

**COLO-NESCO
COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

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Introductory Section



Board of Education and School District Officials

As of June 30, 2013

Name	Title	Term Expires
Board of Education		
Joel Niemeyer	President	September, 2015
John Fuller	Vice President	September, 2013
Jon Cutler	Board Member	September, 2015
Bob Jamison	Board Member	September, 2013
Brad Kohlwes	Board Member	September, 2015
P. J. McBride	Board Member	September, 2015
Kim Nelson	Board Member	September, 2013
School Officials		
Dr. James Verlengia	Superintendent	June 30, 2014
Lisa Waddell	Business Official/District Secretary/Treasurer	Indefinite

Financial Section



Independent Auditor's Report

Board of Education
Colo-NESCO Community School District
Colo, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Colo-NESCO Community School District, Colo, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Colo-NESCO Community School District as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress for the retiree health plan on pages 4 through 13 and 38 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Colo-NESCO Community School District's basic financial statements. The financial statements for the nine years ended June 30, 2012 (which are not presented herein) were audited by other auditors in accordance with the standards referred to in the third paragraph of this report who expressed unqualified opinions on those financial statements. The supplementary information on pages 40 through 49 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 4, 2014 on our consideration of Colo-NESCO Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
February 4, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Colo-NESCO Community School District provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- General Fund revenue increased from \$4,900,616 in fiscal year 2012 to \$5,038,038 in fiscal year 2013, and General Fund expenditures increased from \$4,762,341 in fiscal year 2012 to \$4,962,567 in fiscal year 2013. This resulted in an increase in the General Fund balance from (\$554,387) in fiscal year 2012 to (\$522,103) in fiscal year 2013, a 5.8% increase.
- The increase in General Fund revenue was primarily attributable to increases in state revenue and property tax. The increase in expenditures was due primarily to an increase in salaries and benefits and other support services expenditures.

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 position and a statement of activities. These provide information about the activities of Colo-NESCO Community School District as a whole and present an overall view of the District's finances.

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

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

Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

Supplementary information provides detailed information about the nonmajor governmental funds.

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

FIGURE A-1

**COLO-NESCO COMMUNITY SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT**

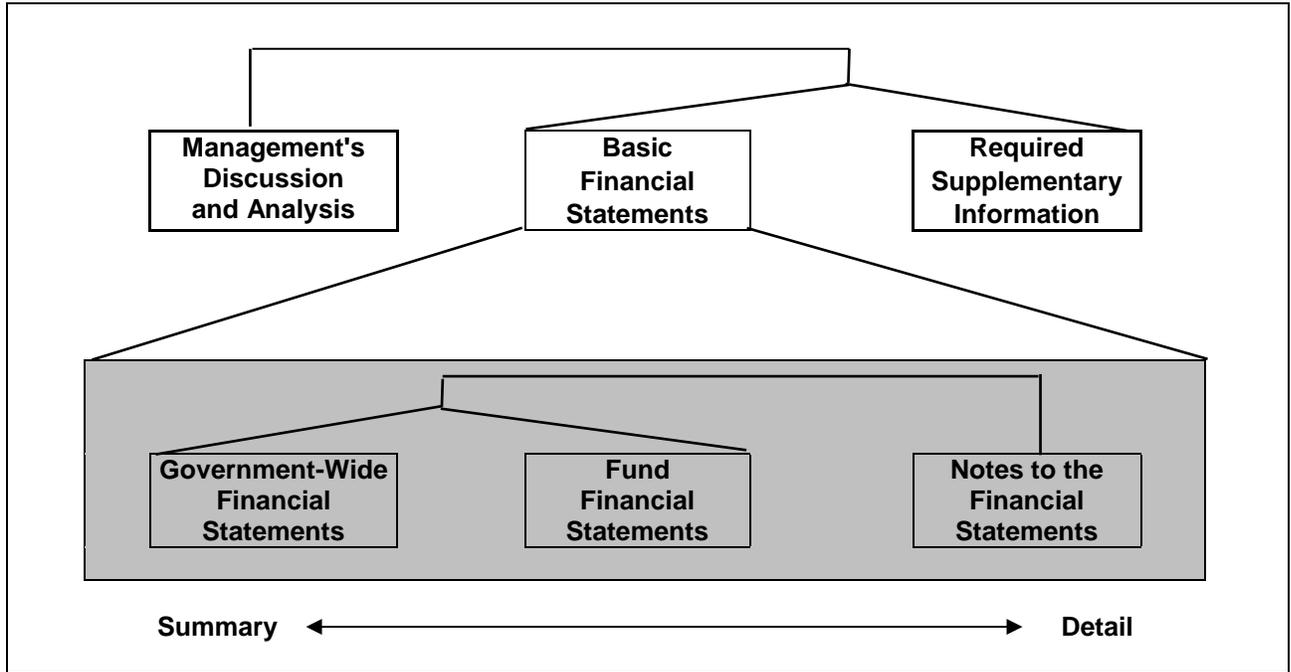


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

FIGURE A-2				
MAJOR FEATURES OF THE GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS				
	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services, preschool and daycare	Instances in which the District administers resources on behalf of someone else, such as the agency fund
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenue, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenue, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary assets and liabilities • Statement of changes in fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue 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 revenue and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-Wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenue 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 position and how it has changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional nonfinancial 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 School Nutrition Fund, Daycare Fund and Preschool Fund are included here.

Fund Financial Statements

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

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

The District has three kinds of funds:

- **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 available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

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

- *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, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The District has three enterprise funds: the School Nutrition Fund, the Daycare Fund and the Preschool Fund. The Preschool Fund was closed during the year ended June 30, 2013.

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

- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. The District's Fiduciary Fund is the Agency Fund. This fund was closed during the year ended June 30, 2013.

Agency Fund - These are funds through which the District accounts for certain grants and donations as a fiscal agent.

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

The required financial statements for the fiduciary fund include a statement of fiduciary assets and liabilities and a statement of changes in fiduciary assets and liabilities.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position as of June 30, 2013 compared to June 30, 2012.

**FIGURE A-3
CONDENSED STATEMENT OF NET POSITION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Percentage Change 2012-2013
	2013	2012 (Restated)	2013	2012	2013	2012 (Restated)	
Current and other assets	\$ 4,538,517	\$ 4,184,340	\$ 4,019	\$ 309,724	\$ 4,542,536	\$ 4,494,064	1.1%
Capital assets	5,635,721	5,752,316	16,410	16,410	5,652,131	5,768,726	(2.0)
Total Assets	<u>10,174,238</u>	<u>9,936,656</u>	<u>20,429</u>	<u>326,134</u>	<u>10,194,667</u>	<u>10,262,790</u>	<u>(0.7)</u>
Long-term liabilities	4,394,718	4,631,022	1,141	1,737	4,395,859	4,632,759	(5.1)
Other liabilities	3,822,141	3,399,548	5,409	360,714	3,827,550	3,760,262	1.8
Total Liabilities	<u>8,216,859</u>	<u>8,030,570</u>	<u>6,550</u>	<u>362,451</u>	<u>8,223,409</u>	<u>8,393,021</u>	<u>(2.0)</u>
Net Position							
Net investment in capital assets	1,684,883	1,707,316	16,410	16,410	1,701,293	1,723,726	(1.3)
Restricted	1,329,908	1,352,293	—	—	1,329,908	1,352,293	(1.7)
Unrestricted	(1,057,412)	(1,153,523)	(2,531)	(52,727)	(1,059,943)	(1,206,250)	12.1
Total Net Position	<u>\$ 1,957,379</u>	<u>\$ 1,906,086</u>	<u>\$ 13,879</u>	<u>\$ (36,317)</u>	<u>\$ 1,971,258</u>	<u>\$ 1,869,769</u>	<u>5.4%</u>

The District's combined net position increased 5.4%, or approximately \$101,000, over the prior year. The largest portion of the District's net position is 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 resources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's total restricted net position decreased by approximately \$22,000, or 1.7%, from the prior year. The decrease was primarily a result of increased categorical funding and early retirement expenditures.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased by approximately \$146,000, or 12.1%. The increase was primarily a result of increased property tax revenue.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 as compared to the year ended June 30, 2012.

**FIGURE A-4
CHANGES IN NET POSITION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Percentage Change 2012-2013
	2013	2012 (Restated)	2013	2012	2013	2012 (Restated)	
Revenue							
Program Revenue							
Charges for service	\$ 296,270	\$ 281,575	\$ 292,630	\$ 278,301	\$ 588,900	\$ 559,876	5.2%
Operating grants and contributions	764,956	799,833	121,803	105,616	886,759	905,449	(2.1)
General Revenue							
Property tax	2,777,623	2,375,502	—	—	2,777,623	2,375,502	16.9
Income surtax	203,973	184,796	—	—	203,973	184,796	10.4
Statewide sales, services and use tax	532,571	524,294	—	—	532,571	524,294	1.6
Unrestricted state grants	1,633,191	1,549,584	—	—	1,633,191	1,549,584	5.4
Unrestricted invest- ment earnings	1,904	9,785	—	1	1,904	9,786	(80.5)
Other	6,251	2,116	—	4,976	6,251	7,092	(11.9)
Total Revenue	6,216,739	5,727,485	414,433	388,894	6,631,172	6,116,379	8.4
Program Expenses							
Instruction	3,522,050	3,470,058	—	—	3,522,050	3,470,058	1.5
Support services	1,996,602	1,912,857	—	—	1,996,602	1,912,857	4.4
Noninstructional programs	—	271	413,675	388,808	413,675	389,079	6.3
Other expenses	597,356	849,528	—	—	597,356	849,528	(29.7)
Total Expenses	6,116,008	6,232,714	413,675	388,808	6,529,683	6,621,522	(1.4)
Change in Net Position Before Transfers	100,731	(505,229)	758	86	101,489	(505,143)	120.1
Transfers	(49,438)	(304,476)	49,438	304,476	—	—	0.0
Change in Net Position	51,293	(809,705)	50,196	304,562	101,489	(505,143)	120.1
Net Position - Beginning of Year	1,906,086	2,715,791	(36,317)	(340,879)	1,869,769	2,374,912	(21.3)
Net Position - End of Year	\$ 1,957,379	\$ 1,906,086	\$ 13,879	\$ (36,317)	\$ 1,971,258	\$ 1,869,769	5.4%

In fiscal year 2013, property tax and unrestricted state grants accounted for 71% of governmental activities revenue while charges for service, operating grants and contributions accounted for 100% of business-type activities revenue. The District's total revenue was approximately \$6.6 million, of which approximately \$6.2 million was for governmental activities and \$0.4 million was for business-type activities.

As shown in figure A-4, the District as a whole experienced an 8.4% increase in revenue and a 1.4% decrease in expenses. Property tax increased approximately \$402,000 to fund current year expenses. The decrease in expenses is primarily related to a decrease in facilities acquisition and operation and maintenance of plant services expenses due to a lease purchase agreement for iPads entered into in fiscal year 2012.

Governmental Activities

Revenue for governmental activities was \$6,216,739 and expenses were \$6,116,008 for the year ended June 30, 2013.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, noninstructional programs and other expenses for the year ended June 30, 2013 compared to the year ended June 30, 2012.

**FIGURE A-5
TOTAL AND NET COST OF GOVERNMENTAL ACTIVITIES**

	Total Cost of Services			Net Cost of Services		
	2013	2012 (Restated)	Percentage Change 2012-2013	2013	2012 (Restated)	Percentage Change 2012-2013
Instruction	\$ 3,522,050	\$ 3,470,058	1.5%	\$ 2,637,987	\$ 2,554,500	3.3%
Support services	1,996,602	1,912,857	4.4	1,984,439	1,910,073	3.9
Noninstruction programs	—	271	(100.0)	—	271	(100.0)
Other expenses	597,356	849,528	(29.7)	432,356	686,462	(37.0)
Total	<u>\$ 6,116,008</u>	<u>\$ 6,232,714</u>	<u>(1.9)%</u>	<u>\$ 5,054,782</u>	<u>\$ 5,151,306</u>	<u>(1.9)%</u>

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$296,270.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$764,956.
- The net cost of governmental activities was financed with \$3,514,167 in property and other taxes and \$1,633,191 in unrestricted state grants.

Business-Type Activities

Revenue for business-type activities during the year ended June 30, 2013 was \$414,433 representing a 6.6% increase over the prior year, while expenses totaled \$413,675, a 6.4% increase over the prior year. The District's business-type activities includes the School Nutrition Fund, Daycare Fund and Preschool Fund. Revenue from these activities was comprised of charges for service and federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$564,635 compared to last year's ending fund balances of \$621,931. The primary reason for the decrease in combined fund balances at the end of fiscal year 2013 is due to the continued spending of bonds issued in the prior year.

Governmental Fund Highlights

- The District's negative General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenue. However, the increase in revenue was partially offset by the District's increase in General Fund expenditures.
- The General Fund balance increased from (\$554,387) to (\$522,103). The increase was due, in part, to no funds were transferred to the Nutrition and Daycare Funds to absorb prior year losses in fiscal year 2013.
- The Debt Service Fund balance increased from \$309,497 at the end of fiscal year 2012 to \$680,860 at the end of fiscal year 2013. Transfers in from the Capital Projects Fund exceeded principal and interest payments made in fiscal year 2013.
- The Capital Projects Fund includes revenue from sales tax and from the physical plant and equipment property tax levy. These two revenue streams and the related expenditures are tracked separately in the District's accounting records, but are combined into one Capital Projects Fund for financial reporting. The monies in the Capital Projects Fund will be used for future capital improvements and equipment purchases.
 - The Physical Plant and Equipment Levy account balance decreased from \$33,888 as of June 30, 2012 to (\$20,222) as of June 30, 2013.
 - The Statewide Sales Service and Use Tax account balance decreased from \$617,959 as of June 30, 2012 to \$267,166 as of June 30, 2013. This was due to increased funds transferred to the Debt Service Fund to pay down long-term debt.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from (\$17,278) as of June 30, 2012 to (\$46,239) as of June 30, 2013, representing a decrease of approximately (\$29,000). The decrease was primarily related to increased food and supplies costs and no transfers from the General Fund.

The Daycare Fund net position increased from \$29,582 as of June 30, 2012 to \$60,118 as of June 30, 2013. Fiscal year 2013 operating income did not vary significantly from fiscal year 2012.

The Preschool Fund was set up for three-year-old preschool expenditures. The District no longer provides a three-year-old preschool effective in fiscal year 2012. The fund was closed in fiscal year 2013, and the negative net position was absorbed by the General Fund.

BUDGETARY HIGHLIGHTS

The District's total revenue was \$309,070 less than total budgeted revenue, a variance of 4.5%.

Total expenditures were \$689,897 over budget, due primarily to no funds being budgeted for debt service and facilities acquisition expenditures.

The certified budget was exceeded in the instruction support services and other expenditures functional areas due to the timing of disbursements paid at year end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the District had invested \$5,652,131, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 2% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$274,275.

The original cost of the District's capital assets was approximately \$11,372,000. Governmental funds account for approximately \$11,353,000, with the remainder of approximately \$19,000 accounted for in the Proprietary, School Nutrition Fund.

**FIGURE A-6
CAPITAL ASSETS, NET OF DEPRECIATION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Percentage Change 2012-2013
	2013	2012	2013	2012	2013	2012	
Land	\$ 34,856	\$ 34,856	\$ —	\$ —	\$ 34,856	\$ 34,856	0.0%
Buildings and improve- ments	5,465,708	5,737,279	—	—	5,465,708	5,737,279	(4.7)
Equipment and furniture	135,157	(19,819)	16,410	16,410	151,567	(3,409)	4,546.1
Total	<u>\$ 5,635,721</u>	<u>\$ 5,752,316</u>	<u>\$ 16,410</u>	<u>\$ 16,410</u>	<u>\$ 5,652,131</u>	<u>\$ 5,768,726</u>	<u>(2.0)%</u>

Long-Term Debt

As of June 30, 2013, the District had \$4,315,668 in total long-term debt outstanding. This represents a decrease of 4.6% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

**FIGURE A-7
OUTSTANDING LONG-TERM DEBT**

	<u>Total District</u>		<u>Total Change June 30, 2012-2013</u>
	<u>2013</u>	<u>2012</u>	
Governmental Activities			
Revenue bonds	\$ 3,815,000	\$ 4,045,000	(5.7)%
Note payable	135,838	—	100.0
Lease payable	<u>364,830</u>	<u>480,430</u>	<u>(24.1)</u>
Total	<u>\$ 4,315,668</u>	<u>\$ 4,525,430</u>	<u>(4.6)%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- District financing and funding is highly dependent upon student enrollment. The District's enrollment increased in fiscal year 2013 by 19.8 students. Future enrollment stability is a critical element in maintaining a sound financial foundation. The Board of Education and administration of the District believe that the commitment to improving facilities will be an attraction for future enrollment growth.
- Taxable valuations have increased in the Colo-NESCO School District. This has helped generate additional funds from tax levies to help maintain buildings in several communities in the area.
- The District continuously evaluates the condition of its transportation vehicles and is determined to ensure safety. The District will continue to replace older buses by using resources from the voter approved Physical Plant and Equipment Levy that was approved in April, 2012.
- Health insurance premiums continue to increase which forces the District to carry a larger burden for employee benefits.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Statement of Net Position

As of June 30, 2013

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash, cash equivalents and investments.....	\$ 966,116	\$ 450	\$ 966,566
Receivables, Net of Allowance for Uncollectible Amounts			
Property Tax			
Current year delinquent	23,541	—	23,541
Succeeding year	3,158,687	—	3,158,687
Due from other governments	350,201	795	350,996
Inventories.....	—	2,774	2,774
Unamortized bond discounts and issuance costs	39,972	—	39,972
Capital assets, net of accumulated depreciation...	<u>5,635,721</u>	<u>16,410</u>	<u>5,652,131</u>
Total Assets	<u>\$ 10,174,238</u>	<u>\$ 20,429</u>	<u>\$ 10,194,667</u>
Liabilities and Net Position			
Liabilities			
Outstanding warrants in excess of bank balance..	\$ 27,632	\$ —	\$ 27,632
Accounts payable	134,232	428	134,660
Salaries and benefits payable.....	417,015	8,681	425,696
Due to (from) other funds.....	6,870	(6,870)	—
Accrued interest payable	77,705	—	77,705
Unearned Revenue			
Succeeding year property tax	3,158,687	—	3,158,687
Other	—	3,170	3,170
Long-Term Liabilities			
Portion Due Within One Year			
Revenue bonds	230,000	—	230,000
Note payable	37,312	—	37,312
Lease payable	117,768	—	117,768
Early retirement	12,176	—	12,176
Portion Due After One Year			
Revenue bonds	3,585,000	—	3,585,000
Note payable	98,526	—	98,526
Lease payable	247,062	—	247,062
Early retirement	598	—	598
Net OPEB liability	<u>66,276</u>	<u>1,141</u>	<u>67,417</u>
Total Liabilities	<u>8,216,859</u>	<u>6,550</u>	<u>8,223,409</u>
Net Position			
Net investment in capital assets	1,684,883	16,410	1,701,293
Restricted for			
Categorical funding.....	83,980	—	83,980
Debt service	643,127	—	643,127
Management levy purposes.....	104,510	—	104,510
School infrastructure.....	456,641	—	456,641
Student activities	41,650	—	41,650
Unrestricted.....	<u>(1,057,412)</u>	<u>(2,531)</u>	<u>(1,059,943)</u>
Total Net Position	<u>1,957,379</u>	<u>13,879</u>	<u>1,971,258</u>
Total Liabilities and Net Position	<u>\$ 10,174,238</u>	<u>\$ 20,429</u>	<u>\$ 10,194,667</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue		Net (Expenses), Revenue and Changes in Net Position		
		Charges for Service	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
Instruction						
Regular	\$ 2,302,926	\$ 130,580	\$ 542,802	\$ (1,629,544)	\$ —	\$ (1,629,544)
Special	545,521	—	37,537	(507,984)	—	(507,984)
Vocational	175,045	—	8,459	(166,586)	—	(166,586)
Other	498,558	164,685	—	(333,873)	—	(333,873)
Total Instruction	<u>3,522,050</u>	<u>295,265</u>	<u>588,798</u>	<u>(2,637,987)</u>	<u>—</u>	<u>(2,637,987)</u>
Support Services						
Student	32,961	—	—	(32,961)	—	(32,961)
Instructional staff	281,628	—	7,997	(273,631)	—	(273,631)
Administration	548,634	—	—	(548,634)	—	(548,634)
Operation and maintenance of plant	830,961	1,005	—	(829,956)	—	(829,956)
Transportation	302,418	—	3,161	(299,257)	—	(299,257)
Total Support Services	<u>1,996,602</u>	<u>1,005</u>	<u>11,158</u>	<u>(1,984,439)</u>	<u>—</u>	<u>(1,984,439)</u>
Other Expenditures						
Long-term debt interest and fiscal charges	160,785	—	—	(160,785)	—	(160,785)
AEA flowthrough	165,000	—	165,000	—	—	—
Depreciation (unallocated)*	271,571	—	—	(271,571)	—	(271,571)
Total Other Expenditures	<u>597,356</u>	<u>—</u>	<u>165,000</u>	<u>(432,356)</u>	<u>—</u>	<u>(432,356)</u>
Total Governmental Activities	<u>6,116,008</u>	<u>296,270</u>	<u>764,956</u>	<u>(5,054,782)</u>	<u>—</u>	<u>(5,054,782)</u>
Business-Type Activities						
Noninstructional Programs						
Food service operations ...	275,342	124,578	121,803	—	(28,961)	(28,961)
Preschool	817	—	—	—	(817)	(817)
Daycare	137,516	168,052	—	—	30,536	30,536
Total Business-Type Activities	<u>413,675</u>	<u>292,630</u>	<u>121,803</u>	<u>—</u>	<u>758</u>	<u>758</u>
Total	<u>\$ 6,529,683</u>	<u>\$ 588,900</u>	<u>\$ 886,759</u>	<u>(5,054,782)</u>	<u>758</u>	<u>(5,054,024)</u>
General Revenue						
Property Tax Levied for						
General purposes				2,309,689	—	2,309,689
Management levy purposes				98,806	—	98,806
Capital outlay				369,128	—	369,128
Income surtax				203,973	—	203,973
Statewide sales, services and use tax				532,571	—	532,571
Unrestricted state grants				1,633,191	—	1,633,191
Unrestricted investment earnings				1,904	—	1,904
Gain on disposal of capital assets				6,251	—	6,251
Transfers				(49,438)	49,438	—
Total General Revenue				<u>5,106,075</u>	<u>49,438</u>	<u>5,155,513</u>
Change in Net Position				<u>51,293</u>	<u>50,196</u>	<u>101,489</u>
Net Position - Beginning of Year, as restated (Note 15)						
				1,906,086	(36,317)	1,869,769
Net Position - End of Year				<u>\$ 1,957,379</u>	<u>\$ 13,879</u>	<u>\$ 1,971,258</u>

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

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

As of June 30, 2013

	General	Debt Service	Capital Projects	Nonmajor	Total
Assets					
Cash, cash equivalents and investments	\$ 1,170	\$ 680,860	\$ 236,484	\$ 47,601	\$ 966,115
Receivables, Net of Allowance for Uncollectible Amounts					
Property Tax					
Current year delinquent.....	20,190	—	2,402	949	23,541
Succeeding year	2,645,549	—	413,137	100,001	3,158,687
Due from other funds	—	—	—	116,335	116,335
Due from other governments	264,497	—	85,704	—	350,201
Total Assets.....	\$ 2,931,406	\$ 680,860	\$ 737,727	\$ 264,886	\$ 4,614,879
Liabilities and Fund Balances					
Liabilities					
Outstanding warrants in excess of bank balance	\$ 27,632	\$ —	\$ —	\$ —	\$ 27,632
Accounts payable.....	50,634	—	77,646	5,951	134,231
Salaries and benefits payable.....	417,015	—	—	—	417,015
Due to other funds.....	123,205	—	—	—	123,205
Deferred Revenue					
Succeeding year property tax.....	2,645,549	—	413,137	100,001	3,158,687
Other.....	189,474	—	—	—	189,474
Total Liabilities	3,453,509	—	490,783	105,952	4,050,244
Fund Balances					
Restricted for					
Categorical funding	83,980	—	—	—	83,980
Debt service.....	—	680,860	—	—	680,860
School infrastructure	—	—	267,166	—	267,166
Management levy purposes	—	—	—	117,284	117,284
Student activities	—	—	—	41,650	41,650
Unassigned	(606,083)	—	(20,222)	—	(626,305)
Total Fund Balances	(522,103)	680,860	246,944	158,934	564,635
Total Liabilities and Fund Balances	\$ 2,931,406	\$ 680,860	\$ 737,727	\$ 264,886	\$ 4,614,879

See accompanying notes to the financial statements.

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

As of June 30, 2013

Total Fund Balances for Governmental Funds (Page 16)....		\$ 564,635
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Unamortized bond discounts and issuance costs are amortized over the life of the bonds and, therefore, are not reported as assets in the governmental funds.		39,972
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.....		5,635,721
Income surtax receivable is not available to pay current year expenditures and, therefore, is deferred in the governmental funds.....		189,474
Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds.....		(77,705)
Long-term liabilities, including revenue bonds, note and lease payables, early retirement and other post-employment benefits are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.		
Revenue bonds	\$ (3,815,000)	
Note payable	(135,838)	
Lease payable	(364,830)	
Early retirement.....	(12,774)	
OPEB liability	<u>(66,276)</u>	<u>(4,394,718)</u>
 Net Position of Governmental Activities (Page 14)		 <u>\$ 1,957,379</u>

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2013

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenue					
Local Sources					
Local tax	\$ 2,513,633	\$ —	\$ 901,699	\$ 98,806	\$ 3,514,138
Tuition	82,592	—	—	—	82,592
Other	43,666	—	849	171,067	215,582
State sources	2,267,635	—	—	—	2,267,635
Federal sources	130,512	—	—	—	130,512
Total Revenue	<u>5,038,038</u>	<u>—</u>	<u>902,548</u>	<u>269,873</u>	<u>6,210,459</u>
Expenditures					
Current					
Instruction					
Regular	2,264,583	—	—	53,544	2,318,127
Special	545,521	—	—	—	545,521
Vocational	175,045	—	—	—	175,045
Other	328,569	—	—	169,989	498,558
Total Instruction	<u>3,313,718</u>	<u>—</u>	<u>—</u>	<u>223,533</u>	<u>3,537,251</u>
Support Services					
Student	32,961	—	—	—	32,961
Instructional staff	202,090	—	79,538	—	281,628
Administration	546,098	—	—	2,536	548,634
Operation and maintenance					
of plant	437,546	—	8,280	99,844	545,670
Transportation	265,154	—	192,240	—	457,394
Total Support Services	<u>1,483,849</u>	<u>—</u>	<u>280,058</u>	<u>102,380</u>	<u>1,866,287</u>
Other Expenditures					
Facilities acquisition	—	—	285,291	—	285,291
Long-Term Debt					
Principal	—	249,162	—	—	249,162
Interest and fiscal charges	—	160,977	—	—	160,977
AEA flowthrough	165,000	—	—	—	165,000
Total Other Expenditures	<u>165,000</u>	<u>410,139</u>	<u>285,291</u>	<u>—</u>	<u>860,430</u>
Total Expenditures	<u>4,962,567</u>	<u>410,139</u>	<u>565,349</u>	<u>325,913</u>	<u>6,263,968</u>
Revenue Over (Under) Expenditures	<u>75,471</u>	<u>(410,139)</u>	<u>337,199</u>	<u>(56,040)</u>	<u>(53,509)</u>
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	6,251	—	—	—	6,251
Note payable proceeds	—	—	155,000	—	155,000
Lease payment	—	—	(115,600)	—	(115,600)
Operating transfers in	—	781,502	—	—	781,502
Operating transfers out	(49,438)	—	(781,502)	—	(830,940)
Total Other Financing Sources (Uses)	<u>(43,187)</u>	<u>781,502</u>	<u>(742,102)</u>	<u>—</u>	<u>(3,787)</u>
Net Change in Fund Balances	<u>32,284</u>	<u>371,363</u>	<u>(404,903)</u>	<u>(56,040)</u>	<u>(57,296)</u>
Fund Balances - Beginning of Year, as restated (Note 15)	(554,387)	309,497	651,847	214,974	621,931
Fund Balances - End of Year	<u>\$ (522,103)</u>	<u>\$ 680,860</u>	<u>\$ 246,944</u>	<u>\$ 158,934</u>	<u>\$ 564,635</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds (Page 18) \$ (57,296)

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are not reported in the statement of activities and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amount of capital outlay and depreciation expense for the year are as follows:

Capital outlay	\$ 157,680	
Depreciation expense.....	<u>(274,275)</u>	(116,595)

Income surtax not collected for several months after year end is not considered available revenue and is deferred in the governmental funds.....		29
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Amortization of bond discounts and issuance costs on bonds payable did not use current financial resources of governmental funds but it decreases assets in the statement of net position.		(1,578)
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Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The amount of issues and repayments for the year are as follows:

Issued	\$ (155,000)	
Repaid	<u>364,762</u>	209,762

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 interest accrues, regardless of when it is due.		1,770
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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.....	\$ 29,352	
Net OPEB liability.....	<u>(14,151)</u>	<u>15,201</u>

Change in Net Position of Governmental Activities (Page 15) \$ 51,293

Statement of Net Position - Proprietary Funds

Year Ended June 30, 2013

	Nonmajor Enterprise
Assets	
Current Assets	
Cash and cash equivalents.....	\$ 450
Due from other funds.....	66,977
Due from other governments.....	795
Inventories.....	<u>2,774</u>
Total Current Assets.....	<u>70,996</u>
Capital Assets, Net of Accumulated Depreciation.....	<u>16,410</u>
Total Assets.....	<u>\$ 87,406</u>
Liabilities and Net Position	
Current Liabilities	
Accounts payable.....	\$ 428
Salaries and benefits payable.....	8,681
Due to other funds.....	60,107
Unearned revenue - other.....	<u>3,170</u>
Total Current Liabilities.....	<u>72,386</u>
Net OPEB Liability.....	<u>1,141</u>
Net Position	
Investment in capital assets.....	16,410
Unrestricted.....	<u>(2,531)</u>
Total Net Position.....	<u>13,879</u>
Total Liabilities and Net Position.....	<u>\$ 87,406</u>

Statement of Revenue, Expenses and Changes in Fund Net Position - Proprietary Funds

Year Ended June 30, 2013

	Nonmajor Enterprise
Operating Revenue	
Local Sources	
Charges for service	\$ 291,387
Other receipts	<u>1,243</u>
Total Operating Revenue	<u>292,630</u>
Operating Expenses	
Noninstructional Programs	
Service Operations	
Salaries and benefits	251,437
Purchased services and supplies	159,869
Other	<u>2,369</u>
Total Operating Expenses	<u>413,675</u>
Loss From Operations	<u>(121,045)</u>
Nonoperating Revenue	
State sources	1,871
Federal sources	<u>119,932</u>
Total Nonoperating Revenue	<u>121,803</u>
Income Before Transfers	758
Transfers in	<u>49,438</u>
Change in Net Position	50,196
Net Position - Beginning of Year	<u>(36,317)</u>
Net Position - End of Year	<u>\$ 13,879</u>

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2013

	Nonmajor Enterprise
Cash Flows From Operating Activities	
Cash received from sale of lunches and breakfasts.....	\$ 125,801
Cash received from daycare services.....	168,052
Cash paid for other.....	(1,126)
Cash paid to employees for services.....	(263,888)
Cash paid to suppliers for goods or services.....	<u>(147,890)</u>
Net Cash Used in Operating Activities.....	<u>(119,051)</u>
Cash Flows From Noncapital Financing Activities	
State grants received.....	1,871
Federal grants received.....	107,322
Transfers in.....	49,438
Collections of interfund receivables.....	240,193
Repayment of interfund payables.....	<u>(279,323)</u>
Net Cash Provided by Noncapital Financing Activities.....	<u>119,501</u>
Net Increase in Cash and Cash Equivalents.....	450
Cash and Cash Equivalents - Beginning of Year.....	<u>—</u>
Cash and Cash Equivalents - End of Year.....	<u>\$ 450</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities	
Loss from operations.....	\$ (121,045)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Commodities used.....	12,419
Changes in Assets and Liabilities	
Decrease in accounts receivable.....	1,870
Decrease in accounts payable.....	(440)
Decrease in salaries and benefits payable.....	(11,855)
Increase in unearned revenue.....	596
Decrease in other post-employment benefits.....	<u>(596)</u>
Net Cash Used in Operating Activities.....	<u>\$ (119,051)</u>

Noncash Investing, Capital and Related Financing Activities

During the year ended June 30, 2013, the District received \$12,419 of federal commodities.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board.

Reporting Entity

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

Jointly Governed Organizations

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

Basis of Presentation

Government-Wide Financial Statements

The statement of net position (previously referred to as net assets) and the statement of activities report information on all 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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

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

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

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 revenue are reported instead as general revenue.

Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

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

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

The District also reports a fiduciary fund which focuses on net position and changes in net position. The District's fiduciary fund includes the following:

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

Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Property tax, intergovernmental revenue (shared revenue, 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 revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenue.

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.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenue of the District's enterprise funds are 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 revenue and expenses not meeting this definition are reported as nonoperating revenue 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.

Assets, Liabilities and Fund Equity

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

Cash, Cash Equivalents and Investments

The District's only investment is in the Iowa Schools Joint Investment Trust which is valued at amortized cost.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Property Tax Receivable

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1-1/2% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

Due From Other Governments

Due from other governments represents amounts due from the State of Iowa, various shared revenue, grants and reimbursements from other governments.

Food Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. As of June 30, 2013, total inventories included government commodities valued at \$853 which were on hand. Expenses are recognized when the inventory is consumed rather than when purchased or received.

Capital Assets

Capital assets, which include property, furniture and equipment and intangibles, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The District did not have any intangible assets as of June 30, 2013. 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.

Land.....	\$ 4,000
Buildings	10,000
Improvements other than buildings	10,000
Intangibles.....	25,000
Furniture and Equipment	
School Nutrition Fund equipment	500
Other furniture and equipment.....	4,000

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Buildings	50 Years
Improvements other than buildings	20 - 50 Years
Intangibles.....	3 - 10 Years
Furniture and equipment	5 - 15 Years

Salaries and Benefits Payable

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

Deferred Revenue/Unearned Revenue

Although certain revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of income surtax and property tax receivable not collected within 60 days after year end.

Unearned revenue on the statement of net position consists of amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences

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

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net position.

Fund Equity

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

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

Unassigned - All amounts not included in the preceding classification.

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2013, expenditures exceeded the amounts budgeted in the instruction, support services and other expenditures functions.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash, Cash Equivalents and Investments

The District's deposits in banks as of June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

As of June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust Diversified Government Obligations Portfolio of \$1,170. The investments are valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables as of June 30, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue Management Levy	General	<u>\$ 116,335</u>
Enterprise Daycare	General Enterprise Nutrition	6,870 <u>60,107</u> <u>66,977</u>
		<u>\$ 183,312</u>

The balances are to be repaid by June 30, 2014.

Notes to the Financial Statements

(4) Interfund Transfers

The detail of the interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	
	Statewide Sales, Services and Use Tax	\$ 760,856
	Physical Plant and Equipment Levy	<u>20,646</u>
		<u>781,502</u>
Enterprise Preschool	General	<u>49,438</u>
		<u>\$ 830,940</u>

Transfers generally move revenue from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 34,856	\$ —	\$ —	\$ 34,856
Capital Assets Being Depreciated				
Buildings and improvements	8,428,751	—	—	8,428,751
Furniture and equipment	<u>2,991,405</u>	<u>157,680</u>	<u>260,000</u>	<u>2,889,085</u>
Total Capital Assets Being Depreciated.....	<u>11,420,156</u>	<u>157,680</u>	<u>260,000</u>	<u>11,317,836</u>
Less Accumulated Depreciation for				
Buildings and improvements	2,691,472	271,571	—	2,963,043
Furniture and equipment	<u>3,011,224</u>	<u>2,704</u>	<u>260,000</u>	<u>2,753,928</u>
Total Accumulated Depreciation...	<u>5,702,696</u>	<u>274,275</u>	<u>260,000</u>	<u>5,716,971</u>
Net Total Capital Assets Being Depreciated.....	<u>5,717,460</u>	<u>(116,595)</u>	<u>—</u>	<u>5,600,865</u>
Net Governmental Activities				
Capital Assets	<u>\$ 5,752,316</u>	<u>\$ (116,595)</u>	<u>\$ —</u>	<u>\$ 5,635,721</u>

Notes to the Financial Statements

(5) Capital Assets

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Business-Type Activities				
Furniture and equipment	\$ 26,480	\$ —	\$ 7,285	\$ 19,195
Less accumulated depreciation	<u>10,070</u>	<u>—</u>	<u>7,285</u>	<u>2,785</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 16,410</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,410</u>

Depreciation expense was charged as follows:

Governmental Activities		
Support Services		
Transportation		\$ 2,704
Unallocated		<u>271,571</u>
Total Governmental Activities Depreciation Expense		<u>\$ 274,275</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
Governmental Activities					
Revenue bonds	\$ 4,045,000	\$ —	\$ 230,000	\$ 3,815,000	\$ 230,000
Note payable	—	155,000	19,162	135,838	37,312
Lease payable	480,430	—	115,600	364,830	117,768
Early retirement	42,126	—	29,352	12,774	12,176
Net OPEB liability	52,125	14,151	—	66,276	—
Total	<u>\$ 4,619,681</u>	<u>\$ 169,151</u>	<u>\$ 394,114</u>	<u>\$ 4,394,718</u>	<u>\$ 397,256</u>
Business-Type Activities					
Net OPEB Liability	<u>\$ 1,737</u>	<u>\$ —</u>	<u>\$ 596</u>	<u>\$ 1,141</u>	<u>\$ —</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

Revenue Bonds

Details of the District's June 30, 2013 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bonds Issued November, 2009			
	Interest Rates	Principal	Interest	Total
2014	3.000%	\$ 215,000	\$ 132,075	\$ 347,075
2015	3.000	160,000	126,450	286,450
2016	3.250	145,000	121,694	266,694
2017	3.375	150,000	116,806	266,806
2018	3.500	155,000	111,562	266,562
2019-2023	3.750 - 4.000	865,000	462,150	1,327,150
2024-2028	4.000 - 4.500	1,065,000	265,200	1,330,200
2029-2030	4.500	<u>645,000</u>	<u>35,775</u>	<u>680,775</u>
Total		<u>\$ 3,400,000</u>	<u>\$ 1,371,712</u>	<u>\$ 4,771,712</u>

Year Ending June 30,	Bonds Issued September, 2011			
	Interest Rates	Principal	Interest	Total
2014	4.5%	\$ 15,000	\$ 18,338	\$ 33,338
2015	4.5	15,000	17,663	32,663
2016	4.5	20,000	16,875	36,875
2017	4.5	20,000	15,975	35,975
2018	4.5	20,000	15,075	35,075
2019-2023	4.5	110,000	61,425	171,425
2024-2028	4.5	140,000	33,300	173,300
2029-2030	4.5	<u>75,000</u>	<u>3,937</u>	<u>78,937</u>
Total		<u>\$ 415,000</u>	<u>\$ 182,588</u>	<u>\$ 597,588</u>

Year Ending June 30,	Total		
	Principal	Interest	Total
2014	\$ 230,000	\$ 150,413	\$ 380,413
2015	175,000	144,113	319,113
2016	165,000	138,569	303,569
2017	170,000	132,781	302,781
2018	175,000	126,637	301,637
2019-2023	975,000	523,575	1,498,575
2024-2028	1,205,000	298,500	1,503,500
2029-2030	<u>720,000</u>	<u>39,712</u>	<u>759,712</u>
Total	<u>\$ 3,815,000</u>	<u>\$ 1,554,300</u>	<u>\$ 5,369,300</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

The District has pledged future statewide sales, services and use tax revenue to repay the \$4,045,000 of bonds issued in November, 2009 and September, 2011. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 75% of the statewide sales, services and use tax revenue. The total principal and interest remaining to be paid on the notes is \$5,369,300. For the current year, \$230,000 of principal and \$156,462 of interest was paid on the bonds and total statewide sales, services and use tax revenue was \$532,571.

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

1. \$336,428 of the proceeds from the bonds issue have been placed in a reserve account with a trustee. The reserve account may be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The reserve account is recorded in the District's Debt Service Fund.
2. Proceeds from the statewide sales, services and use tax shall be placed in a revenue account. Monies in the revenue account shall be transferred from the revenue account to the sinking account. Money in the sinking account shall be used to pay the interest and principal on the bonds. Any surplus monies remaining in the revenue account, after the required transfer to the sinking account, may be used for any lawful purpose. The sinking account is recorded in the District's Debt Service Fund.

In addition to the above provisions, the bonds issued September, 2011 also had the following provision relating to early redemption of the bonds:

In each month there shall be deposited in a surplus revenue account all surplus statewide sales, services and use tax not used to pay debt service on the bonds issued September, 2011, or the bonds issued November, 2009. In each fiscal year, no more than \$20,000 of these surplus funds may be used for any lawful purpose. Beginning July 1, 2013, and on each July 1 thereafter, the surplus funds (less the \$20,000 previously mentioned) shall be used to prepay the September, 2011 bonds until such time as the bonds have been fully retired.

The District did not comply with all of the revenue bond provisions during the year ended June 30, 2013. During our audit, we noted the District had not established the required surplus revenue account.

Note Payable

During the year ended June 30, 2013, the District obtained a note payable to finance the purchase of two school buses. The note bears interest at 3.1% per annum and is payable from the Capital Projects - Physical Plant and Equipment Levy Fund. Details of the District's indebtedness under the agreement in effect as of June 30, 2013 are as follows:

Notes to the Financial Statements

(6) Long-Term Liabilities

Year Ending June 30,	Note Issued January 10, 2013			
	Bus Loan			
	Interest Rate	Principal	Interest	Total
2014	3.1%	\$ 37,312	\$ 3,981	\$ 41,293
2015	3.1	38,492	2,799	41,291
2016	3.1	39,708	1,583	41,291
2017	3.1	<u>20,326</u>	<u>322</u>	<u>20,648</u>
Total		<u>\$ 135,838</u>	<u>\$ 8,685</u>	<u>\$ 144,523</u>

During the year ended June 30, 2013, the District made principal and interest payments of \$19,162 and \$1,484, respectively.

Capital Lease

In June, 2012, the District entered into a lease purchase agreement for computer iPads. The cost of the individual iPads was below the District's capitalization policy and have not been recorded as capital assets. However, the lease payable has been recorded in the statement of net position. The following is a schedule of future minimum lease payments:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2014	3.2017%	\$ 117,768	\$ 10,746	\$ 128,514
2015	3.2017	121,569	6,945	128,514
2016	3.2017	<u>125,493</u>	<u>3,021</u>	<u>128,514</u>
Total		<u>\$ 364,830</u>	<u>\$ 20,712</u>	<u>\$ 385,542</u>

Line of Credit

The District also had a \$250,000 line of credit at State Bank and Trust Co. which bears interest at 4%, matures in September, 2014, and is secured by all District assets. No borrowings were outstanding under this line as of June 30, 2013.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits 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 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$256,517, \$229,489 and \$236,670, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(8) Early Retirement Plan

As of June 30, 2013, the District had obligations to two participants with a total liability of \$12,774. Retirement expenditures paid during the year ended June 30, 2013 totaled \$29,352.

(9) Other Postemployment Benefits (OPEB)

Plan Description

The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 34 active and 4 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding 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, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 30,403
Interest on net OPEB obligation.....	1,347
Adjustment to annual required contribution.....	<u>(5,365)</u>
Annual OPEB Cost	26,385
Contributions made	<u>(12,830)</u>
Increase in Net OPEB Obligation	13,555
Net OPEB Obligation - Beginning of Year.....	<u>53,862</u>
Net OPEB Obligation - End of Year	<u>\$ 67,417</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 plan's actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District contributed \$12,830 to the plan. Plan members eligible for benefits contributed \$951 or 6.9% of the premium costs.

Notes to the Financial Statements

(9) Other Postemployment Benefits (OPEB)

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, 2013 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 19,053	7.6%	\$ 35,381
June 30, 2012	20,331	9.1	53,862
June 30, 2013	26,385	48.6	67,417

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period of July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$165,551, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$165,551. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,317,000, and the ratio of the UAAL to the covered payroll was 12.6%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare 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, 2012 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%. An inflation rate of 0% is assumed for the purpose of this computation.

Mortality rates are from the 94 Group Annuity Table, projected to 2000 on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the 2006 Society of Actuaries Study and applying the termination factors used in the 2006 Society of Actuaries Study.

The UAAL is being amortized as a level percentage of projected payroll on a closed basis over 30 years.

Notes to the Financial Statements

(10) Risk Management

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

(11) Area Education Agency Support

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 \$165,000 for the year ended June 30, 2013, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Categorical Funding

The District's restricted fund balance for categorical funding as of June 30, 2013 is comprised of the following programs:

Program	Amount
Teacher salary supplement	\$ 1,763
Gifted and talented	15,092
Home school assistance.....	26,313
Preschool grant	19,306
Educator quality, professional development	<u>21,506</u>
	<u>\$ 83,980</u>

(13) Operating Lease

The District leases several office copiers under an operating lease which expires in 2014.

The following is a schedule by years of future minimum lease payments required under the operating lease that has initial or remaining noncancelable lease terms in excess of one year:

Year Ending June 30, 2014	<u>\$ 21,435</u>
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Rental expense for all operating leases was \$25,722 for the year ended June 30, 2013.

Notes to the Financial Statements

(14) Subsequent Events

Management has evaluated events through February 4, 2014, the date which the financial statements were available to be issued.

Subsequent to June 30, 2013, the District obtained an additional \$250,000 short-term line of credit to meet cash flow needs.

(15) Prior Period Restatement

During the year ended June 30, 2013, management determined \$139,125 should have been reported as a receivable and revenue in the Capital Projects - Statewide Sales, Services and Use Tax Fund in a prior year. As a result, the June 30, 2012 Capital Projects - Statewide Sales, Services and Use Tax Fund balance and the governmental activities net position should be increased \$139,125.

In addition, during the year ended June 30, 2012, the District entered into a lease purchase agreement to purchase several iPad computers. The total cost of the equipment should be reported in the fund statements as an expense and the proceeds of the lease reported as an other financing source; therefore, having no net effect on the fund financial statements. In the government-wide statements, the cost of the equipment should be recorded as a capital asset and a lease payable. Since the cost of the individual iPads was below the District's capitalization threshold, the cost was expensed; however, during the year ended June 30, 2013, management determined the lease payable was not recorded as of June 30, 2012. As a result, the governmental activities net position as of June 30, 2012 has been decreased by \$480,430.

	Governmental Activities	Capital Projects - Statewide Sales, Services and Use Tax
Fund Balance/Net Position - Beginning of Year, as previously reported.....	\$ 2,247,391	\$ 478,834
Additional revenue.....	139,125	139,125
Lease payable	(480,430)	—
Fund Balance/Net Position - Beginning of Year, as Restated	<u>\$ 1,906,086</u>	<u>\$ 617,959</u>

Required Supplementary Information

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

Year Ended June 30, 2013

	Actual			Original and Final Budget	Over (Under) Budget
	Govern- mental Fund Types	Proprietary Fund Type	Total		
Revenue					
Local sources	\$ 3,812,312	\$ 292,630	\$ 4,104,942	\$ 4,358,499	\$ (253,557)
Intermediate sources.....	—	—	—	42,000	(42,000)
State sources	2,267,635	1,871	2,269,506	2,342,029	(72,523)
Federal sources	130,512	119,932	250,444	191,434	59,010
Total Revenue.....	<u>6,210,459</u>	<u>414,433</u>	<u>6,624,892</u>	<u>6,933,962</u>	<u>(309,070)</u>
Expenditures/Expenses					
Instruction.....	3,537,251	—	3,537,251	3,500,500	36,751
Support services	1,866,287	—	1,866,287	1,781,022	85,265
Noninstructional programs	—	413,675	413,675	529,400	(115,725)
Other expenditures.....	860,430	—	860,430	176,824	683,606
Total Expenditures/Expenses	<u>6,263,968</u>	<u>413,675</u>	<u>6,677,643</u>	<u>5,987,746</u>	<u>689,897</u>
Revenue Over (Under)					
Expenditures/Expenses.....	(53,509)	758	(52,751)	946,216	(998,967)
Other Financing Sources					
(Uses) (Net)	<u>(3,787)</u>	<u>49,438</u>	<u>45,651</u>	<u>(396,000)</u>	<u>441,651</u>
Revenue and Other Financing					
Sources Over (Under)					
Expenditures/Expenses and					
Other Financing Uses	(57,296)	50,196	(7,100)	550,216	<u>\$ (557,316)</u>
Balance - Beginning of Year, as restated (Note 15)	621,931	(36,317)	585,614	(127,029)	
Balance - End of Year	<u>\$ 564,635</u>	<u>\$ 13,879</u>	<u>\$ 578,514</u>	<u>\$ 423,187</u>	

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except the Agency Fund. The budget may be amended during the year utilizing similar and 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. These four functional areas are instruction, support services, noninstructional 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 by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2013, expenditures in the instruction, support services and other expenditure functional areas exceeded the amount budgeted.

Schedule of Funding Progress for the Retiree Health Plan ---

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2010	7-1-09	\$ —	\$ 166,776	\$ 166,776	0%	\$ 1,380,000	12.1%
2011	7-1-09	—	161,811	161,811	0	1,410,000	11.5
2012	7-1-09	—	147,230	147,230	0	1,150,000	12.8
2013	7-1-12	—	165,551	165,551	0	1,317,000	12.6

See Note 9 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

As of June 30, 2013

	<u>Special Revenue</u>		Total
	<u>Management Levy</u>	<u>Student Activity</u>	
Assets			
Cash, cash equivalents and investments.....	\$ —	\$ 47,601	\$ 47,601
Receivables, Net of Allowance for Uncollectible Amounts			
Property Tax			
Current year delinquent.....	949	—	949
Succeeding year.....	100,001	—	100,001
Due from other funds.....	<u>116,335</u>	<u>—</u>	<u>116,335</u>
Total Assets	<u>\$ 217,285</u>	<u>\$ 47,601</u>	<u>\$ 264,886</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable.....	\$ —	\$ 5,951	\$ 5,951
Deferred Revenue			
Succeeding year property tax.....	<u>100,001</u>	<u>—</u>	<u>100,001</u>
Total Liabilities	<u>100,001</u>	<u>5,951</u>	<u>105,952</u>
Fund Balances			
Restricted for			
Management levy purposes	117,284	—	117,284
Student activities.....	<u>—</u>	<u>41,650</u>	<u>41,650</u>
Total Fund Balances	<u>117,284</u>	<u>41,650</u>	<u>158,934</u>
Total Liabilities and Fund Balances	<u>\$ 217,285</u>	<u>\$ 47,601</u>	<u>\$ 264,886</u>

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

Year Ended June 30, 2013

	Special Revenue		
	Management Levy	Student Activity	Total
Revenue			
Local Sources			
Local tax	\$ 98,806	\$ —	\$ 98,806
Other.....	6,086	164,981	171,067
Total Revenue	104,892	164,981	269,873
Expenditures			
Current			
Instruction			
Regular	53,544	—	53,544
Other.....	—	169,989	169,989
Total Instruction.....	53,544	169,989	223,533
Support Services			
Administration	2,536	—	2,536
Operation and maintenance of plant.....	99,844	—	99,844
Total Support Services	102,380	—	102,380
Total Expenditures	155,924	169,989	325,913
Net Change in Fund Balances	(51,032)	(5,008)	(56,040)
Fund Balances - Beginning of Year	168,316	46,658	214,974
Fund Balances - End of Year	\$ 117,284	\$ 41,650	\$ 158,934

Combining Schedule of Net Position - Nonmajor Proprietary Funds

As of June 30, 2013

	Enterprise		
	School Nutrition	Daycare	Total
Assets			
Current Assets			
Cash and cash equivalents.....	\$ —	\$ 450	\$ 450
Due from other funds.....	—	66,977	66,977
Due from other governments.....	795	—	795
Inventories.....	<u>2,774</u>	<u>—</u>	<u>2,774</u>
Total Current Assets	<u>3,569</u>	<u>67,427</u>	<u>70,996</u>
Capital Assets, Net of Accumulated Depreciation			
	<u>16,410</u>	<u>—</u>	<u>16,410</u>
Total Assets	<u>\$ 19,979</u>	<u>\$ 67,427</u>	<u>\$ 87,406</u>
Liabilities and Net Position			
Current Liabilities			
Accounts payable	\$ 428	\$ —	\$ 428
Salaries and benefits payable.....	1,372	7,309	8,681
Due to other funds.....	60,107	—	60,107
Unearned revenue - other.....	<u>3,170</u>	<u>—</u>	<u>3,170</u>
Total Current Liabilities	<u>65,077</u>	<u>7,309</u>	<u>72,386</u>
Net OPEB Liability	<u>1,141</u>	<u>—</u>	<u>1,141</u>
Net Position			
Investment in capital assets.....	16,410	—	16,410
Unrestricted	<u>(62,649)</u>	<u>60,118</u>	<u>(2,531)</u>
Total Net Position	<u>(46,239)</u>	<u>60,118</u>	<u>13,879</u>
Total Liabilities and Net Position	<u>\$ 19,979</u>	<u>\$ 67,427</u>	<u>\$ 87,406</u>

Combining Schedule of Revenue, Expenses and Changes in Fund Net Position - Nonmajor Proprietary Funds

Year Ended June 30, 2013

	Enterprise			
	School Nutrition	Preschool	Daycare	Total
Operating Revenue				
Local Sources				
Charges for service	\$ 123,335	\$ —	\$ 168,052	\$ 291,387
Other receipts.....	1,243	—	—	1,243
Total Operating Revenue.....	<u>124,578</u>	<u>—</u>	<u>168,052</u>	<u>292,630</u>
Operating Expenses				
Noninstructional Programs				
Service Operations				
Salaries and benefits	118,617	—	132,820	251,437
Purchased services and supplies.....	156,725	817	2,327	159,869
Other	—	—	2,369	2,369
Total Operating Expenses.....	<u>275,342</u>	<u>817</u>	<u>137,516</u>	<u>413,675</u>
Income (Loss) From Operations.....	<u>(150,764)</u>	<u>(817)</u>	<u>30,536</u>	<u>(121,045)</u>
Nonoperating Revenue				
State sources	1,871	—	—	1,871
Federal sources.....	119,932	—	—	119,932
Total Nonoperating Revenue	<u>121,803</u>	<u>—</u>	<u>—</u>	<u>121,803</u>
Income (Loss) Before Transfers.....	(28,961)	(817)	30,536	758
Transfers in	—	49,438	—	49,438
Change in Net Position	(28,961)	48,621	30,536	50,196
Net Position - Beginning of Year.....	(17,278)	(48,621)	29,582	(36,317)
Net Position - End of Year.....	<u>\$ (46,239)</u>	<u>\$ —</u>	<u>\$ 60,118</u>	<u>\$ 13,879</u>

Combining Schedule of Cash Flows - Nonmajor Proprietary Funds

Year Ended June 30, 2013

	Enterprise			
	School Nutrition	Preschool	Daycare	Total
Cash Flows From Operating Activities				
Cash received from sale of lunches and breakfasts	\$ 125,801	\$ —	\$ —	\$ 125,801
Cash received from daycare services.....	—	—	168,052	168,052
Cash received from (paid for) other	1,243	—	(2,369)	(1,126)
Cash paid to employees for services	(138,377)	—	(125,511)	(263,888)
Cash paid to suppliers for goods or services	(144,222)	(817)	(2,851)	(147,890)
Net Cash Provided by (Used in)				
Operating Activities	(155,555)	(817)	37,321	(119,051)
Cash Flows From Noncapital Financing Activities				
State grants received	1,871	—	—	1,871
Federal grants received	107,322	—	—	107,322
Transfers in	—	49,438	—	49,438
Collections of interfund receivables	115,989	—	124,204	240,193
Repayment of interfund payables	(69,627)	(48,621)	(161,075)	(279,323)
Net Cash Provided by (Used in)				
Noncapital Financing Activities	155,555	817	(36,871)	119,501
Net Increase in Cash and Cash Equivalents	—	—	450	450
Cash and Cash Equivalents - Beginning of Year....	—	—	—	—
Cash and Cash Equivalents - End of Year	\$ —	\$ —	\$ 450	\$ 450
Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities				
Income (loss) from operations.....	\$ (150,764)	\$ (817)	\$ 30,536	\$ (121,045)
Adjustments to Reconcile Income (Loss)				
From Operations to Net Cash Provided by (Used in) Operating Activities				
Commodities used	12,419	—	—	12,419
Changes in Assets and Liabilities				
Decrease in accounts receivable	1,870	—	—	1,870
Increase (decrease) in accounts payable.....	84	—	(524)	(440)
Increase (decrease) in salaries and benefits payable	(19,164)	—	7,309	(11,855)
Increase in unearned revenue.....	596	—	—	596
Decrease in other post-employment benefits...	(596)	—	—	(596)
Net Cash Provided by (Used in) Operating Activities.....	\$ (155,555)	\$ (817)	\$ 37,321	\$ (119,051)

Combining Balance Sheet - Capital Projects Accounts

As of June 30, 2013

	<u>Capital Projects</u>		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Assets			
Cash, cash equivalents and investments.....	\$ 181,462	\$ 55,022	\$ 236,484
Receivables, Net of Allowance for Uncollectible Amounts			
Property Tax			
Current year delinquent	—	2,402	2,402
Succeeding year	—	413,137	413,137
Due from other governments	<u>85,704</u>	<u>—</u>	<u>85,704</u>
Total Assets	<u>\$ 267,166</u>	<u>\$ 470,561</u>	<u>\$ 737,727</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ —	\$ 77,646	\$ 77,646
Deferred Revenue			
Succeeding year property tax.....	<u>—</u>	<u>413,137</u>	<u>413,137</u>
Total Liabilities.....	<u>—</u>	<u>490,783</u>	<u>490,783</u>
Fund Balances			
Restricted for			
School infrastructure	267,166	—	267,166
Unassigned	<u>—</u>	<u>(20,222)</u>	<u>(20,222)</u>
Total Fund Balances.....	<u>267,166</u>	<u>(20,222)</u>	<u>246,944</u>
Total Liabilities and Fund Balances	<u>\$ 267,166</u>	<u>\$ 470,561</u>	<u>\$ 737,727</u>

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Capital Projects Accounts

Year Ended June 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenue			
Local Sources			
Local tax	\$ 532,571	\$ 369,128	\$ 901,699
Other.....	425	424	849
Total Revenue	<u>532,996</u>	<u>369,552</u>	<u>902,548</u>
Expenditures			
Current			
Support Services			
Instructional staff	—	79,538	79,538
Operation and maintenance of plant	—	8,280	8,280
Transportation	—	192,240	192,240
Total Support Services.....	<u>—</u>	<u>280,058</u>	<u>280,058</u>
Other Expenditures			
Facilities acquisition.....	122,933	162,358	285,291
Total Expenditures.....	<u>122,933</u>	<u>442,416</u>	<u>565,349</u>
Revenue Over (Under) Expenditures	<u>410,063</u>	<u>(72,864)</u>	<u>337,199</u>
Other Financing Sources (Uses)			
Note payable proceeds.....	—	155,000	155,000
Operating transfers out.....	(760,856)	(20,646)	(781,502)
Lease payment.....	—	(115,600)	(115,600)
Total Other Financing Sources (Uses)	<u>(760,856)</u>	<u>18,754</u>	<u>(742,102)</u>
Net Change in Fund Balances	(350,793)	(54,110)	(404,903)
Fund Balances - Beginning of Year, as restated (Note 15).....	<u>617,959</u>	<u>33,888</u>	<u>651,847</u>
Fund Balances - End of Year	<u>\$ 267,166</u>	<u>\$ (20,222)</u>	<u>\$ 246,944</u>

Schedule of Changes in Special Revenue Fund, Student Activity Accounts —

Year Ended June 30, 2013

	Balance - Beginning of Year	Revenue	Expendi- tures	Intrafund Transfers	Balance - End of Year
Benevolence fund.....	\$ 1,094	\$ 165	\$ —	\$ —	\$ 1,259
All athletics	10,250	73,777	80,598	(195)	3,234
Basketball.....	(195)	—	—	195	—
Drama	2,406	3,197	2,370	—	3,233
Musical	3,026	—	—	—	3,026
Vocal/instrumental	9,999	24,880	34,717	—	162
HS student council.....	8,052	10,215	9,272	—	8,995
C-N FFA	4,326	17,434	16,151	—	5,609
Yearbook.....	—	5,084	2,435	—	2,649
Cheerleading	835	8,404	5,489	—	3,750
Band resale	43	2,384	1,799	—	628
Art club	809	—	75	—	734
MS student act/Elm student council	6,013	18,890	16,650	—	8,253
Interest	—	296	197	—	99
FCS project	—	255	236	—	19
Total	<u>\$ 46,658</u>	<u>\$ 164,981</u>	<u>\$ 169,989</u>	<u>\$ —</u>	<u>\$ 41,650</u>

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund ■

Year Ended June 30, 2013

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash, Cash Equivalents and Investments	<u>\$ 737</u>	<u>\$ —</u>	<u>\$ 737</u>	<u>\$ —</u>
Liabilities				
Due to Other Governments.....	<u>\$ 737</u>	<u>\$ —</u>	<u>\$ 737</u>	<u>\$ —</u>

**Schedule of Revenue By Source and Expenditures By Function -
All Governmental Funds**

For the Last Ten Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenue										
Local Sources										
Local tax	\$ 3,514,138	\$ 3,089,266	\$ 2,447,193	\$ 2,448,691	\$ 2,248,328	\$ 2,185,659	\$ 2,367,722	\$ 2,459,777	\$ 2,402,408	\$ 2,339,244
Tuition	82,592	83,017	140,199	111,084	144,155	160,834	120,032	148,329	180,570	162,825
Other	215,582	210,747	223,332	214,103	388,711	277,042	204,272	193,172	175,732	163,088
State sources	2,267,635	2,123,855	2,263,545	1,802,742	2,407,920	2,400,234	2,419,171	2,386,039	2,443,418	2,182,324
Federal sources.....	<u>130,512</u>	<u>225,562</u>	<u>341,050</u>	<u>353,811</u>	<u>133,982</u>	<u>74,734</u>	<u>148,884</u>	<u>153,665</u>	<u>179,857</u>	<u>158,876</u>
Total	<u>\$ 6,210,459</u>	<u>\$ 5,732,447</u>	<u>\$ 5,415,319</u>	<u>\$ 4,930,431</u>	<u>\$ 5,323,096</u>	<u>\$ 5,098,503</u>	<u>\$ 5,260,081</u>	<u>\$ 5,340,982</u>	<u>\$ 5,381,985</u>	<u>\$ 5,006,357</u>
Expenditures										
Instruction										
Regular	\$ 2,318,127	\$ 2,288,157	\$ 2,588,097	\$ 2,479,799	\$ 2,329,822	\$ 3,129,147	\$ 3,024,625	\$ 2,863,768	\$ 2,982,512	\$ 2,897,890
Special	545,521	506,216	476,891	428,947	490,006	—	—	—	—	—
Other	673,603	660,781	541,517	537,881	523,564	—	—	—	—	—
Support Services										
Student	32,961	26,319	41,247	9,683	62,535	10,040	5,247	17,463	20,691	12,303
Instructional staff.....	281,628	153,527	133,203	139,049	158,661	89,851	122,933	148,152	77,960	61,545
Administration	548,634	531,317	656,105	584,387	545,791	542,669	506,452	649,627	557,150	551,332
Operation and maintenance of plant	545,670	475,532	585,562	517,834	477,215	489,383	477,426	459,601	374,492	397,724
Transportation.....	457,394	222,999	300,017	226,733	299,560	363,321	274,575	193,857	211,734	272,007
Noninstructional programs.....	—	271	40	281	164	3,000	—	3,000	3,000	25,767
Other Expenditures										
Facilities acquisition	285,291	247,776	2,964,488	1,780,713	516,400	249,426	547,481	551,161	464,347	389,353
Long-Term Debt										
Principal	249,162	—	—	—	—	—	—	—	17,211	36,787
Interest and fiscal charges.....	160,977	179,381	162,867	—	—	—	—	—	772	1,598
AEA flowthrough	<u>165,000</u>	<u>163,066</u>	<u>185,772</u>	<u>179,541</u>	<u>171,617</u>	<u>166,988</u>	<u>161,061</u>	<u>160,011</u>	<u>158,117</u>	<u>162,887</u>
Total	<u>\$ 6,263,968</u>	<u>\$ 5,455,342</u>	<u>\$ 8,635,806</u>	<u>\$ 6,884,848</u>	<u>\$ 5,575,335</u>	<u>\$ 5,043,825</u>	<u>\$ 5,119,800</u>	<u>\$ 5,046,640</u>	<u>\$ 4,867,986</u>	<u>\$ 4,809,193</u>

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

Board of Education
Colo-NESCO Community School District
Colo, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Colo-NESCO Community School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated February 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Colo-NESCO Community School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Colo-NESCO Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Colo-NESCO Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying schedule of findings as items 13-I-R-1, 13-I-R-2 and 13-I-R-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Colo-NESCO Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we also noted certain immaterial instances of noncompliance 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, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Colo-NESCO Community School District's Responses to Findings

Colo-NESCO Community School District's responses to findings identified in our audit are described in the accompanying schedule of findings. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
February 4, 2014

Schedule of Findings

Year Ended June 30, 2013

Part I: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

13-I-R-1 Segregation of Duties

Prior Year and Current Year Finding - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of accounting personnel employed by the District makes it difficult to achieve adequate control procedures through segregation of duties. The concentration of closely related duties and responsibilities, such as recording and preparing cash receipts, preparing and recording checks and preparation of journals and financial information for posting makes it difficult to establish an adequate system of automatic internal checks on accounting record accuracy and reliability. The potential effect is an error occurring or fraudulent activity being committed and not being detected by employees.

Auditor's Recommendation - We realize that with a limited number of accounting employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances. We recommend all adjusting journal entries be reviewed by another employee. Additionally, management should review procedures to ensure receipt, disbursements and reconciliation functions are as separate as possible.

District's Response - We will review procedures and will implement additional controls where possible.

Auditor's Conclusion - Response accepted.

13-I-R-2 Financial Statement Preparation

Prior Year and Current Year Finding - The District does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with accounting principles generally accepted in the United States of America. As is inherent in many entities of this size, the District has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully prepare financial statements and the related disclosures. The potential effect is there could be material errors in the financial statements which would not be discovered by management.

Auditor's Recommendation - We recommend obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

District's Response - We will consider obtaining additional knowledge where practical and cost effective. However, we intend to continue to rely on assistance from our audit firm to draft these financial statements each year.

Auditor's Conclusion - Response accepted.

Schedule of Findings

Year Ended June 30, 2013

13-I-R-3 Cash Reconciliations

Finding - During our audit, we noted cash in the general ledger did not agree to the bank reconciliation. Bank reconciliations were completed each month with the same large variance between the book and bank balances. The potential effect is possible misappropriation of cash and it not being discovered in a timely manner.

Auditor's Recommendation - Bank reconciliations should be prepared on a monthly basis. Variances between book and bank balances should be investigated and resolved in a timely manner. We further recommend that a member of management review the bank reconciliations, bank statements and canceled checks each month.

District's Response - We have resolved the discrepancy and will investigate variances promptly in the future.

Auditor's Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting

13-II-A Certified Budget

Findings - Expenditures for the year ended June 30, 2013 exceeded the certified budget amounts in the instruction, support services and other expenditures functions.

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

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

Auditor's Conclusion - Response accepted.

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

13-II-C 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.

13-II-D Business Transactions - No business transactions between the District and District officials or employees were noted.

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

13-II-F Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

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

Schedule of Findings

Year Ended June 30, 2013

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

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

13-II-J Certified Annual Report

Finding - The certified annual report (CAR) was certified timely to the Iowa Department of Education, but we noted numerous differences between the amounts reported and the District's general ledger. Prior to filing, the District also required significant assistance with preparing the general ledger for upload to the Iowa Department of Education website, including proposing various adjustments.

Auditor's Recommendation - Procedures should be established to make sure the CAR is reconciled with accounting records and reviewed by a member of management prior to being filed. We also recommend the District obtain additional training on CAR preparation and use of the general ledger software.

District's Response - We will establish procedures to reconcile the report with accounting records and will consider obtaining training as necessary.

Auditor's Conclusion - Response accepted.

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

13-II-L Statewide Sales, Services and Use Tax - No instances of noncompliance with the allowable uses of the statewide sales, services and use tax revenue provided in Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance, as restated		\$ 617,959
Revenue		
Statewide sales, services and use tax revenue...	\$ 532,571	
Other local revenue	<u>425</u>	532,996
Expenditures/Transfers Out		
School infrastructure construction	\$ 122,933	
Transfer to Debt Service Fund	<u>760,856</u>	<u>883,789</u>
Ending Balance		<u>\$ 267,166</u>

For the year ended June 30, 2013, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

Schedule of Findings

Year Ended June 30, 2013

13-II-M Deficit Balances

Finding - The District has a \$522,103 deficit General Fund balance, a \$46,239 deficit net position in the Enterprise - School Nutrition Fund and a \$20,222 deficit balance in the Capital Projects - Physical Plant and Equipment Levy account as of June 30, 2013.

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

District's Response - We are working on ways to eliminate these deficits.

Auditor's Conclusion - Response accepted.

13-II-N Reclassification of Student Activity Fund Accounts

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

Auditor's Recommendation - We recommend these accounts be reviewed and transferred to the proper funds.

District's Response - We will review the accounts and make any necessary adjustments.

Auditor's Conclusion - Response accepted.

13-II-O Revenue Bonds

Finding - The District has not established the surplus revenue account required by the bond resolution and the required transfer of excess statewide sales, services and use tax revenue was not made by the District. In addition, the District did not make the required early redemption payment.

Auditor's Recommendation - The District should establish the surplus revenue account and begin making required transfers. In addition, the District should make early redemption payments as required.

District's Response - We will establish a surplus revenue account and begin making required transfers. We will begin making early redemption payments as required.

Auditor's Conclusion - Response accepted.