

KEOTA COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2011

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Keota Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|--------------------|---------------------|
| Board of Education (After September 2010 Reorganizational Meeting) | | |
| Jared Lyle | President | 2011 |
| Robert Romoser | Vice President | 2011 |
| Ryan Clarahan | Board Member | 2013 |
| Lindsay Greiner | Board Member | 2013 |
| Craig McClenahan | Board Member | 2011 |
| School Officials | | |
| Mark Schneider | Superintendent | 2011 |
| Cherie Westendorf | District Secretary | 2011 |
| Cindy Steege | Business Manager | 2011 |
| Joe Holland | Attorney | 2011 |

KEOTA COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Keota 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 the Keota Community School District, Keota, Iowa as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as 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 Keota Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2012 on our consideration of Keota Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 43 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keota 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 seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

NOLTE, CORNMAN & JOHNSON, P.C.

January 6, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keota 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 \$3,199,661 in fiscal 2010 to \$3,747,873 in fiscal 2011, while General Fund expenditures increased from \$3,274,978 in fiscal 2010 to \$3,369,138 in fiscal 2011. This resulted in an increase in the District's General Fund balance from \$95,716 in fiscal 2010 to \$474,451 in fiscal 2011, a 395.69% increase from the prior year.
- The increase in General Fund revenues was attributable to increases in local and state sources in fiscal 2010. The increase in expenditures was due primarily to increased spending in the instructional functional areas.

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

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

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

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.

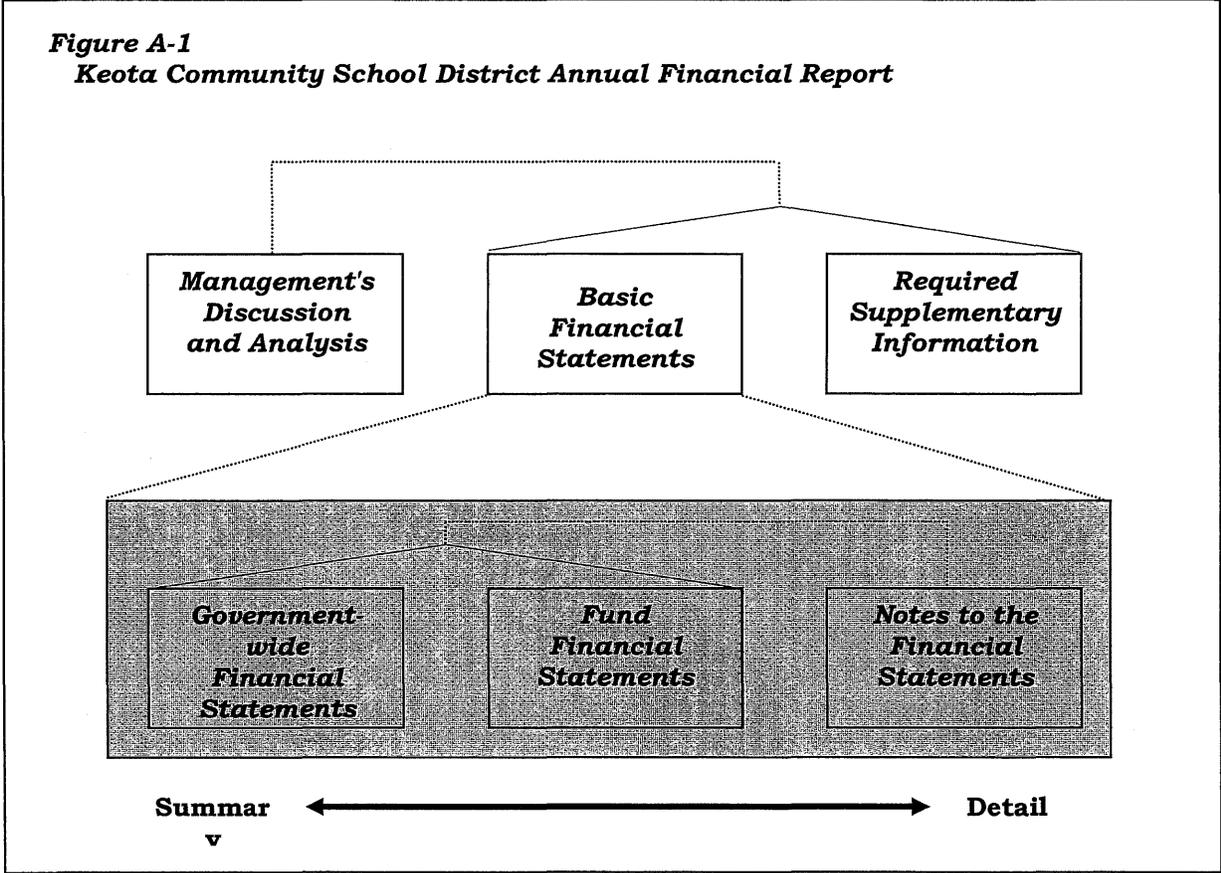


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

| | Government-wide Statements | Fund Statements | |
|--|--|--|---|
| | | Governmental Funds | Proprietary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses: food services and adult education |
| 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 net assets • Statement of cash flows |
| 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 |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, and short-term and long-term |
| 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 |

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has two 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 the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|--|----------------------------|------------------|-----------------------------|---------------|-------------------|------------------|-----------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2010-11 |
| Current and other assets | \$ 3,656,375 | 2,793,760 | 15,372 | 9,073 | 3,671,747 | 2,802,833 | 31.00% |
| Capital assets | 3,090,064 | 3,193,611 | 22,481 | 16,544 | 3,112,545 | 3,210,155 | -3.04% |
| Total assets | <u>6,746,439</u> | <u>5,987,371</u> | <u>37,853</u> | <u>25,617</u> | <u>6,784,292</u> | <u>6,012,988</u> | <u>12.83%</u> |
| Long-term obligations | 1,840,831 | 2,084,731 | 470 | 203 | 1,841,301 | 2,084,934 | -11.69% |
| Other liabilities | 2,558,454 | 2,216,816 | 12,776 | 6,269 | 2,571,230 | 2,223,085 | 15.66% |
| Total liabilities | <u>4,399,285</u> | <u>4,301,547</u> | <u>13,246</u> | <u>6,472</u> | <u>4,412,531</u> | <u>4,308,019</u> | <u>2.43%</u> |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 1,262,989 | 1,119,178 | 22,481 | 16,544 | 1,285,470 | 1,135,722 | 13.19% |
| Restricted | 628,040 | 497,826 | 0 | 0 | 628,040 | 497,826 | 26.16% |
| Unrestricted | 456,125 | 68,820 | 2,126 | 2,601 | 458,251 | 71,421 | 541.62% |
| Total net assets | <u>\$ 2,347,154</u> | <u>1,685,824</u> | <u>24,607</u> | <u>19,145</u> | <u>2,371,761</u> | <u>1,704,969</u> | <u>39.11%</u> |

The District's combined net assets increased by 39.11%, or \$666,792 compared to 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. The invested in capital assets, net of related debt increased \$149,748, or 13.19% over the prior year.

Restricted net assets represents 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 \$130,214, or 26.16% over the prior year. The majority of the increase in restricted net assets was due to an increase in restricted assets for Capital Projects.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$386,830, or 541.62%. The majority of the increase in unrestricted net assets was due to the District's increase in the General Fund and Capital Projects balance.

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

| | Figure A-4 | | | | | | |
|---|-------------------------|------------------|--------------------------|----------------|-----------------------|------------------|---------------|
| | Changes of Net Assets | | | | | | |
| | Governmental Activities | | Business Type Activities | | Total School District | | Total Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2010-11 | |
| Revenues and Transfers: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 367,641 | 317,064 | 94,842 | 97,172 | 462,483 | 414,236 | 11.65% |
| Operating grants, contributions and restricted interest | 665,060 | 712,886 | 59,911 | 58,174 | 724,971 | 771,060 | -5.98% |
| Capital grants, contributions and restricted interest | 0 | 1,213 | 0 | 0 | 0 | 1,213 | 100.00% |
| General revenues: | | | | | | | |
| Property tax | 1,956,056 | 1,590,226 | 0 | 0 | 1,956,056 | 1,590,226 | 23.00% |
| Income surtax | 164,866 | 152,042 | 0 | 0 | 164,866 | 152,042 | 8.43% |
| Statewide sales and services tax | 310,231 | 117,619 | 0 | 0 | 310,231 | 117,619 | 163.76% |
| Unrestricted state grants | 1,000,587 | 770,196 | 0 | 0 | 1,000,587 | 770,196 | 29.91% |
| Nonspecific program federal funding | 102,710 | 0 | 0 | 0 | 102,710 | 0 | 100.00% |
| Unrestricted investment earnings | 12,293 | 0 | 224 | 0 | 12,517 | 0 | 100.00% |
| Other | 8,532 | 52,577 | 866 | 1,005 | 9,398 | 53,582 | -82.46% |
| Transfers | (9,592) | (7,268) | 9,592 | 7,268 | 0 | 0 | 0.00% |
| Total revenues and transfers | <u>4,578,384</u> | <u>3,706,555</u> | <u>165,435</u> | <u>163,619</u> | <u>4,743,819</u> | <u>3,870,174</u> | <u>22.57%</u> |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instructional | 2,566,417 | 2,296,951 | 0 | 0 | 2,566,417 | 2,296,951 | 11.73% |
| Support services | 1,053,643 | 1,132,613 | 0 | 0 | 1,053,643 | 1,132,613 | -6.97% |
| Non-instructional programs | 460 | 607 | 159,973 | 156,534 | 160,433 | 157,141 | 2.09% |
| Other expenses | 296,534 | 314,535 | 0 | 0 | 296,534 | 314,535 | -5.72% |
| Total expenses | <u>3,917,054</u> | <u>3,744,706</u> | <u>159,973</u> | <u>156,534</u> | <u>4,077,027</u> | <u>3,901,240</u> | <u>4.51%</u> |
| Change in net assets | 661,330 | (38,151) | 5,462 | 7,085 | 666,792 | (31,066) | -2246.37% |
| Net assets beginning of year, as restated | <u>1,685,824</u> | <u>1,723,975</u> | <u>19,145</u> | <u>12,060</u> | <u>1,704,969</u> | <u>1,736,035</u> | <u>-1.79%</u> |
| Net assets end of year | <u>\$ 2,347,154</u> | <u>1,685,824</u> | <u>24,607</u> | <u>19,145</u> | <u>2,371,761</u> | <u>1,704,969</u> | <u>39.11%</u> |

In fiscal 2011, property tax, operating grants, contributions and restricted interest, unrestricted state grants, and charges for services account for 87.13% of the revenue from governmental activities while charges for services and operating grants and contributions account for 93.54% of the revenue from business type activities.

The District's total revenues were approximately \$4.74 million of which approximately \$4.58 million was for governmental activities and approximately \$0.16 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 22.57% in revenues and a 4.51% increase in expenses. The increase in expenses was related to spending in the instructional staff and non-instructional program functional areas during the year.

Governmental Activities

Revenues for governmental activities were \$4,578,384 and expenses were \$3,917,054.

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

| Figure A-5 Total and Net Cost of Governmental Activities | | | | | | |
|---|------------------------|------------------|-------------------|----------------------|------------------|-------------------|
| | Total Cost of Services | | | Net Cost of Services | | |
| | 2011 | 2010 | Change 2010-11 | 2011 | 2010 | Change 2010-11 |
| Instruction | \$ 2,566,417 | 2,296,951 | 11.73% | 1,667,389 | 1,398,603 | 19.22% |
| Support services | 1,053,643 | 1,132,613 | -6.97% | 1,053,643 | 1,132,283 | -6.95% |
| Non-instructional programs | 460 | 607 | -24.22% | 460 | 607 | -24.22% |
| Other expenses | 296,534 | 314,535 | -5.72% | 162,861 | 182,050 | -10.54% |
| Totals | <u>\$ 3,917,054</u> | <u>3,744,706</u> | <u>4.60%</u> | <u>2,884,353</u> | <u>2,713,543</u> | <u>6.29%</u> |

For the year ended June 30, 2011:

- The cost financed by users of the District’s programs was \$367,641.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$665,060.
- The net cost of governmental activities was financed with \$1,956,056 in local tax, \$164,866 in income surtax, \$310,231 in statewide sales, services and use tax, \$102,710 in nonspecific program federal funding, \$1,000,587 in unrestricted state grants, \$12,293 in interest income and \$8,532 in other revenues net of transfers.

Business type Activities

Revenues of the District’s business type activities were \$165,435, representing a 1.11% increase over the prior year, while expenses totaled \$159,973, a 2.20% increase over the prior year. The District’s business type activities include the School Nutrition Fund. Revenues of these activities were largely comprised of charges for service and federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$964,991, compared to last year’s ending fund balances of \$449,338. The primary reason for the increase in combined fund balances in fiscal 2011 is due to the efficiency of revenues over expenditures in the General Fund.

Governmental Fund Highlights

- The District’s General Fund financial position is the product of many factors. There was more of an increase in General Fund revenues as compared to fiscal 2010, compared with the increase in General Fund expenditures causing the overall increase in the General Fund balance.

- The Capital Projects Fund balance increased from \$262,978 in fiscal 2010 to \$401,744 in fiscal 2011. The majority of the increase was due to the reclassification of the physical plant and equipment levy to the Capital Projects Fund.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$19,145 at June 30, 2010 to \$24,607 at June 30, 2011, representing an increase of 28.53%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$124,665 less than budgeted revenues, a variance of 2.56%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional functional area due to timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$3,112,545, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.04% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$146,702.

The original cost of the District's capital assets was \$5,971,846. Governmental funds account for \$5,900,886 with the remainder of \$70,960 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$2,909,983 reported at June 30, 2011, compared to \$3,003,986 at June 30, 2010. This decrease resulted mainly from current year depreciation being greater than capital purchases.

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|-------------------------|-------------------------|-----------|--------------------------|--------|----------------|-----------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2010-11 |
| Land | \$ 12,310 | 12,310 | 0 | 0 | 12,310 | 12,310 | 0.00% |
| Buildings | 2,909,983 | 3,003,986 | 0 | 0 | 2,909,983 | 3,003,986 | -3.13% |
| Machinery and equipment | 167,771 | 177,315 | 22,481 | 16,544 | 190,252 | 193,859 | -1.86% |
| Total | \$ 3,090,064 | 3,193,611 | 22,481 | 16,544 | 3,112,545 | 3,210,155 | -3.04% |

Long-Term Debt

At June 30, 2011, the District had \$1,841,301 in general obligation, bank loan debt, early retirement and net OPEB liability outstanding. This represents a decrease of 11.69% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

| | Governmental Activities | | Business type Activities | | Total District | | Total Change |
|--------------------------|-------------------------|-----------|--------------------------|------|----------------|-----------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2010-11 |
| General obligation bonds | \$ 1,730,000 | 1,945,000 | 0 | 0 | \$ 1,730,000 | 1,945,000 | -11.05% |
| Bank loan | 97,075 | 129,433 | 0 | 0 | 97,075 | 129,433 | -25.00% |
| Early retirement | 8,612 | 8,074 | 0 | 0 | 8,612 | 8,074 | 6.66% |
| Net OPEB liability | 5,144 | 2,224 | 470 | 203 | 5,614 | 2,427 | 131.31% |
| Totals | \$ 1,840,831 | 2,084,731 | 470 | 203 | \$ 1,841,301 | 2,084,934 | -11.69% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District's open enrollment out continue to increase each year.
- Sharing incentives from the State will be phased out with the 2012-2013 school year.
- Expenditures increased in a year with salaries frozen.
- Shared positions with Mid-Prairie including; Superintendent, Business Manager, Teacher-Librarian, and Technology allow for cost savings to the District.
- The District is still in a declining position with enrollment.
- Allowable Growth is not keeping up with the increased cost of living. This coupled with enrollment decline continues to negatively impact the District's spending authority.

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 Cherie Westendorf, District Board Secretary, Keota Community School District, P.O. Box 88, Keota, Iowa, 52248.

KEOTA COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

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

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 1,185,364 | 13,533 | 1,198,897 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 15,960 | 0 | 15,960 |
| Succeeding year | 2,140,611 | 0 | 2,140,611 |
| Income surtax | 145,373 | 0 | 145,373 |
| Due from other governments | 169,067 | 0 | 169,067 |
| Inventories | 0 | 1,839 | 1,839 |
| Capital assets, net of accumulated depreciation | 3,090,064 | 22,481 | 3,112,545 |
| Total assets | 6,746,439 | 37,853 | 6,784,292 |
| Liabilities | | | |
| Salaries and benefits payable | 335,498 | 11,225 | 346,723 |
| Interest payable | 12,443 | 0 | 12,443 |
| Deferred revenue: | | | |
| Succeeding year property tax | 2,140,611 | 0 | 2,140,611 |
| Other | 69,902 | 0 | 69,902 |
| Unearned revenue | 0 | 1,551 | 1,551 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| General obligation bonds payable | 225,000 | 0 | 225,000 |
| Bank loan | 32,358 | 0 | 32,358 |
| Early retirement | 8,612 | 0 | 8,612 |
| Portion due after one year: | | | |
| General obligation bonds payable | 1,505,000 | 0 | 1,505,000 |
| Bank loan | 64,717 | 0 | 64,717 |
| Net OPEB liability | 5,144 | 470 | 5,614 |
| Total liabilities | 4,399,285 | 13,246 | 4,412,531 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 1,262,989 | 22,481 | 1,285,470 |
| Restricted for: | | | |
| Categorical funding | 144,253 | 0 | 144,253 |
| School infrastructure | 399,380 | 0 | 399,380 |
| Management levy | 38,164 | 0 | 38,164 |
| Physical plant and equipment levy | 2,364 | 0 | 2,364 |
| Other special revenue purposes | 43,879 | 0 | 43,879 |
| Unrestricted | 456,125 | 2,126 | 458,251 |
| Total net assets | \$ 2,347,154 | 24,607 | 2,371,761 |

SEE NOTES TO FINANCIAL STATEMENTS.

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

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | Total |
|--|------------------|-------------------------|--|--|--|--------------------------------|--------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Govern- mental Activities | Business Type Activities | |
| Functions/Programs: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction: | | | | | | | |
| Regular | \$ 1,409,458 | 122,662 | 381,611 | 0 | (905,185) | 0 | (905,185) |
| Special | 491,872 | 0 | 85,657 | 0 | (406,215) | 0 | (406,215) |
| Other | 665,087 | 244,979 | 64,119 | 0 | (355,989) | 0 | (355,989) |
| | <u>2,566,417</u> | <u>367,641</u> | <u>531,387</u> | <u>0</u> | <u>(1,667,389)</u> | <u>0</u> | <u>(1,667,389)</u> |
| Support services: | | | | | | | |
| Student | 16,637 | 0 | 0 | 0 | (16,637) | 0 | (16,637) |
| Instructional staff | 81,433 | 0 | 0 | 0 | (81,433) | 0 | (81,433) |
| Administration | 432,199 | 0 | 0 | 0 | (432,199) | 0 | (432,199) |
| Operation and maintenance of plant | 334,186 | 0 | 0 | 0 | (334,186) | 0 | (334,186) |
| Transportation | 189,188 | 0 | 0 | 0 | (189,188) | 0 | (189,188) |
| | <u>1,053,643</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>(1,053,643)</u> | <u>0</u> | <u>(1,053,643)</u> |
| Non-instructional programs: | | | | | | | |
| Other enterprise operations | 460 | 0 | 0 | 0 | (460) | 0 | (460) |
| Other expenses: | | | | | | | |
| Long-term debt interest | 68,858 | 0 | 0 | 0 | (68,858) | 0 | (68,858) |
| AEA flowthrough | 133,673 | 0 | 133,673 | 0 | 0 | 0 | 0 |
| Depreciation (unallocated)* | 94,003 | 0 | 0 | 0 | (94,003) | 0 | (94,003) |
| | <u>296,534</u> | <u>0</u> | <u>133,673</u> | <u>0</u> | <u>(162,861)</u> | <u>0</u> | <u>(162,861)</u> |
| Total governmental activities | 3,917,054 | 367,641 | 665,060 | 0 | (2,884,353) | 0 | (2,884,353) |
| Business Type activities: | | | | | | | |
| Non-instructional programs: | | | | | | | |
| Nutrition services | 159,973 | 94,842 | 59,911 | 0 | 0 | (5,220) | (5,220) |
| Total business type activities | 159,973 | 94,842 | 59,911 | 0 | 0 | (5,220) | (5,220) |
| Total | \$ 4,077,027 | 462,483 | 724,971 | 0 | (2,884,353) | (5,220) | (2,889,573) |
| General Revenues and Transfers: | | | | | | | |
| General revenues: | | | | | | | |
| Local tax for: | | | | | | | |
| General purposes | | | | | \$ 1,729,098 | 0 | 1,729,098 |
| Debt service | | | | | 172,763 | 0 | 172,763 |
| Capital outlay | | | | | 54,195 | 0 | 54,195 |
| Income surtax | | | | | 164,866 | 0 | 164,866 |
| Statewide sales and services tax | | | | | 310,231 | 0 | 310,231 |
| Nonspecific program federal funding | | | | | 102,710 | 0 | 102,710 |
| Unrestricted state grants | | | | | 1,000,587 | 0 | 1,000,587 |
| Unrestricted investment earnings | | | | | 12,293 | 224 | 12,517 |
| Other general revenues | | | | | 8,532 | 866 | 9,398 |
| Transfers | | | | | (9,592) | 9,592 | 0 |
| Total general revenues and transfers | | | | | <u>3,545,683</u> | <u>10,682</u> | <u>3,556,365</u> |
| Changes in net assets | | | | | 661,330 | 5,462 | 666,792 |
| Net assets beginning of year | | | | | 1,685,824 | 19,145 | 1,704,969 |
| Net assets end of year | | | | | <u>\$ 2,347,154</u> | <u>24,607</u> | <u>2,371,761</u> |

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

| | General | Capital Projects | Debt Service | Nonmajor Governmental Funds | Total |
|--|---------------------|---------------------|-----------------|-----------------------------------|------------------|
| Assets | | | | | |
| Cash and pooled investments | \$ 798,713 | 296,467 | 0 | 90,184 | 1,185,364 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 13,670 | 406 | 1,413 | 471 | 15,960 |
| Succeeding year | 1,758,350 | 51,070 | 284,127 | 47,064 | 2,140,611 |
| Income surtax | 145,373 | 0 | 0 | 0 | 145,373 |
| Due from other funds | 0 | 3,272 | 0 | 0 | 3,272 |
| Due from other governments | 67,468 | 101,599 | 0 | 0 | 169,067 |
| Total assets | \$ 2,783,574 | 452,814 | 285,540 | 137,719 | 3,659,647 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Due to other funds | \$ 0 | 0 | 3,272 | 0 | 3,272 |
| Salaries and benefits payable | 335,498 | 0 | 0 | 0 | 335,498 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 1,758,350 | 51,070 | 284,127 | 47,064 | 2,140,611 |
| Income surtax | 145,373 | 0 | 0 | 0 | 145,373 |
| Other | 69,902 | 0 | 0 | 0 | 69,902 |
| Total liabilities | 2,309,123 | 51,070 | 287,399 | 47,064 | 2,694,656 |
| Fund balances: | | | | | |
| Restricted for: | | | | | |
| Categorical funding | 144,253 | 0 | 0 | 0 | 144,253 |
| Management levy purpose | 0 | 0 | 0 | 46,776 | 46,776 |
| Student activities | 0 | 0 | 0 | 43,879 | 43,879 |
| School infrastructure | 0 | 399,380 | 0 | 0 | 399,380 |
| Physical plant and equipment | 0 | 2,364 | 0 | 0 | 2,364 |
| Unassigned | 330,198 | 0 | (1,859) | 0 | 328,339 |
| Total fund balances | 474,451 | 401,744 | (1,859) | 90,655 | 964,991 |
| Total liabilities and fund balances | \$ 2,783,574 | 452,814 | 285,540 | 137,719 | 3,659,647 |

SEE NOTES TO FINANCIAL STATEMENTS.

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

| | | |
|---|-----------|-------------------------|
| Total fund balances of governmental funds (page 20) | \$ | 964,991 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | | 3,090,064 |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current period. | | 145,373 |
| 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. | | (12,443) |
| Long-term liabilities, including general obligation bonds, bank loans, early retirement, 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>(1,840,831)</u> |
| Net assets of governmental activities (page 18) | \$ | <u>2,347,154</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

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

| | General | Capital Projects | Debt Service | Nonmajor Governmental Funds | Total |
|--|-------------------|---------------------|-----------------|-----------------------------------|------------------|
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 1,832,967 | 359,918 | 172,762 | 57,541 | 2,423,188 |
| Tuition | 111,373 | 0 | 0 | 0 | 111,373 |
| Other | 77,923 | 5,124 | 0 | 241,301 | 324,348 |
| State sources | 1,466,452 | 0 | 0 | 0 | 1,466,452 |
| Federal sources | 259,158 | 0 | 0 | 0 | 259,158 |
| Total revenues | <u>3,747,873</u> | <u>365,042</u> | <u>172,762</u> | <u>298,842</u> | <u>4,584,519</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 1,396,175 | 2,750 | 0 | 8,074 | 1,406,999 |
| Special | 491,733 | 0 | 0 | 0 | 491,733 |
| Other | 427,728 | 0 | 0 | 237,359 | 665,087 |
| | <u>2,315,636</u> | <u>2,750</u> | <u>0</u> | <u>245,433</u> | <u>2,563,819</u> |
| Support services: | | | | | |
| Student | 15,146 | 0 | 0 | 1,480 | 16,626 |
| Instructional staff | 81,408 | 0 | 0 | 0 | 81,408 |
| Administration | 408,050 | 0 | 0 | 23,592 | 431,642 |
| Operation and maintenance of plant | 277,736 | 16,720 | 0 | 15,167 | 309,623 |
| Transportation | 137,029 | 11,709 | 0 | 7,233 | 155,971 |
| | <u>919,369</u> | <u>28,429</u> | <u>0</u> | <u>47,472</u> | <u>995,270</u> |
| Non-instructional programs: | | | | | |
| Community service operations | 460 | 0 | 0 | 0 | 460 |
| Other expenditures: | | | | | |
| Facilities acquisitions | 0 | 57,561 | 0 | 0 | 57,561 |
| Long-term debt: | | | | | |
| Principal | 0 | 0 | 247,358 | 0 | 247,358 |
| Interest and fiscal charges | 0 | 0 | 70,725 | 0 | 70,725 |
| AEA flowthrough | 133,673 | 0 | 0 | 0 | 133,673 |
| | <u>133,673</u> | <u>57,561</u> | <u>318,083</u> | <u>0</u> | <u>509,317</u> |
| Total expenditures | <u>3,369,138</u> | <u>88,740</u> | <u>318,083</u> | <u>292,905</u> | <u>4,068,866</u> |
| Excess(Deficiency) of revenues over(under) expenditures | 378,735 | 276,302 | (145,321) | 5,937 | 515,653 |
| Other financing sources(uses): | | | | | |
| Transfers in | 0 | 0 | 137,536 | 0 | 137,536 |
| Transfer out | 0 | (137,536) | 0 | 0 | (137,536) |
| Total other financing sources(uses) | <u>0</u> | <u>(137,536)</u> | <u>137,536</u> | <u>0</u> | <u>0</u> |
| Net change in fund balances | 378,735 | 138,766 | (7,785) | 5,937 | 515,653 |
| Fund balance beginning of year | 95,716 | 262,978 | 5,926 | 84,718 | 449,338 |
| Fund balance end of year | <u>\$ 474,451</u> | <u>401,744</u> | <u>(1,859)</u> | <u>90,655</u> | <u>964,991</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2011

Net change in fund balances - total governmental funds (page 22) \$ 515,653

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

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

| | | |
|----------------------|------------------|-----------|
| Capital outlays | \$ 39,500 | |
| Depreciation expense | <u>(143,047)</u> | (103,547) |

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 3,457

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows: 247,358

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,867

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:

| | | |
|-------------------------------|----------------|----------------|
| Early retirement | (538) | |
| Other postemployment benefits | <u>(2,920)</u> | <u>(3,458)</u> |

Changes in net assets of governmental activities (page 19) \$ 661,330

KEOTA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2011

| | <u>School</u> <u>Nutrition</u> |
|---|-----------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 13,533 |
| Inventories | 1,839 |
| Capital assets, net of accumulated depreciation | <u>22,481</u> |
| Total assets | <u><u>37,853</u></u> |
| Liabilities | |
| Salaries and benefits payable | 11,225 |
| Unearned revenue | 1,551 |
| Net OPEB liability | <u>470</u> |
| Total liabilities | <u><u>13,246</u></u> |
| Net Assets | |
| Invested in capital assets | 22,481 |
| Unrestricted | <u>2,126</u> |
| Total net assets | <u><u>\$ 24,607</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

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

| | School Nutrition |
|--|---------------------|
| Operating Revenue: | |
| Local sources: | |
| Charges for services | \$ 94,842 |
| Other | 866 |
| Total operating revenues | 95,708 |
| Operating Expenses: | |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries | 48,957 |
| Benefits | 25,490 |
| Services | 446 |
| Supplies | 80,985 |
| Other | 440 |
| Depreciation | 3,655 |
| Total operating expenses | 159,973 |
| Operating loss | (64,265) |
| Non-operating revenues: | |
| State sources | 1,507 |
| Federal sources | 58,404 |
| Interest on investments | 224 |
| Total non-operating revenues | 60,135 |
| Change in net assets before other financing sources | (4,130) |
| Other financing sources: | |
| Capital contributions | 9,592 |
| Change in net assets | 5,462 |
| Net assets beginning of year | 19,145 |
| Net assets end of year | \$ 24,607 |

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011

| | School Nutrition |
|---|---------------------|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | \$ 95,102 |
| Cash received from miscellaneous | 866 |
| Cash payments to employees for services | (67,933) |
| Cash payments to suppliers for goods or services | (74,713) |
| Net cash used in operating activities | (46,678) |
| Cash flows from non-capital financing activities: | |
| State grants received | 1,507 |
| Federal grants received | 50,863 |
| Net cash provided by non-capital financing activities | 52,370 |
| Cash flows from investing activities: | |
| Interest on investments | 224 |
| Net increase in cash and cash equivalents | 5,916 |
| Cash and cash equivalents at beginning of year | 7,617 |
| Cash and cash equivalents at end of year | \$ 13,533 |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (64,265) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Commodities consumed | 7,541 |
| Depreciation | 3,655 |
| Increase in inventories | (383) |
| Increase in salaries and benefits payable | 6,247 |
| Increase in unearned revenue | 260 |
| Increase in other postemployment benefits | 267 |
| Net cash used in operating activities | \$ (46,678) |

During the year ended June 30, 2011, the District received Federal commodities valued at \$7,541.

During the year ended June 30, 2011, the District received \$9,592 in capital contributions from the PPEL Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) **Summary of Significant Accounting Policies**

The Keota Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Keota, Iowa, and the predominate agricultural territory in Keokuk and Washington 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, Keota 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 Keota Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

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

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

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

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

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

The District reports the following major governmental fund:

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

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

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

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

When an expenditure is incurred in governmental funds which can be paid 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 Balances

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

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

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

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

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

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

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

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

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

| Asset Class | Amount |
|---------------------------------|----------|
| Land | \$ 5,000 |
| Buildings | 5,000 |
| Land improvements | 5,000 |
| Intangibles | 2,500 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 5,000 |

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

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

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

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

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

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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

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

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

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011 expenditures in the non-instructional functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011 the District had no investments.

(3) Due From and Due to Other Funds

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

| Receivable Fund | Payable Fund | Amount |
|------------------|--------------|-----------------|
| Capital Projects | Debt Service | <u>\$ 3,272</u> |

The Capital Projects Fund is paying the Debt Service Fund for cash flow purposes.

(4) Transfers

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

| Transfer to | Transfer from | Amount |
|--------------|------------------------------|-------------------|
| Debt Service | Capital Projects | \$ 100,000 |
| Debt Service | Physical Plant and Equipment | <u>37,536</u> |
| Total | | <u>\$ 137,536</u> |

Transfers from Capital Projects to Debt service was needed for revenue bond indebtedness. The transfer from Physical Plant and Equipment to Debt Service was for a bus lease payment. The Physical Plant and Equipment Levy Fund is repaying the General Fund for proceeds from sale of equipment in the prior year. The balance will be repaid by June 30, 2012.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2010-11A warrants is 1.20% plus the one-month LIBOR rate, adjusted daily. A summary of the District's ISCAP activity for the year ended June 30, 2011 is as follows:

| Series | Warrant Date | Final Warrant Maturity | Balance Beginning of Year | Advances Received | Advances Repaid | Balance End of Year |
|----------|--------------|------------------------|---------------------------|-------------------|-----------------|---------------------|
| 2010-11A | 6/30/10 | 6/23/11 | \$ 0 | 200,000 | 200,000 | 0 |

During the year ended June 30, 2011, the District paid \$451 of interest on the ISCAP warrants.

(6) Capital Assets

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

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------|-----------|-----------|---------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 12,310 | 0 | 0 | 12,310 |
| Total capital assets not being depreciated | 12,310 | 0 | 0 | 12,310 |
| Capital assets being depreciated: | | | | |
| Buildings | 5,204,323 | 0 | 0 | 5,204,323 |
| Machinery and equipment | 644,753 | 39,500 | 0 | 684,253 |
| Total capital assets being depreciated | 5,849,076 | 39,500 | 0 | 5,888,576 |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,200,337 | 94,003 | 0 | 2,294,340 |
| Machinery and equipment | 467,438 | 49,044 | 0 | 516,482 |
| Total accumulated depreciation | 2,667,775 | 143,047 | 0 | 2,810,822 |
| Total capital assets being depreciated, net | 3,181,301 | (103,547) | 0 | 3,077,754 |
| Governmental activities capital assets, net | \$ 3,193,611 | (103,547) | 0 | 3,090,064 |
| Business type activities: | | | | |
| Machinery and equipment | \$ 63,818 | 9,592 | 2,450 | 70,960 |
| Less accumulated depreciation | 47,274 | 3,655 | 2,450 | 48,479 |
| Business type activities capital assets, net | \$ 16,544 | 5,937 | 0 | 22,481 |

Depreciation expense was charged by the District as follows:

| | | |
|--|--|----------------|
| Governmental activities: | | |
| Support services: | | |
| Operation and maintenance of plant | | \$ 6,327 |
| Transportation | | 42,717 |
| | | <u>49,044</u> |
| Unallocated depreciation | | 94,003 |
| | | <u>143,047</u> |
| Total governmental activities depreciation expense | | \$ 143,047 |
| Business type activities: | | |
| Food services | | \$ 3,655 |
| | | <u>3,655</u> |

(7) Long-Term Liabilities

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

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|---------------------------|---------------------------------|-----------|-----------|---------------------------|---------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 1,945,000 | 0 | 215,000 | 1,730,000 | 225,000 |
| Bank loan | 129,433 | 0 | 32,358 | 97,075 | 32,358 |
| Early retirement | 8,074 | 8,612 | 8,074 | 8,612 | 8,612 |
| Net OPEB liability | 2,224 | 2,920 | 0 | 5,144 | 0 |
| Total | \$ 2,084,731 | 11,532 | 255,432 | 1,840,831 | 265,970 |
| Business type activities: | | | | | |
| Net OPEB liability | \$ 203 | 267 | 0 | 470 | 0 |

General Obligation Bonds Payable

Details of the District's June 30, 2011 general obligation bonds, which will be paid using Debt Service Funds, are as follows:

| Year Ending June 30, | Bond dated April 28, 2008 | | | |
|----------------------------|---------------------------|--------------|----------|-----------|
| | Interest Rates | Principal | Interest | Total |
| 2012 | 3.00% | \$ 225,000 | 59,127 | 284,127 |
| 2013 | 3.10 | 230,000 | 52,378 | 282,378 |
| 2014 | 3.25 | 240,000 | 45,247 | 285,247 |
| 2015 | 3.40 | 245,000 | 37,447 | 282,447 |
| 2016 | 3.60 | 250,000 | 29,118 | 279,118 |
| 2017-2018 | 3.7-3.75 | 540,000 | 30,430 | 570,430 |
| Total | | \$ 1,730,000 | 253,747 | 1,983,747 |

Bank Loan Payable

Details of the District's June 30, 2011 bank loan, which will be paid from the Special Revenue: Physical Plant and Equipment Levy, are as follows:

| Year Ending June 30, | Loan dated June 10, 2009 | | | |
|----------------------------|--------------------------|-----------|----------|---------|
| | Interest Rates | Principal | Interest | Total |
| 2012 | 4.00% | \$ 32,358 | 3,883 | 36,241 |
| 2013 | 4.00 | 32,358 | 2,596 | 34,954 |
| 2014 | 4.00 | 32,359 | 1,294 | 33,653 |
| Total | | \$ 97,075 | 7,773 | 104,848 |

Early Retirement

The District offers a voluntary early retirement plan to all full-time employees. Eligible employees must be at least age fifty-five and employees must have completed their last ten consecutive years of service with the District. Employees must complete an application on or before January 15 in the year of retirement, which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to an amount determined prior to December 1 of the current contract year and the employee will receive the benefit as one lump sum payment in January of the year following retirement.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$124,241, \$116,679, and \$111,793, respectively, equal to the required contributions for each year.

(9) Other Postemployment Benefits

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 32 active and 4 retired members in the plan. Participants must be age 55 or older at retirement.

The medical and dental benefits are provided through a fully-insured plan with South East Iowa Health Care. Retirees under age 65 pay the same premium for the medical and dental benefits as active employees, which results in an implicit rate 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 which, 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 | \$ 9,666 |
| Interest on net OPEB obligation | 290 |
| Adjustment to annual required contribution | <u>(122)</u> |
| Annual OPEB cost | 9,834 |
| Contribution made | <u>(6,647)</u> |
| Increase in net OPEB obligation | 3,187 |
| Net OPEB obligation beginning of year | <u>2,427</u> |
| Net OPEB obligation end of year | <u><u>\$ 5,614</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 \$6,647 to the medical plan. Plan members eligible for benefits contributed \$25,674, or 79% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------|------------------|--|---------------------|
| 2010 | \$9,666 | 74.9% | \$2,427 |
| 2011 | \$9,834 | 67.6% | \$5,614 |

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 \$94,932, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$94,932. The covered payroll (annual payroll of active employees covered by the plan) was \$922,434.27 and the ratio of the UAAL to covered payroll was 10.30%.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates 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, presents 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 projected unit credit actuarial cost method was used. The actuarial assumptions includes a 3% discount rate based on the District's funding policy. The projected annual medical trend rate is 9%. The ultimate medical trend rate is 5%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2008 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2008.

Projected claim costs of the medical plan are \$477 per month for both single eligible members and retirees less than age 65. The

UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(10) Risk Management

Keota Community School District is a member in the Southeast Iowa Schools Health Care Plan, an Iowa Code Chapter 28E organization. The Southeast Iowa Schools Health Care Plan (SEIHC) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEIHC was for the purpose of managing and funding employee benefits. SEIHC provides coverage and protection in the following categories: medical and dental.

Each member's contributions to SEIHC funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEIS's general and administrative expenses and insurance premiums.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEIHC for the year ended June 30, 2011 were \$324,061.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. SEIS will pay claims incurred before the termination date.

Keota 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.

(11) 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 \$133,673 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.

(12) Deficit Balance

As of June 30, 2011, the District had a deficit restricted fund balance in the Debt Service Fund of \$1,859.

(13) Categorical Funding

The District's ending reserved balances for categorical funding as of June 30, 2011 are broken out by the following projects:

| <u>Project</u> | <u>Amount</u> |
|--|-------------------|
| Weighted at-risk programs | \$ 4,170 |
| Gifted and talented program | 12,069 |
| Returning dropouts and dropout prevention programs | 46,160 |
| Beginning teacher mentoring and induction program | 1,058 |
| Salary improvement | 18,448 |
| Statewide Voluntary Preschool | 19,281 |
| Professional development for model core curriculum | 14,409 |
| Professional development | 27,800 |
| Market factor incentives | 858 |
| | <hr/> |
| Total | <u>\$ 144,253</u> |

(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 June, 30, 2011. The effect of fund type reclassifications is as follows:

| | <u>Capital Projects</u> | <u>Special Revenue, Physical Plant and Equipment Levy</u> |
|--|-----------------------------|---|
| Balances June 30, 2010 as previously reported | \$ 257,050 | 5,928 |
| Changes in fund type classification per implementation of GASB Statement No. 54 | <u>5,928</u> | <u>(5,928)</u> |
| Balances July 1, 2010, as restated | <u>\$ 262,978</u> | <u>0</u> |

(15) Budget Over Expenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2011, expenditures in the non-instructional function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

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

| | Governmental | Proprietary | Total | Budgeted Amounts | | Final to |
|--|--------------|-------------|-----------|------------------|-----------|-----------|
| | Funds | Fund | | Original | Final | Actual |
| | Actual | Actual | | | | Actual |
| Revenues: | | | | | | |
| Local sources | \$ 2,858,909 | 95,932 | 2,954,841 | 2,886,754 | 2,886,754 | 68,087 |
| State sources | 1,466,452 | 1,507 | 1,467,959 | 1,811,273 | 1,811,273 | (343,314) |
| Federal sources | 259,158 | 58,404 | 317,562 | 167,000 | 167,000 | 150,562 |
| Total revenues | 4,584,519 | 155,843 | 4,740,362 | 4,865,027 | 4,865,027 | (124,665) |
| Expenditures/Expenses: | | | | | | |
| Instruction | 2,563,819 | 0 | 2,563,819 | 3,306,341 | 3,306,341 | 742,522 |
| Support services | 995,270 | 0 | 995,270 | 1,421,093 | 1,421,093 | 425,823 |
| Non-instructional programs | 460 | 159,973 | 160,433 | 158,649 | 158,649 | (1,784) |
| Other expenditures | 509,317 | 0 | 509,317 | 954,440 | 954,440 | 445,123 |
| Total expenditures/expenses | 4,068,866 | 159,973 | 4,228,839 | 5,840,523 | 5,840,523 | 1,611,684 |
| Excess(deficiency) of revenues over(under) expenditures/expenses | 515,653 | (4,130) | 511,523 | (975,496) | (975,496) | 1,487,019 |
| Other financing sources, net | 0 | 9,592 | 9,592 | 500 | 500 | 9,092 |
| Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses | 515,653 | 5,462 | 521,115 | (974,996) | (974,996) | 1,496,111 |
| Balance beginning of year | 449,338 | 19,145 | 468,483 | 982,703 | 982,703 | (514,220) |
| Balance end of year | \$ 964,991 | 24,607 | 989,598 | 7,707 | 7,707 | 981,891 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOTA 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 Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

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

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

During the year ended June 30, 2011 expenditures in the non-instructional function exceeded the amount budgeted.

KEOTA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN (IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial | | Funded ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------|--------------------------------|--|---------------------------|------------------------------------|--------------------------|---------------------------|---|
| | | | Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | | | |
| 2010 | July 1, 2009 | - | \$ 95 | 95 | 0.0% | \$ 1,003 | 9.47% |
| 2011 | July 1, 2009 | - | \$ 95 | 95 | 0.0% | 922 | 10.30% |

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

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

| | Special Revenue Funds | | |
|--|-------------------------|---------------------|--------------------------------------|
| | Manage- ment Levy | Student Activity | Total Special Revenue Funds |
| Assets | | | |
| Cash and pooled investments | \$ 46,305 | 43,879 | 90,184 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 471 | 0 | 471 |
| Succeeding year | 47,064 | 0 | 47,064 |
| Total assets | \$ 93,840 | 43,879 | 137,719 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Deferred revenue: | | | |
| Succeeding year property tax | \$ 47,064 | 0 | 47,064 |
| Total liabilities | 47,064 | 0 | 47,064 |
| Fund balances: | | | |
| Restricted for: | | | |
| Management levy purposes | 46,776 | 0 | 46,776 |
| Student activities | 0 | 43,879 | 43,879 |
| Total fund balances | 46,776 | 43,879 | 90,655 |
| Total liabilities and fund balances | \$ 93,840 | 43,879 | 137,719 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

| | Special Revenue Funds | | |
|--|-------------------------|---------------------|--------------------------------------|
| | Manage- ment Levy | Student Activity | Total Special Revenue Funds |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ 57,541 | 0 | 57,541 |
| Other | 5,345 | 235,956 | 241,301 |
| Total revenues | <u>62,886</u> | <u>235,956</u> | <u>298,842</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 8,074 | 0 | 8,074 |
| Other | 0 | 237,359 | 237,359 |
| Support services: | | | |
| Student services | 1,480 | 0 | 1,480 |
| Administration | 23,592 | 0 | 23,592 |
| Operation and maintenance of plant | 15,167 | 0 | 15,167 |
| Transportation | 7,233 | 0 | 7,233 |
| Total expenditures | <u>55,546</u> | <u>237,359</u> | <u>292,905</u> |
| Excess (deficiency) of revenues over (under) expenditures | 7,340 | (1,403) | 5,937 |
| Fund balances beginning of year, as restated | <u>39,436</u> | <u>45,282</u> | <u>84,718</u> |
| Fund balances end of year | <u>\$ 46,776</u> | <u>43,879</u> | <u>90,655</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOTA COMMUNITY SCHOOL DISTRICT
 COMBINED BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2011

| | Capital Projects | | |
|--|--|--|----------------|
| | Physical Plant and Equipment Levy | Statewide Sales, Services and Use Tax | Total |
| Assets | | | |
| Cash and pooled investments | \$ 1,958 | 294,509 | 296,467 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 406 | 0 | 406 |
| Succeeding year | 51,070 | 0 | 51,070 |
| Due from other funds | 0 | 3,272 | 3,272 |
| Due from other governments | 0 | 101,599 | 101,599 |
| Total assets | \$ 53,434 | 399,380 | 452,814 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Deferred revenue: | | | |
| Succeeding year property tax | 51,070 | 0 | 51,070 |
| Total liabilities | 51,070 | 0 | 51,070 |
| Fund balances: | | | |
| Restricted for: | | | |
| School infrastructure | 0 | 399,380 | 399,380 |
| Physical plant and equipment | 2,364 | 0 | 2,364 |
| Total fund balances | 2,364 | 399,380 | 401,744 |
| Total liabilities and fund balances | \$ 53,434 | 399,380 | 452,814 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

| | Capital Projects | | |
|--|--|--|----------------|
| | Physical Plant and Equipment Levy | Statewide Sales, Services and Use Tax | Total |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ 49,687 | 310,231 | 359,918 |
| Other | 5,008 | 116 | 5,124 |
| Total revenues | <u>54,695</u> | <u>310,347</u> | <u>365,042</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 2,750 | 0 | 2,750 |
| Support services: | | | |
| Operation and maintenance of plant | 5,496 | 11,224 | 16,720 |
| Transportation | 0 | 11,709 | 11,709 |
| Other expenditures: | | | |
| Facilities acquisitions | 12,477 | 45,084 | 57,561 |
| Total expenditures | <u>20,723</u> | <u>68,017</u> | <u>88,740</u> |
| Excess of revenues over expenditures | 33,972 | 242,330 | 276,302 |
| Other financing uses: | | | |
| Transfer out | (37,536) | (100,000) | (137,536) |
| Net change in fund balance | (3,564) | 142,330 | 138,766 |
| Fund balances beginning of year, as restated | 5,928 | 257,050 | 262,978 |
| Fund balances end of year | <u>\$ 2,364</u> | <u>399,380</u> | <u>401,744</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|--------------------------|---------------------------------|----------------|-------------------|---------------------------|
| Drama | \$ 1,341 | 2,325 | 3,131 | 535 |
| Speech Club | 1,550 | 3,727 | 4,001 | 1,276 |
| Basketball | 4,011 | 0 | 4,011 | 0 |
| Cross Country | 217 | 0 | 217 | 0 |
| Baseball | 598 | 0 | 598 | 0 |
| Volleyball | 5,311 | 0 | 5,031 | 280 |
| Softball | 0 | 7 | 0 | 7 |
| Athletics-Miscellaneous | 140 | 0 | 140 | 0 |
| Athletics | 248 | 33,348 | 23,047 | 12,342 |
| Cheerleaders | 174 | 505 | 187 | 492 |
| FFA | 1,290 | 28,063 | 27,999 | 1,354 |
| FCCLA | 2,778 | 579 | 68 | 3,289 |
| Student Council | 2,328 | 7,251 | 8,444 | 1,135 |
| EagleRock! | 321 | 14,636 | 14,377 | 580 |
| Walking Trail | 1,470 | 1,425 | 1,487 | 1,408 |
| Class of 2012 | 134 | 1,776 | 1,499 | 411 |
| Class of 2013 | 55 | 0 | 0 | 55 |
| Class of 2014 | 0 | 6 | 0 | 6 |
| Class of 2015 | 0 | 6 | 0 | 6 |
| Class of 2011 | 1,747 | 41,127 | 42,099 | 775 |
| Science Club | 0 | 380 | 17 | 363 |
| Special Baseball | 7,875 | 71,304 | 73,026 | 6,153 |
| Special Boys Track | 793 | 240 | 822 | 211 |
| Special Volleyball | 4,004 | 2,767 | 3,844 | 2,927 |
| Special Girls Track | 768 | 470 | 665 | 573 |
| Special Softball | 3,913 | 3,944 | 5,197 | 2,660 |
| Special Boys Basketball | 3,313 | 7,774 | 7,320 | 3,767 |
| Special Girls Basketball | 822 | 5,966 | 3,631 | 3,157 |
| Tournament | 0 | 6,501 | 6,501 | 0 |
| Special Cross Country | 81 | 754 | 719 | 116 |
| Special Golf | 0 | 1,075 | 1,074 | 1 |
| Total | \$ 45,282 | 235,956 | 237,359 | 43,879 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

| | Modified Accrual Basis | | | | | | | |
|---------------------------------------|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Years Ended June 30, | | | | | | | |
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Revenues: | | | | | | | | |
| Local sources: | | | | | | | | |
| Local tax | \$ 2,423,188 | 1,852,518 | 2,026,385 | 1,959,570 | 1,839,674 | 1,974,821 | 2,003,961 | 1,932,155 |
| Tuition | 111,373 | 85,934 | 155,633 | 138,612 | 107,280 | 108,707 | 120,494 | 131,901 |
| Other | 324,348 | 361,245 | 183,869 | 230,224 | 177,562 | 136,943 | 114,698 | 114,780 |
| State sources | 1,466,452 | 1,132,681 | 1,323,678 | 1,266,068 | 1,277,225 | 1,267,901 | 1,312,969 | 1,220,613 |
| Federal sources | 259,158 | 243,455 | 105,781 | 110,671 | 116,004 | 128,459 | 134,997 | 139,977 |
| Total | \$ 4,584,519 | 3,675,833 | 3,795,346 | 3,705,145 | 3,517,745 | 3,616,831 | 3,687,119 | 3,539,426 |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| Instruction: | | | | | | | | |
| Regular | \$ 1,406,999 | 1,352,497 | 1,457,514 | 1,488,962 | 1,531,236 | 1,442,892 | 1,492,419 | 1,427,249 |
| Special | 491,733 | 325,036 | 321,993 | 269,783 | 217,172 | 281,300 | 256,290 | 525,755 |
| Other | 665,087 | 609,776 | 437,364 | 431,292 | 460,867 | 404,984 | 380,720 | 148,884 |
| Support services: | | | | | | | | |
| Student | 16,626 | 43,367 | 38,259 | 37,775 | 35,443 | 37,587 | 42,016 | 41,879 |
| Instructional staff | 81,408 | 118,261 | 97,256 | 151,994 | 110,642 | 124,557 | 103,735 | 48,308 |
| Administration | 431,642 | 440,746 | 425,727 | 461,481 | 435,309 | 366,462 | 363,463 | 392,841 |
| Operation and maintenance of plant | 309,623 | 324,857 | 548,799 | 291,560 | 305,326 | 368,869 | 321,058 | 265,770 |
| Transportation | 155,971 | 168,397 | 140,824 | 150,155 | 124,749 | 148,309 | 128,725 | 118,320 |
| Non-instructional programs | 460 | 607 | 0 | 0 | 0 | 4,492 | 0 | 0 |
| Other expenditures: | | | | | | | | |
| Facilities acquisitions | 57,561 | 20,877 | 66,887 | 102,539 | 97,894 | 62,900 | 67,612 | 53,254 |
| Long-term debt: | | | | | | | | |
| Principal | 247,358 | 242,358 | 190,000 | 221,641 | 210,270 | 203,951 | 192,680 | 181,458 |
| Interest | 70,725 | 73,561 | 76,193 | 111,018 | 119,287 | 129,107 | 140,277 | 150,500 |
| AEA flow-through | 133,673 | 131,272 | 118,474 | 116,027 | 112,418 | 106,197 | 107,097 | 108,594 |
| Total | \$ 4,068,866 | 3,851,612 | 3,919,290 | 3,834,227 | 3,760,613 | 3,681,607 | 3,596,092 | 3,462,812 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOTA COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

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

To the Board of Education of the
Keota 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 Keota Community School District 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 January 6, 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 Keota Community School District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Keota Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Keota 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, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keota Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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

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

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

January 6, 2012

NOLTE, CORNMAN & JOHNSON, P.C.

KEOTA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- I-A-11 Segregation of Duties - One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response - We will review our internal controls process and work towards improving segregation of duties.

Conclusion - Response accepted.

- I-B-11 Grants - We noted during our audit that when revenues and expenditures for specific projects were posted, revenues and expenditures were not always properly posted to the appropriate projects.

Recommendation - The District should review the coding of receipts and bills, to ensure that all receipts and bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - We will review the Uniform Financial Accounting and to make sure receipts and bills are coded correctly.

Conclusion - Response accepted.

KEOTA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - During the year ended June 30, 2011 expenditures in the non-instructional function exceeded the amount budgeted.

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

Response - We will monitor the budget more closely to make sure we don't exceed the budget.

Conclusion - Response accepted.

II-B-11 Questionable Disbursements - We noted during our audit that the district wrote a reimbursement check to a district employee for \$8.49 for candy and a card for a get well gift. Gift expenditures do not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - The District will review procedures for reimbursement of employees to ensure they meet the standards of public purpose.

Conclusion - Response accepted.

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

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

| Name, Title and Business Connection | Transaction Description | Amount |
|--|-------------------------------------|----------|
| Mike McNurlen, Speech Aide | DJ services and set up construction | \$ 825 |
| Lisa Brenneman, Principal | Snow Removal Services | \$ 1,550 |

In accordance with Attorney's General opinion dated November 9, 1976, these transactions do not appear to be a conflict of interest.

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

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

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

- II-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-11 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-K-11 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-11 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.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. 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 following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2011 audit.

| | | | |
|---|----|----------------|-------------------|
| Beginning balance | | \$ | 257,050 |
| Revenues: | | | |
| Statewide sales, services and use tax revenue | \$ | 310,231 | |
| Other local revenues | | <u>116</u> | <u>310,347</u> |
| | | | <u>567,397</u> |
| Expenditures/transfers out: | | | |
| School infrastructure construction | \$ | 5,044 | |
| Equipment | | 56,714 | |
| Other | | 6,259 | |
| Transfers to Other Funds: | | | |
| Debt service fund | | <u>100,000</u> | <u>168,017</u> |
| Ending Balance | | | \$ <u>399,380</u> |

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

- II-M-11 Financial Condition -The District had a deficit restricted fund balance in the Debt Service Fund of \$1,859.

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

Response - The Keokuk County Assessor miscalculated property tax for fiscal year 2011, which created a deficit in Debt Service. The District will continue to monitor the Debt Service Fund to make sure there are no deficits to the restricted fund balance.

Conclusion - Response accepted.

II-N-11 Interfund Loans - We noted during our audit that the District has interfund loans on the balance sheet. According to a declaratory order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2008, interfund loans on the District's year-end financial statements must be repaid to their respective funds on or before October 1st of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later. If the District is unable to repay the interfund loans by that time, the District must issue anticipatory warrants to repay the interfund loans according to Iowa Code Chapter 74.

Recommendation - To comply with the Declaratory Ruling, the District should repay the loan or issue anticipatory warrants to repay the interfund loan.

Response - Debt service will pay back the interfund in fiscal year 2012, this was due to the Keokuk County Assessor error.

Conclusion - Response accepted.

II-O-11 Donations - We noted during our audit, that the District donated monies from the Student Activity Fund to the Keota Educational Foundation, an outside organization which provides scholarships to graduates of Keota Community School District. The Uniform Procedures Manual specifically identifies "Student activity funds may not in any event be devoted or allocated to any private organization" which is referenced from an Attorney General's Opinion dated March 26, 1946.

Recommendation - As the money was fundraised for the specific purpose of awarding scholarships, it should not have been recorded in the Student Activity Fund. In the future, similar donations should be either receipted into a Private Purpose Trust Fund or donated directly to the Keota Educational Foundation. The District should refrain from making donations to any private organizations from the Student Activity Fund.

Response - In the future, the District will place all District fundraised revenue for scholarships into a Private Purpose Trust Fund. Any donations intended for the Keota Community School Foundation will be made directly to the foundation and not pass through the District.

Conclusion - Response accepted.