <u>(260,968)</u> |
| <u>(2,958,642)</u> | - | <u>(2,958,642)</u> |
| (41,815) | - | (41,815) |
| (133,771) | - | (133,771) |
| (706,543) | - | (706,543) |
| (585,412) | - | (585,412) |
| <u>(297,691)</u> | - | <u>(297,691)</u> |
| <u>(1,765,232)</u> | - | <u>(1,765,232)</u> |
| <u>(40)</u> | - | <u>(40)</u> |
| (705,813) | - | (705,813) |
| (142,029) | - | (142,029) |
| - | - | - |
| <u>(847,842)</u> | - | <u>(847,842)</u> |
| <u>(5,571,756)</u> | - | <u>(5,571,756)</u> |
| - | 11,838 | 11,838 |
| - | (49,439) | (49,439) |
| - | 10,404 | 10,404 |
| - | <u>(27,197)</u> | <u>(27,197)</u> |
| <u>(5,571,756)</u> | <u>(27,197)</u> | <u>(5,598,953)</u> |
| 1,731,687 | - | 1,731,687 |
| 37,377 | - | 37,377 |
| 178,245 | - | 178,245 |
| 488,678 | - | 488,678 |
| 1,668,675 | - | 1,668,675 |
| 2,993 | - | 2,993 |
| 13,434 | - | 13,434 |
| <u>4,121,089</u> | - | <u>4,121,089</u> |
| <u>(14,219)</u> | 14,219 | - |
| <u>4,106,870</u> | 14,219 | <u>4,121,089</u> |
| (1,464,886) | (12,978) | (1,477,864) |
| <u>4,041,552</u> | <u>(327,901)</u> | <u>3,713,651</u> |
| <u>2,576,666</u> | <u>(340,879)</u> | <u>2,235,787</u> |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

| | General Fund | Capital Projects | Nonmajor Governmental Funds | Total |
|--|------------------|---------------------|-----------------------------------|------------------|
| | \$ | \$ | \$ | \$ |
| Assets | | | | |
| Cash and pooled investments | 120,407 | 448,526 | 279,281 | 848,214 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 21,639 | 804 | 1,360 | 23,803 |
| Succeeding year | 2,205,274 | 65,350 | 100,000 | 2,370,624 |
| Accounts | 3,503 | - | - | 3,503 |
| Interfund receivable | 321,346 | - | 11,075 | 332,421 |
| Due from other governments | 316,236 | 78,909 | - | 395,145 |
| | <u>2,988,405</u> | <u>593,589</u> | <u>391,716</u> | <u>3,973,710</u> |
| Total assets | | | | |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Warrants in excess of bank balance | 321,346 | 122,144 | - | 443,490 |
| Accounts payable | 129,165 | 226,871 | 2,577 | 358,613 |
| Salaries and benefits payable | 442,695 | - | - | 442,695 |
| Interfund payable | 11,075 | - | - | 11,075 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 2,205,274 | 65,350 | 100,000 | 2,370,624 |
| Income surtax | 194,119 | - | - | 194,119 |
| Other | 74,815 | - | - | 74,815 |
| Total liabilities | <u>3,378,489</u> | <u>414,365</u> | <u>102,577</u> | <u>3,895,431</u> |
| Fund balances: | | | | |
| Restricted for: | | | | |
| Categorical funding | 319,977 | - | - | 319,977 |
| Debt service | - | 336,428 | 69,800 | 406,228 |
| Management levy | - | - | 184,856 | 184,856 |
| Student activities | - | - | 34,483 | 34,483 |
| Physical plant and equipment | - | 112,902 | - | 112,902 |
| Unassigned | (710,061) | (270,106) | - | (980,167) |
| Total fund balances | <u>(390,084)</u> | <u>179,224</u> | <u>289,139</u> | <u>78,279</u> |
| Total liabilities and fund balances | <u>2,988,405</u> | <u>593,589</u> | <u>391,716</u> | <u>3,973,710</u> |

COLO-NESCO 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 (Exhibit C) | 78,279 |
|--|--------|

***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. | 6,028,874 |
|--|-----------|

| | |
|---|---------|
| Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. | 194,119 |
|---|---------|

| | |
|--|----------|
| 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. | (69,800) |
|--|----------|

| | |
|---|--------------------|
| Long-term liabilities, including bonds payable, bond premiums, termination benefits payable, and other postemployment benefits payable, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds. | <u>(3,654,806)</u> |
|---|--------------------|

| | |
|--|-------------------------|
| Net assets of governmental activities (Exhibit A) | <u><u>2,576,666</u></u> |
|--|-------------------------|

COLO-NESCO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

| | General Fund | Capital Projects | Nonmajor Governmental Funds | Total |
|---|------------------|---------------------|-----------------------------------|--------------------|
| | \$ | \$ | \$ | \$ |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | 1,782,039 | 526,055 | 139,099 | 2,447,193 |
| Tuition | 140,199 | - | - | 140,199 |
| Other | 64,034 | 7,654 | 151,644 | 223,332 |
| State sources | 2,263,545 | - | - | 2,263,545 |
| Federal sources | 341,050 | - | - | 341,050 |
| Total revenues | <u>4,590,867</u> | <u>533,709</u> | <u>290,743</u> | <u>5,415,319</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,588,097 | - | - | 2,588,097 |
| Special | 476,891 | - | - | 476,891 |
| Other | 425,999 | - | 115,518 | 541,517 |
| | <u>3,490,987</u> | <u>-</u> | <u>115,518</u> | <u>3,606,505</u> |
| Support services: | | | | |
| Student | 41,247 | - | - | 41,247 |
| Instructional staff | 133,203 | - | - | 133,203 |
| Administration | 586,022 | 11,733 | 58,350 | 656,105 |
| Operation and maintenance of plant | 544,987 | 150 | 40,425 | 585,562 |
| Transportation | 300,017 | - | - | 300,017 |
| | <u>1,605,476</u> | <u>11,883</u> | <u>98,775</u> | <u>1,716,134</u> |
| Non-instructional programs | - | - | 40 | 40 |
| Other expenditures: | | | | |
| Facilities acquisition | - | 2,964,488 | - | 2,964,488 |
| Long-term debt: | | | | |
| Interest and fiscal charges | - | - | 162,867 | 162,867 |
| AEA flowthrough | 185,772 | - | - | 185,772 |
| | <u>185,772</u> | <u>2,964,488</u> | <u>162,867</u> | <u>3,313,127</u> |
| Total expenditures | <u>5,282,235</u> | <u>2,976,371</u> | <u>377,200</u> | <u>8,635,806</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(691,368)</u> | <u>(2,442,662)</u> | <u>(86,457)</u> | <u>(3,220,487)</u> |
| Other financing sources (uses): | | | | |
| Sales of materials and equipment | 4,404 | - | - | 4,404 |
| Operating transfers in | - | - | 140,621 | 140,621 |
| Operating transfers out | - | (140,621) | - | (140,621) |
| Total other financing sources (uses) | <u>4,404</u> | <u>(140,621)</u> | <u>140,621</u> | <u>4,404</u> |
| Net change in fund balances | (686,964) | (2,583,283) | 54,164 | (3,216,083) |
| Fund balances beginning of year, as restated | <u>296,880</u> | <u>2,762,507</u> | <u>234,975</u> | <u>3,294,362</u> |
| Fund balances end of year | <u>(390,084)</u> | <u>179,224</u> | <u>289,139</u> | <u>78,279</u> |

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the
Statement of Activities

Year ended June 30, 2011

| | \$ | \$ |
|--|------------------|---------------------------|
| Net change in fund balances - total governmental funds (Exhibit E) | | (3,216,083) |
| 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 not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows: | | |
| Expenditures for capital assets | 2,244,456 | |
| Depreciation expense | <u>(436,542)</u> | 1,807,914 |
| Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities. | | |
| | | (11,206) |
| 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. | | |
| | | 20,838 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows: | | |
| Termination benefits | \$ (49,302) | |
| Other postemployment benefits | <u>(17,047)</u> | <u>(66,349)</u> |
| Changes in net assets of governmental activities (Exhibit B) | | <u><u>(1,464,886)</u></u> |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2011

| | <u>Nonmajor Enterprise</u> \$ |
|---|--------------------------------------|
| Assets | |
| Accounts receivable | 1,944 |
| Due from other governments | 545 |
| Interfund receivable | 2,694 |
| Inventories | 7,095 |
| Capital assets, net of accumulated depreciation | <u>13,360</u> |
| Total assets | <u>25,638</u> |
| Liabilities | |
| Accounts payable | 1,827 |
| Salaries and benefits payable | 36,900 |
| Interfund payable | 324,040 |
| Deferred revenue | 2,609 |
| Net OPEB liability | <u>1,141</u> |
| Total liabilities | <u>366,517</u> |
| Net assets | |
| Invested in capital assets | 13,360 |
| Unrestricted | <u>(354,239)</u> |
| Total net assets | <u><u>(340,879)</u></u> |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

| | <u>Nonmajor Enterprise</u> \$ |
|------------------------------------|--------------------------------------|
| Operating revenue: | |
| Local sources: | |
| Charges for service | <u>334,235</u> |
| Operating expenses: | |
| Non-instructional programs: | |
| Salaries | 264,158 |
| Benefits | 54,892 |
| Purchased services | 5,128 |
| Supplies | 139,411 |
| Depreciation | <u>1,386</u> |
| Total operating expenses | <u>464,975</u> |
| Operating income (loss) | <u>(130,740)</u> |
| Non-operating revenue: | |
| State sources | 1,772 |
| Federal sources | <u>101,771</u> |
| Total non-operating revenue | <u>103,543</u> |
| Income (loss) before contributions | (27,197) |
| Capital contributions | <u>14,219</u> |
| Change in net assets | (12,978) |
| Net assets beginning of year | <u>(327,901)</u> |
| Net assets end of year | <u><u>(340,879)</u></u> |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2011

| | Nonmajor Enterprise \$ |
|--|------------------------------|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | 146,303 |
| Cash received from preschool services | 11,165 |
| Cash received from daycare services | 197,446 |
| Cash payments to employees for services | (322,992) |
| Cash payments to suppliers for goods or services | (125,548) |
| Net cash used by operating activities | <u>(93,626)</u> |
| Cash flows from non-capital financing activities: | |
| Interfund loans | (28,480) |
| State grants received | 1,772 |
| Federal grants received | 87,209 |
| Net cash provided by non-capital financing activities | <u>60,501</u> |
| Cash flows from capital and related financing activities | <u>-</u> |
| Cash flows from investing activities | <u>-</u> |
| Net increase (decrease) in cash and cash equivalents | (33,125) |
| Cash and cash equivalents at beginning of year | <u>33,125</u> |
| Cash and cash equivalents at end of year | <u><u>-</u></u> |
| Reconciliation of operating income (loss) to net cash used by operating activities: | |
| Operating income (loss) | (130,740) |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities: | |
| Commodities used | 19,201 |
| Depreciation | 1,386 |
| Decrease (increase) in inventories | (2,010) |
| Decrease (increase) in accounts receivable | 18,608 |
| (Decrease) increase in accounts payable | 862 |
| (Decrease) increase in salaries and benefits payable | (3,572) |
| (Decrease) increase in other postemployment benefits | 568 |
| (Decrease) increase in deferred revenue | 2,071 |
| Net cash used by operating activities | <u><u>(93,626)</u></u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received \$19,201 of federal commodities.

During the year ended June 30, 2011, the School Nutrition Fund received \$14,219 of equipment that was purchased by other funds.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2011

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

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

1. Summary of Significant Accounting Policies

Colo-NESCO Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Colo, McCallsburg and Zearing, Iowa and the predominately agricultural territory in a portion of Story, Marshall and Hardin Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. 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 revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instruction, support and other costs.

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

The District's proprietary funds include three enterprise funds: the School Nutrition Fund, the Daycare Fund and the Preschool Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Daycare Fund is used to account for child care services and the Preschool Fund is used to account for preschool services.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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 – committed, assigned, and then unassigned fund balances.

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 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, furniture and equipment and intangibles, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| | \$ |
| Land | 1,000 |
| Buildings | 10,000 |
| Improvements other than buildings | 10,000 |
| Intangibles | 25,000 |
| Furniture and equipment: | |
| School Nutrition Fund equipment | 1,000 |
| Other furniture and equipment | 1,000 |

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

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|-----------------------------------|-------------------------------|
| Buildings | 50 years |
| Improvements other than buildings | 20-50 years |
| Intangibles | 3-10 years |
| Furniture and equipment | 5-15 years |

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

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

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

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

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

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either external 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 classifications.

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 amounts budgeted.

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. Which are valued at an amortized cost of \$406,369 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2011 is as follows:

| Receivable Fund | Payable Fund | Amount |
|---------------------------|---------------------------------|---------|
| | | \$ |
| Nonmajor, Management Fund | General Fund | 11,075 |
| General Fund | School Nutrition Fund | 100,396 |
| General Fund | Nonmajor, Daycare Fund | 177,837 |
| General Fund | Nonmajor, Preschool Fund | 43,113 |
| Nonmajor, Daycare Fund | Nonmajor, School Nutrition Fund | 2,694 |

The interfund receivable/payables are the result of loans to support cash flow in the various funds and are to be repaid in the next year.

4. Interfund Transfers

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

| Transfer To | Transfer From | Amount |
|-----------------------------|-----------------------|---------|
| | | \$ |
| Nonmajor, Debt Service Fund | Capital Projects Fund | 140,621 |

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

5. Capital Assets

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

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------------|------------------|------------------|------------------------|
| | \$ | \$ | \$ | \$ |
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Construction in progress | 1,742,430 | 2,244,456 | 2,447,646 | 1,539,240 |
| Land | 34,856 | - | - | 34,856 |
| Total capital assets not being depr. | <u>1,777,286</u> | <u>2,244,456</u> | <u>2,447,646</u> | <u>1,574,096</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 3,554,687 | 2,447,646 | - | 6,002,333 |
| Improvements other than buildings | 865,232 | - | - | 865,232 |
| Furniture and equipment | 2,991,405 | - | - | 2,991,405 |
| Total capital assets being deprec. | <u>7,411,324</u> | <u>2,447,646</u> | <u>-</u> | <u>9,858,970</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,913,359 | 193,198 | - | 2,106,557 |
| Improvements other than buildings | 266,190 | 47,149 | - | 313,339 |
| Furniture and equipment | 2,788,101 | 196,195 | - | 2,984,296 |
| Total accumulated depreciation | <u>4,967,650</u> | <u>436,542</u> | <u>-</u> | <u>5,404,192</u> |
| Total capital assets being depreciated, net | <u>2,443,674</u> | <u>2,011,104</u> | <u>-</u> | <u>4,454,778</u> |
| Governmental activities capital assets, net | <u>4,220,960</u> | <u>4,255,560</u> | <u>2,447,646</u> | <u>6,028,874</u> |

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------------|---------------|-----------|------------------------|
| | \$ | \$ | \$ | \$ |
| Business type activities: | | | | |
| Furniture and equipment | 7,285 | 14,219 | - | 21,504 |
| Less accumulated depreciation | <u>6,758</u> | <u>1,386</u> | - | <u>8,144</u> |
| Business type activities capital assets, net | <u>527</u> | <u>12,833</u> | - | <u>13,360</u> |

Depreciation expense was charged to the following functions:

| | Amount |
|--|----------------|
| | \$ |
| Governmental activities: | |
| Instruction: | |
| Regular | 196,195 |
| Unallocated depreciation | <u>240,347</u> |
| Total depreciation expense – governmental activities | <u>436,542</u> |
| Business type activities: | |
| Daycare operations | 201 |
| Food service | <u>1,185</u> |
| Total | <u>1,386</u> |

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011, are summarized as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|---------------------------|---------------------------------|---------------|------------|------------------------|------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Governmental activities: | | | | | |
| Revenue bonds | 3,615,000 | - | - | 3,615,000 | - |
| Termination benefits | - | 49,302 | - | 49,302 | 17,176 |
| Net OPEB liability | <u>17,193</u> | <u>17,047</u> | - | <u>34,240</u> | - |
| Total | <u>3,632,193</u> | <u>66,349</u> | - | <u>3,698,542</u> | <u>17,176</u> |
| Business type activities: | | | | | |
| Net OPEB liability | <u>573</u> | <u>568</u> | - | <u>1,141</u> | - |

Termination Benefits

At June 30, 2011, the District has obligations to one participant with a total liability of \$49,302. There were no early retirement expenditures for the year ended June 30, 2011.

Revenue Bonds

Details of the District's June 30, 2011 statewide sales, services and use tax revenue bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of November 2009 | | | |
|-------------------------|-----------------------------|------------------|------------------|------------------|
| | Interest Rates | Principal | Interest | Total |
| | % | \$ | \$ | \$ |
| 2012 | 2.000 | - | 139,600 | 139,600 |
| 2013 | 2.000 | 215,000 | 137,450 | 352,450 |
| 2014 | 3.000 | 215,000 | 132,075 | 347,075 |
| 2015 | 3.000 | 160,000 | 126,450 | 286,450 |
| 2016 | 3.25 | 145,000 | 121,694 | 266,694 |
| 2017-2021 | 3.250-4.000 | 805,000 | 526,519 | 1,331,519 |
| 2022-2026 | 4.000-4.250 | 980,000 | 350,813 | 1,330,813 |
| 2027-2030 | 4.250-4.500 | 1,095,000 | 114,163 | 1,209,163 |
| | | <u>3,615,000</u> | <u>1,648,764</u> | <u>5,263,764</u> |

The District has pledged future statewide sales, services and use tax revenues to repay the \$3,615,000 bonds issued in November 2009. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 75% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$5,263,764. For the current year, no principal and \$162,867 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$488,678

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

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

7. Pension and Retirement Benefits

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

Plan members are required to contribute 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state

statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$236,670, \$203,574, and \$184,439 respectively, equal to the required contributions for each year.

8. Risk Management

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$185,772 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.

10. 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 31 active and 1 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | |
|--|----------------------|
| | \$ |
| Annual required contribution | 20,126 |
| Interest on net OPEB obligation | 444 |
| Adjustment to annual required contribution | (1,517) |
| Annual OPEB cost | <u>19,053</u> |
| Contributions made | <u>1,438</u> |
| Increase in net OPEB obligation | 17,615 |
| Net OPEB obligation beginning of year | <u>17,766</u> |
| Net OPEB obligation end of year | <u><u>35,381</u></u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference

between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$1,438 to the medical plan. Plan members eligible for benefits contributed \$8,523, or 86% 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:

| <u>Year Ended June 30,</u> | <u>Annual OPEB Cost</u> \$ | <u>Percentage of Annual OPEB Cost Contributed</u> % | <u>Net OPEB Obligation</u> \$ |
|----------------------------|-----------------------------------|--|--------------------------------------|
| 2010 | 18,841 | 5.70 | 17,766 |
| 2011 | 19,053 | 7.55 | 35,381 |

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$161,811, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$161,811. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,410,000 and the ratio of the UAAL to covered payroll was 11.5%. 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, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

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

The UAAL is being amortized over 30 years.

11. Categorical Funding

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

| Program | Amount |
|--|---------|
| | \$ |
| Gifted and talented | 76,063 |
| Teacher salary supplement | 66,299 |
| Home school assistance program | 20,454 |
| At-Risk | 11,558 |
| Dropout prevention | 19,165 |
| Preschool grant | 63,552 |
| Core curriculum | 45,983 |
| Educator quality, professional development | 16,589 |
| Other | 314 |
| | 319,977 |

12. Construction Commitments

The District has entered into construction contracts totaling \$3,976,063 of which \$140,074 was unearned as of June 30, 2011.

13. Financial Condition

The Enterprise School Nutrition Fund, Preschool Fund and the Daycare Fund have deficit net asset balances of \$102,955, \$49,439 and \$188,485 respectively, at June 30, 2011. The General Fund also had a deficit fund balance of 390,084.

14. Accounting Change/Restatement

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

| | Capital Projects | Special Revenue, Physical Plant and Equipment Levy |
|---|---------------------|--|
| Balances June 30, 2010, as previously reported | \$ 2,664,287 | \$ 98,220 |
| Change in fund type classification per implementation of GASB Statement No. 54 | 98,220 | (98,220) |
| Balances July 1, 2010, as restated | 2,762,507 | - |

15. Operating Leases

The District has entered into an operating lease for copiers requiring 38 monthly payments of \$2,144 beginning March 23, 2011. Remaining payments due for each fiscal year are as follows:

| | |
|---------------|--------|
| | \$ |
| June 30, 2012 | 25,722 |
| June 30, 2013 | 25,722 |
| June 30, 2014 | 21,435 |
| | 72,879 |

REQUIRED SUPPLEMENTARY INFORMATION

COLO-NESCO COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2011

| | Governmental Fund Actual | Proprietary Fund Actual | Total Actual | Budgeted Amounts | | Final to Actual Variance - Positive (Negative) |
|---|-----------------------------|----------------------------|-------------------------|-----------------------|-----------------------|---|
| | | | | Original | Final | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues: | | | | | | |
| Local sources | 2,810,724 | 334,235 | 3,144,959 | 3,385,601 | 3,385,601 | (240,642) |
| Intermediate sources | - | - | - | 42,319 | 42,319 | (42,319) |
| State sources | 2,263,545 | 1,772 | 2,265,317 | 2,817,461 | 2,817,461 | (552,144) |
| Federal sources | 341,050 | 101,771 | 442,821 | 145,000 | 145,000 | 297,821 |
| Total revenues | <u>5,415,319</u> | <u>437,778</u> | <u>5,853,097</u> | <u>6,390,381</u> | <u>6,390,381</u> | <u>(537,284)</u> |
| Expenditures/Expenses: | | | | | | |
| Instruction | 3,606,505 | - | 3,606,505 | 4,206,517 | 4,206,517 | 600,012 |
| Support services | 1,716,134 | - | 1,716,134 | 1,623,930 | 1,623,930 | (92,204) |
| Non-instructional programs | 40 | 464,975 | 465,015 | 1,039,715 | 1,039,715 | 574,700 |
| Other expenditures | 3,313,127 | - | 3,313,127 | 2,079,588 | 2,079,588 | (1,233,539) |
| Total expenditures/expenses | <u>8,635,806</u> | <u>464,975</u> | <u>9,100,781</u> | <u>8,949,750</u> | <u>8,949,750</u> | <u>(151,031)</u> |
| Excess (deficiency) of revenues over (under) expenditures/expenses | (3,220,487) | (27,197) | (3,247,684) | (2,559,369) | (2,559,369) | (688,315) |
| Other financing sources (uses) net | <u>4,404</u> | <u>14,219</u> | <u>18,623</u> | <u>-</u> | <u>-</u> | <u>18,623</u> |
| Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures/expenses | (3,216,083) | (12,978) | (3,229,061) | (2,559,369) | (2,559,369) | (669,692) |
| Balance beginning of year | <u>3,294,362</u> | <u>(327,901)</u> | <u>2,966,461</u> | <u>3,202,824</u> | <u>3,202,824</u> | <u>(236,363)</u> |
| Balance end of year | <u><u>78,279</u></u> | <u><u>(340,879)</u></u> | <u><u>(262,600)</u></u> | <u><u>643,455</u></u> | <u><u>643,455</u></u> | <u><u>(906,055)</u></u> |

COLO-NESCO 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 Internal Service, Private Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

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

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

COLO-NESCO 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 (UAAL) (b-a) \$ | Funded Ratio (a/b) % | Covered Payroll (c) \$ | UAAL as a Percentage of Covered Payroll ((b-a)/c) % |
|------------------------|--------------------------------|--|---|---|---------------------------------|-----------------------------------|--|
| 2010 | July 1, 2009 | - | 166,776 | 166,776 | 0.0% | 1,380,000 | 12.1% |
| 2011 | July 1, 2009 | - | 161,811 | 161,811 | 0.0% | 1,410,000 | 11.5% |

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2011

| Assets | Special Revenue Funds | | | Total |
|--|-----------------------|------------------|---------------|----------------|
| | Management Levy | Student Activity | Debt Service | |
| | \$ | \$ | \$ | |
| Cash and pooled investments | 172,421 | 37,060 | 69,800 | 279,281 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 1,360 | - | - | 1,360 |
| Succeeding year | 100,000 | - | - | 100,000 |
| Interfund receivable | 11,075 | - | - | 11,075 |
| Total assets | 284,856 | 37,060 | 69,800 | 391,716 |
| Liabilities & Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | - | 2,577 | - | 2,577 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 100,000 | - | - | 100,000 |
| Total liabilities | 100,000 | 2,577 | - | 102,577 |
| Fund balances: | | | | |
| Restricted for: | | | | |
| Debt service | - | - | 69,800 | 69,800 |
| Management levy | 184,856 | - | - | 184,856 |
| Student activities | - | 34,483 | - | 34,483 |
| Total fund balances | 184,856 | 34,483 | 69,800 | 289,139 |
| Total liabilities and fund balances | 284,856 | 37,060 | 69,800 | 391,716 |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

| | Special Revenue Funds | | | Total |
|---|-----------------------|----------------------|----------------------|-----------------------|
| | Management | Student | Debt | |
| | Levy | Activity | Service | |
| | \$ | \$ | \$ | \$ |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | 139,099 | - | - | 139,099 |
| Other | 18,270 | 133,101 | 273 | 151,644 |
| Total revenues | <u>157,369</u> | <u>133,101</u> | <u>273</u> | <u>290,743</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Other instruction | - | 115,518 | - | 115,518 |
| Support services: | | | | |
| Administration services | 56,849 | - | 1,501 | 58,350 |
| Operation and maintenance of plant | 40,425 | - | - | 40,425 |
| Non-instructional programs | - | 40 | - | 40 |
| Other expenditures: | | | | |
| Long-term debt: | | | | |
| Interest and fiscal charges | - | - | 162,867 | 162,867 |
| Total expenditures | <u>97,274</u> | <u>115,558</u> | <u>164,368</u> | <u>377,200</u> |
| Excess (deficiency) of revenues over (under) expenditures | 60,095 | 17,543 | (164,095) | (86,457) |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | - | 140,621 | 140,621 |
| Net change in fund balances | 60,095 | 17,543 | (23,474) | 54,164 |
| Fund balances beginning of year, as restated | <u>124,761</u> | <u>16,940</u> | <u>93,274</u> | <u>234,975</u> |
| Fund balances end of year | <u><u>184,856</u></u> | <u><u>34,483</u></u> | <u><u>69,800</u></u> | <u><u>289,139</u></u> |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2011

| | Enterprise Funds | | | |
|---|---------------------|-----------------|------------------|------------------|
| | School Nutrition | Preschool | Daycare | Total |
| | \$ | \$ | \$ | \$ |
| Assets | | | | |
| Accounts receivable | 1,944 | - | - | 1,944 |
| Due from other governments | - | - | 545 | 545 |
| Interfund receivable | - | - | 2,694 | 2,694 |
| Inventories | 7,095 | - | - | 7,095 |
| Capital assets, net of accumulated depreciation | 13,034 | - | 326 | 13,360 |
| Total assets | <u>22,073</u> | <u>-</u> | <u>3,565</u> | <u>25,638</u> |
| Liabilities | | | | |
| Accounts payable | - | 29 | 1,798 | 1,827 |
| Salaries and benefits payable | 18,188 | 6,297 | 12,415 | 36,900 |
| Interfund payable | 103,090 | 43,113 | 177,837 | 324,040 |
| Deferred revenue | 2,609 | - | - | 2,609 |
| Net OPEB liability | 1,141 | - | - | 1,141 |
| Total liabilities | <u>125,028</u> | <u>49,439</u> | <u>192,050</u> | <u>366,517</u> |
| Net assets | | | | |
| Invested in capital assets | 13,034 | - | 326 | 13,360 |
| Unrestricted | (115,989) | (49,439) | (188,811) | (354,239) |
| Total net assets | <u>(102,955)</u> | <u>(49,439)</u> | <u>(188,485)</u> | <u>(340,879)</u> |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2011

| | Enterprise Funds | | | Total |
|------------------------------------|---------------------|-----------|-----------|-----------|
| | School Nutrition | Preschool | Daycare | |
| | \$ | \$ | \$ | \$ |
| Operating revenue: | | | | |
| Local sources: | | | | |
| Charges for service | 145,716 | 11,165 | 177,354 | 334,235 |
| Operating expenses: | | | | |
| Non-instructional programs: | | | | |
| Salaries | 80,254 | 49,226 | 134,678 | 264,158 |
| Benefits | 20,345 | 7,891 | 26,656 | 54,892 |
| Purchased services | 3,251 | - | 1,877 | 5,128 |
| Supplies | 124,578 | 3,487 | 11,346 | 139,411 |
| Depreciation | 1,185 | - | 201 | 1,386 |
| Total operating expenses | 229,613 | 60,604 | 174,758 | 464,975 |
| Operating income (loss) | (83,897) | (49,439) | 2,596 | (130,740) |
| Non-operating revenue: | | | | |
| State sources | 1,772 | - | - | 1,772 |
| Federal sources | 93,963 | - | 7,808 | 101,771 |
| Total non-operating revenue | 95,735 | - | 7,808 | 103,543 |
| Income (loss) before contributions | 11,838 | (49,439) | 10,404 | (27,197) |
| Capital contributions | 14,219 | - | - | 14,219 |
| Change in net assets | 26,057 | (49,439) | 10,404 | (12,978) |
| Net assets beginning of year | (129,012) | - | (198,889) | (327,901) |
| Net assets end of year | (102,955) | (49,439) | (188,485) | (340,879) |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2011

| | Enterprise Funds | | | |
|--|------------------|-----------------|-----------------|-----------------|
| | School Nutrition | Preschool | Daycare | Total |
| | \$ | \$ | \$ | \$ |
| Cash flows from operating activities: | | | | |
| Cash received from sale of lunches and breakfasts | 146,303 | - | - | 146,303 |
| Cash received from preschool services | - | 11,165 | - | 11,165 |
| Cash received from daycare services | - | - | 197,446 | 197,446 |
| Cash payments to employees for services | (100,969) | (50,820) | (171,203) | (322,992) |
| Cash payments to suppliers for goods or services | (110,638) | (3,458) | (11,452) | (125,548) |
| Net cash provided (used) by operating activities | <u>(65,304)</u> | <u>(43,113)</u> | <u>14,791</u> | <u>(93,626)</u> |
| Cash flows from non-capital financing activities: | | | | |
| Interfund loans | (50,262) | 43,113 | (21,331) | (28,480) |
| State grants received | 1,772 | - | - | 1,772 |
| Federal grants received | 83,619 | - | 3,590 | 87,209 |
| Net cash provided (used) by non-capital financing activities | <u>35,129</u> | <u>43,113</u> | <u>(17,741)</u> | <u>60,501</u> |
| Cash flows from capital and related financing activities | - | - | - | - |
| Cash flows from investing activities | - | - | - | - |
| Net increase (decrease) in cash and cash equivalents | (30,175) | - | (2,950) | (33,125) |
| Cash and cash equivalents at beginning of year | 30,175 | - | 2,950 | 33,125 |
| Cash and cash equivalents at end of year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Reconciliation of operating income (loss) to net cash used by operating activities: | | | | |
| Operating income (loss) | (83,897) | (49,439) | 2,596 | (130,740) |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities: | | | | |
| Commodities used | 19,201 | - | - | 19,201 |
| Depreciation | 1,185 | - | 201 | 1,386 |
| Decrease (increase) in inventories | (2,010) | - | - | (2,010) |
| Decrease (increase) in accounts receivable | (1,484) | - | 20,092 | 18,608 |
| (Decrease) increase in accounts payable | (938) | 29 | 1,771 | 862 |
| (Decrease) increase in salaries and benefits payable | - | 6,297 | (9,869) | (3,572) |
| (Decrease) increase in other postemployment benefits | 568 | - | - | 568 |
| (Decrease) increase in deferred revenue | 2,071 | - | - | 2,071 |
| Net cash provided (used) by operating activities | <u>(65,304)</u> | <u>(43,113)</u> | <u>14,791</u> | <u>(93,626)</u> |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Capital Projects Accounts

June 30, 2011

| | Capital Projects | | |
|--|--|--|----------------|
| | Statewide Sales, Services and Use Tax \$ | Physical Plant and Equipment Levy \$ | Total \$ |
| Assets | | | |
| Cash and pooled investments | 336,428 | 112,098 | 448,526 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 804 | 804 |
| Succeeding year | - | 65,350 | 65,350 |
| Due from other governments | 78,909 | - | 78,909 |
| Total assets | <u>415,337</u> | <u>178,252</u> | <u>593,589</u> |
| Liabilities & Fund Balances | | | |
| Liabilities: | | | |
| Warrants in excess of bank balance | 122,144 | - | 122,144 |
| Accounts payable | 226,871 | - | 226,871 |
| Deferred revenue: | | | |
| Succeeding year property tax | - | 65,350 | 65,350 |
| Total liabilities | <u>349,015</u> | <u>65,350</u> | <u>414,365</u> |
| Fund balances: | | | |
| Restricted for: | | | |
| Debt service | 336,428 | - | 336,428 |
| Physical plant and equipment | - | 112,902 | 112,902 |
| Unassigned | (270,106) | - | (270,106) |
| Total fund balances | <u>66,322</u> | <u>112,902</u> | <u>179,224</u> |
| Total liabilities and fund balances | <u>415,337</u> | <u>178,252</u> | <u>593,589</u> |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Capital Projects 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 | 488,678 | 37,377 | 526,055 |
| Other | 1,414 | 6,240 | 7,654 |
| Total revenues | <u>490,092</u> | <u>43,617</u> | <u>533,709</u> |
| Expenditures: | | | |
| Current: | | | |
| Support services: | | | |
| Administration services | 11,633 | 100 | 11,733 |
| Operation and maintenance of plant | - | 150 | 150 |
| Other expenditures: | | | |
| Facilities acquisition | 2,935,803 | 28,685 | 2,964,488 |
| Total expenditures | <u>2,947,436</u> | <u>28,935</u> | <u>2,976,371</u> |
| Excess (deficiency) of revenues over (under) expenditures | (2,457,344) | 14,682 | (2,442,662) |
| Other financing sources (uses): | | | |
| Operating transfers out | <u>(140,621)</u> | - | <u>(140,621)</u> |
| Net change in fund balance | (2,597,965) | 14,682 | (2,583,283) |
| Fund balances beginning of year, as restated | <u>2,664,287</u> | <u>98,220</u> | <u>2,762,507</u> |
| Fund balance end of year | <u><u>66,322</u></u> | <u><u>112,902</u></u> | <u><u>179,224</u></u> |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

| <u>Account</u> | <u>Balance Beginning of Year</u> | <u>Revenues</u> | <u>Expenditures</u> | <u>Intra-fund Transfers</u> | <u>Balance End of Year</u> |
|-------------------------------|--|-----------------|---------------------|---------------------------------|--------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Colo elem. beautification | 566 | - | - | - | 566 |
| Benevolence fund | (138) | 1,180 | 40 | - | 1,002 |
| Preschool/daycare | - | 551 | - | - | 551 |
| All athletics | 6,462 | 48,463 | 34,187 | 6,304 | 27,042 |
| Basketball | (7,642) | 3,864 | 5,324 | - | (9,102) |
| Track | (7,744) | - | 1,204 | - | (8,948) |
| Cross country | (731) | 212 | 723 | - | (1,242) |
| Golf | (1,476) | 920 | 920 | - | (1,476) |
| Football | 4,062 | 8,267 | 5,365 | - | 6,964 |
| Soccer | (3,510) | - | 885 | - | (4,395) |
| Baseball | (3,872) | 785 | 7,138 | - | (10,225) |
| Volleyball | 35 | 4,825 | 3,805 | - | 1,055 |
| Softball | 548 | 380 | 272 | - | 656 |
| Drama | 735 | 1,908 | 1,399 | 622 | 1,866 |
| Musical | 2,827 | 168 | - | - | 2,995 |
| Vocal/instrumental | (6,469) | 2,147 | 1,411 | - | (5,733) |
| HS student pictures | 1,967 | 93 | - | - | 2,060 |
| Student council | 10,645 | 2,341 | 3,508 | - | 9,478 |
| C-N FFA | 2,904 | 15,014 | 13,495 | 3,401 | 7,824 |
| Yearbook | (16,268) | 1,815 | 2,307 | (2,086) | (18,846) |
| "CAN"struction-ELP | 17 | - | 13 | - | 4 |
| Cheerleading | (1,444) | 2,703 | 1,194 | - | 65 |
| Band resale | (6,563) | - | 112 | - | (6,675) |
| Spanish club | 5,300 | - | - | - | 5,300 |
| Art club | 865 | 30 | 51 | - | 844 |
| C-N drill team | - | - | 55 | - | (55) |
| Flag team | (541) | 1,354 | 1,261 | - | (448) |
| SADD | 253 | - | - | - | 253 |
| FCS project | (59) | - | 200 | - | (259) |
| Class of 2009 | (602) | - | - | - | (602) |
| Class of 2010 | 390 | 39 | - | - | 429 |
| Class of 2011 | 418 | 3,119 | 2,042 | - | 1,495 |
| MS student pictures | 173 | 128 | - | - | 301 |
| MS student activities | 15,812 | 29,204 | 20,194 | (3,018) | 21,804 |
| MS Mall of America | 228 | - | - | - | 228 |
| MS band resale | (6,443) | 1,056 | 763 | - | (6,150) |
| MS music fund | (1,643) | 13 | 6,499 | - | (8,129) |
| Colo publication | 106 | 292 | - | - | 398 |
| Elementary student pictures | 10,148 | 250 | 168 | - | 10,230 |
| Burg publication | - | 456 | - | - | 456 |
| Elementary student activities | 2,191 | 1,333 | 940 | - | 2,584 |

See accompanying independent auditor's report.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

| <u>Account</u> | <u>Balance Beginning of Year</u> \$ | <u>Revenues</u> \$ | <u>Expenditures</u> \$ | <u>Intra-fund Transfers</u> \$ | <u>Balance End of Year</u> \$ |
|---------------------------|--|-----------------------|---------------------------|---------------------------------------|--------------------------------------|
| District wide field trips | 682 | - | - | - | 682 |
| Interest | 14,751 | 191 | 83 | (5,223) | 9,636 |
| Total | <u>16,940</u> | <u>133,101</u> | <u>115,558</u> | <u>-</u> | <u>34,483</u> |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2011

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|--------------------------|---------------------------------|-----------|------------|---------------------------|
| | \$ | \$ | \$ | \$ |
| Assets | | | | |
| Cash | 737 | - | - | 737 |
| Liabilities | | | | |
| Due to other governments | 737 | - | - | 737 |

COLO-NESCO COMMUNITY SCHOOL DISTRICT

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

For the Last Eight Years

| | Modified Accrual Basis | | | | | | | |
|------------------------------|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues: | | | | | | | | |
| Local sources: | | | | | | | | |
| Local tax | 2,447,193 | 2,448,691 | 2,248,328 | 2,185,659 | 2,367,722 | 2,459,777 | 2,402,408 | 2,339,244 |
| Tuition | 140,199 | 111,084 | 144,155 | 160,834 | 120,032 | 148,329 | 180,570 | 162,825 |
| Other | 223,332 | 214,103 | 388,711 | 277,042 | 204,272 | 193,172 | 175,732 | 163,088 |
| State sources | 2,263,545 | 1,802,742 | 2,407,920 | 2,400,234 | 2,419,171 | 2,386,039 | 2,443,418 | 2,182,324 |
| Federal sources | 341,050 | 353,811 | 133,982 | 74,734 | 148,884 | 153,665 | 179,857 | 158,876 |
| Total revenues | <u>5,415,319</u> | <u>4,930,431</u> | <u>5,323,096</u> | <u>5,098,503</u> | <u>5,260,081</u> | <u>5,340,982</u> | <u>5,381,985</u> | <u>5,006,357</u> |
| Expenditures: | | | | | | | | |
| Instruction: | | | | | | | | |
| Regular instruction | 2,588,097 | 2,479,799 | 2,329,822 | 3,129,147 | 3,024,625 | 2,863,768 | 2,982,512 | 2,897,890 |
| Special instruction | 476,891 | 428,947 | 490,006 | - | - | - | - | - |
| Other instruction | 541,517 | 537,881 | 523,564 | - | - | - | - | - |
| Support services: | | | | | | | | |
| Student services | 41,247 | 9,683 | 62,535 | 10,040 | 5,247 | 17,463 | 20,691 | 12,303 |
| Instructional staff services | 133,203 | 139,049 | 158,661 | 89,851 | 122,933 | 148,152 | 77,960 | 61,545 |
| Administration services | 656,105 | 584,387 | 545,791 | 542,669 | 506,452 | 649,627 | 557,150 | 551,332 |
| Operation and maintenance | 585,562 | 517,834 | 477,215 | 489,383 | 477,426 | 459,601 | 374,492 | 397,724 |
| Transportation services | 300,017 | 226,733 | 299,560 | 363,321 | 274,575 | 193,857 | 211,734 | 272,007 |
| Non-instructional programs | 40 | 281 | 164 | 3,000 | - | 3,000 | 3,000 | 25,767 |
| Other expenditures: | | | | | | | | |
| Facilities acquisition | 2,964,488 | 1,780,713 | 516,400 | 249,426 | 547,481 | 551,161 | 464,347 | 389,353 |
| Long-term debt: | | | | | | | | |
| Principal | - | - | - | - | - | - | 17,211 | 36,787 |
| Interest and other charges | 162,867 | - | - | - | - | - | 772 | 1,598 |
| AEA flowthrough | 185,772 | 179,541 | 171,617 | 166,988 | 161,061 | 160,011 | 158,117 | 162,887 |
| Total expenditures | <u>8,635,806</u> | <u>6,884,848</u> | <u>5,575,335</u> | <u>5,043,825</u> | <u>5,119,800</u> | <u>5,046,640</u> | <u>4,867,986</u> | <u>4,809,193</u> |

See accompanying independent auditor's report.

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

To the Board of Education of
Colo-NESCO Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Colo-NESCO Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 2, 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 Colo-NESCO Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Colo-NESCO Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Colo-NESCO Community School District's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items 11-I-A thru 11-I-G to be material weaknesses.

Compliance and Other Matters

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

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

Colo-NESCO Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Colo-NESCO Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Colo-NESCO Community School District and other parties to whom Colo-NESCO Community School District may report and is not intended to be and should not be used by anyone other than these specified parties.

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

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

August 2, 2012

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2011

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Internal Control Deficiencies:

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

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

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

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.

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

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

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2011

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

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

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.

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

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

District Response: Monthly bank reconciliations will be prepared.

Conclusion: Response accepted.

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

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

District Response: We are working towards this goal.

Conclusion: Response accepted.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2011

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

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

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

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

Conclusion: Response accepted.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

11-II-A Certified Budget: Expenditures for the year ended June 30, 2011, exceeded the amounts budgeted 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.

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

Conclusion: Response accepted.

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

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

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

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|--------------------------------|---------------|
| | | \$ |
| Kim Nelson, Board Member | Construction | 818 |
| Bob Jamison, Board Member | Coaching | 2,280 |

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

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

11-II-F Board Minutes: We noted that bills were not published timely and not all minutes were signed by the board president.

Recommendation: All bills should be published timely and the board minutes should be signed by the president and board secretary.

District Response: We will review our procedures and publish bills timely and have the president sign all minutes in the future.

Conclusion: Response accepted.

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

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

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2011

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

11-II-I Deposits and Investments: No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

11-II-J Certified Annual Report: The Certified Annual Report was not certified to the Iowa Department of Education by September 15, 2011. We noted no significant deficiencies in the amounts reported.

Recommendation: In the future, the District should ensure the Certified Annual Report is timely certified to the Iowa Department of Education.

District Response: We will do so in the future.

Conclusion: Response accepted.

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

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

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

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

Conclusion: Response accepted.

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

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2011

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

| | | |
|---|-----------|---------------|
| | \$ | \$ |
| Beginning balance | | 2,664,287 |
| Revenues/transfers in: | | |
| Statewide sales, services and use tax revenue | 488,678 | |
| Interest | 1,414 | 490,092 |
| | <hr/> | |
| Expenditures/transfers out: | | |
| School infrastructure construction | 2,947,436 | |
| Transfers to debt service fund | 140,621 | 3,088,057 |
| | <hr/> | <hr/> |
| Ending balance | | <u>66,322</u> |

11-II-M Deficit Balances: The District has a \$390,084 deficit General Fund balance, a \$102,955 deficit net assets balance in the Nutrition Fund, a \$188,485 deficit net assets balance in the Daycare Fund and a \$49,439 deficit net assets balance in the Preschool Fund as of June 30, 2011; also, the Student Activity Fund has several accounts with deficit balances at June 30, 2011.

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

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

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.

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

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

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

June 30, 2011

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

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

Conclusion: Response accepted.

11-II-P General Fund Subsidizing Daycare Fund: The Iowa Department of Education has issued an opinion that General Fund money may not be used to cover Daycare Fund and Preschool Fund deficits. Currently the General Fund has loaned the Daycare Fund \$177,837 to cover deficits that the Daycare Fund has incurred over the past several years and has loaned the Preschool Fund \$43,113 to cover the fiscal year 2011 deficit.

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

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

Conclusion: Response accepted.

11-II-Q Physical Plant and Equipment Levy Fund Expenditures (PPEL): The PPEL property tax levy may be spent to purchase and improve grounds; to construct buildings; to purchase or lease a single unit of equipment or technology exceeding \$500 in value per unit; to repair, remodel improve, or expand buildings; for energy conservation; and to purchase transportation equipment.

The Code of Iowa defines the improvement of grounds to include grading, landscaping, paving, seeding and planting of shrubs and trees; constructing sidewalks, roadways, retaining walls, sewers and storm drains, and installing hydrants; surfacing and soil treatment of athletic fields and tennis courts; exterior lighting, including athletic fields and tennis courts; furnishing and installing flagpoles, gateways, fences and underground storage tanks; demolition work; and special assessments against the school district for public improvements.

We noted that the District used the PPEL Fund to pay for fire alarm inspection and maintenance. These items do not appear to be allowable from the PPEL Fund.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund. And the General Fund should reimburse the PPEL Fund for these expenditures.

District Response: We will monitor expenditures from the PPEL Fund and make the reimbursement.

Conclusion: Response accepted.