

**CUSTER COUNTY SCHOOL DISTRICT C-1
WESTCLIFFE, COLORADO
FINANCIAL STATEMENTS
June 30, 2012**

**CUSTER COUNTY SCHOOL DISTRICT C-1
WESTCLIFFE, COLORADO**

ROSTER OF SCHOOL OFFICIALS

June 30, 2012

BOARD OF EDUCATION

Randy Woods - President
Gary Frickell - Vice-President
Brenda Gaide - Secretary/Treasurer
Monty Lee - Member
Brad Stam - Member

ADMINISTRATIVE STAFF

Lance Villers
Superintendent

Amy Perschbacher
Business Manager

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FINANCIAL SECTION



Board of Education
Custer County School District C-1
Westcliffe, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Custer County School District C-1 as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the Custer County School District C-1, as listed in the table of contents. These financial statements are the responsibility of the Custer County School District C-1's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Custer County School District C-1 as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Custer County School District C-1's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Swanlund & Company LLC

February 25, 2013

CUSTER COUNTY SCHOOL DISTRICT C-1

Management's Discussion and Analysis Fiscal Year Ending June 30, 2012

As management of Custer County School District C-1, we offer readers of the District's basic financial statements this narrative and analysis of the financial activities of Custer County School District C-1 for the year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

The year ended June 30, 2012 was the sixth year of service for our superintendent, Mr. Lance Villers. He acted as principal for Custer County High School for the preceding three years. In fiscal year 2012, the General Fund carryover balance reflects a decrease of \$24,586 from the prior year. This decrease was higher than anticipated and was only partially reflected in the budget. All expenditures were approved by the board; however, in the future a supplemental budget resolution will be adopted prior to the end of the fiscal year to reflect unanticipated expenses. The District has at least temporarily discontinued the use of the 3,600 square foot preschool facility located at 118 Jerry Court in Westcliffe (the "Town"), due to current budget constraints. The acquisition was made possible by conditions of a DOLA grant to the Town and to a now defunct early learning organization. The preschool was moved back into the elementary building in August of 2011. At this time, the District has retained the original preschool building located at 702 Main Street in Westcliffe for other uses. Although budget restrictions and increasing costs have made it difficult, the District continued to maintain its benefit package for all eligible employees, albeit at a higher deductible health insurance plan with the same provider as the previous fiscal year. The implementation of a medical reimbursement plan to replace the medical gap insurance plan offered by the District in the 2007-2008 school year has now realized an accumulated savings of \$64,657 to the District over the last five fiscal years.

The District had 11 fewer students enrolled than in the 2010-2011 school year; however, funded student count was down 20 students. The official count was 16 fewer funded students due to the five-year averaging allowed by the State. The operations of the District are funded primarily by tax revenue received under the State School Finance Act. Operating tax revenue for the year from property and specific ownership taxes was approximately \$2,469,768, an increase of \$62,079 from local tax revenue from the previous year. State equalization revenue amounted to an additional \$758,399, reflecting a decrease of \$155,096 from the previous year's State equalization funding and a \$568,543 accumulated decrease in State equalization funding from fiscal year 2010.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two being reported as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The District has two governmental funds: the General Fund and Bond Redemption Fund.

Enterprise funds are used to present the same functions as the business-type activities presented in the government-wide financial statements. The District uses an enterprise fund to account for its food service operations.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Government-wide Financial Analysis

As noted previously, net assets may serve over time as a useful indicator of the District's financial position. For the year ended June 30, 2012, the District's combined assets exceeded liabilities by \$2,685,979. Of this amount, \$452,559 is unrestricted and is available to meet the District's ongoing financial obligations. \$1,474,583 is in capital assets net of related debt. \$105,900 is restricted (reserved for emergencies) to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. In addition, \$652,937 is restricted for debt service.

Net Assets

	Governmental		Business-Type		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current Assets	\$1,796,729	\$1,764,942	\$ 5,768	\$5,053	\$1,802,497	\$1,769,995
Capital Assets-Net	<u>5,544,683</u>	<u>5,742,702</u>	<u>2,872</u>	<u>3,847</u>	<u>5,547,555</u>	<u>5,746,549</u>
Total Assets	<u>\$7,341,412</u>	<u>\$7,507,644</u>	<u>\$ 8,640</u>	<u>\$8,900</u>	<u>\$7,350,052</u>	<u>\$7,516,544</u>
Liabilities						
Current Liabilities	\$ 677,682	\$ 605,739	\$7,945	\$8,070	\$ 685,627	\$ 613,809
Noncurrent Liabilities	<u>3,978,446</u>	<u>4,267,292</u>			<u>3,978,446</u>	<u>4,267,292</u>
Total Liabilities	<u>\$4,656,128</u>	<u>\$4,873,031</u>	<u>\$7,945</u>	<u>\$8,070</u>	<u>\$4,664,073</u>	<u>\$4,881,101</u>
Net Assets						
Invested in Capital Assets, Net	\$1,471,711	\$1,463,300	\$2,872	\$3,847	\$1,474,583	\$1,467,147
Restricted	758,837	743,068			758,837	743,068
Unrestricted	<u>454,736</u>	<u>428,245</u>	<u>(2,177)</u>	<u>(3,017)</u>	<u>452,559</u>	<u>425,228</u>
Total Net Assets	<u>\$2,685,284</u>	<u>\$2,634,613</u>	<u>\$ 695</u>	<u>\$ 830</u>	<u>\$2,685,979</u>	<u>\$2,635,443</u>
Change in Net Assets						
Revenues						
Property Taxes	\$2,614,516	\$2,551,625			\$2,614,516	\$2,551,625
SO Taxes	266,083	269,733			266,083	269,733
Equalization	758,399	913,495			758,399	913,495
Charges for Services	5,625	3,605	\$33,030	\$37,569	38,655	41,174
Operating Grants and Contributions	265,259	279,475	76,691	74,725	341,950	354,200
Other Revenues	<u>238,183</u>	<u>297,943</u>			<u>238,183</u>	<u>297,943</u>
Total Revenue	<u>\$4,148,065</u>	<u>\$4,315,876</u>	<u>\$109,721</u>	<u>\$112,294</u>	<u>\$4,257,786</u>	<u>\$4,428,170</u>
Expenses						
Instruction	\$2,220,569	\$2,517,943			\$2,220,569	\$2,517,943
Support Services	1,642,504	1,611,016			1,642,504	1,611,016
Interest on Long-Term Debt	162,321	198,734			162,321	198,734
Food Service			\$181,856	\$176,497	181,856	176,497
Total Expenses	<u>\$4,025,394</u>	<u>\$4,327,693</u>	<u>\$181,856</u>	<u>\$176,497</u>	<u>\$4,207,250</u>	<u>\$4,504,190</u>
Transfers	<u>\$ (72,000)</u>	<u>\$ (57,250)</u>	<u>\$ 72,000</u>	<u>\$ 57,250</u>		
Increase (Decrease) in Net Assets	<u>\$ 50,671</u>	<u>\$ (69,067)</u>	<u>\$ (135)</u>	<u>\$ (6,953)</u>	<u>\$ 50,536</u>	<u>\$ (76,020)</u>
Net Assets, June 30, 2006		<u>\$2,227,564</u>		<u>\$ 609</u>		<u>\$2,228,173</u>
Net Assets, June 30, 2007		<u>\$2,385,163</u>		<u>\$ 2,594</u>		<u>\$2,387,757</u>
Net Assets, June 30, 2008		<u>\$2,372,545</u>		<u>\$ 7,062</u>		<u>\$2,379,607</u>
Net Assets, June 30, 2009		<u>\$2,455,308</u>		<u>\$ 7,489</u>		<u>\$2,462,797</u>
Net Assets, June 30, 2010		<u>\$2,703,680</u>		<u>\$ 7,783</u>		<u>\$2,711,463</u>
Net Assets, June 30, 2011		<u>\$2,634,613</u>		<u>\$ 830</u>		<u>\$2,635,433</u>
Net Assets, June 30, 2012		<u>\$2,685,284</u>		<u>\$ 695</u>		<u>\$2,685,979</u>

Financial Analysis of the District's Funds

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$1,225,562, a decrease of \$5,312 (reflecting decreased revenues and higher mandated employer contributions on employee benefits, among other rising expense). Capital projects, formerly reported in the Capital Reserve Fund are now reported in the General Fund. Maintaining the District's facilities was all that the 2012 budget constraints allowed. Used computer equipment in good condition is being purchased to replace equipment that is beyond repair. Possible safety issues District wide will continue to be monitored and addressed as the need arises.

The General Fund is the major operating fund of the District. At the end of the current fiscal year, fund balance decreased by \$24,586 (from \$617,173 to \$592,587).

The Bond Redemption Fund ending fund balance increased by \$19,274 (from \$613,701 to \$632,975). The bond refunding in April of 2012 resulted in the increase in fund balance. The Board of Education and management intend to continue to lower the bond mill levy in the next fiscal year to meet bond redemption obligations with minimal change to the fund balance in the Bond Redemption Fund. The carryover fund balance now reflects an amount which would meet at least one year's obligations for bond redemption, in the event of default by any of the District's significantly large taxpayers.

General Fund Budgetary Highlights

The District budgeted for General Fund expenditures of \$3,638,922 for the year ended June 30, 2012. Expenditures actually made in the General Fund totaled \$3,698,481. Budgeted revenues were projected at \$3,682,264 and actually came in at \$3,745,895. Both revenues and expenditures reflect a significant decrease from the previous fiscal year.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets as of June 30, 2012, amounts to \$5,547,555. There were no current year additions due to budgetary restrictions. More information on the District's capital assets can be found in Note 3 to the financial statements.

Long-term debt. In April 2012, the District refunded \$1,755,000 of the outstanding 2004 general obligation bonds. The District was able to reduce its debt service payments by approximately \$261,600 as a result. As of June 30, 2012, the District had \$2,290,000 bonds payable from the bond issue of 2000 and the related refunding in 2005, which authorized the building of a new high school wing, a remodeled elementary wing, a remodeled middle school wing, new offices, and other facility improvements. Long term debt also includes \$2,090,000 bonds payable from the bond issue of 2004 and the related refunding of 2012, which authorized the building of a new physical education complex that includes a gym, locker rooms, weight room, concession and storage areas, handicap accessible restrooms, and coaches' offices.

Compensated absences of \$95,636 and early retirement incentive payments of \$46,624 are future liabilities. More information on the District's long-term debt can be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the District is student enrollment. Enrollment for 2011-2012 was 443 students in preschool-12th grades with funded count being 406.5. This figure was a decrease in actual enrollment (down from 454) and in funded student count from the previous year (426.5). The enrollment projected for the 2012-2013 school year was decreased to 423 students. This factor was considered in preparing the District's budget for 2012-2013.

The increased size of the District's facilities over the last ten years has increased utilities and operational expense. This was taken into consideration in the planning of the budget for 2012-2013. The volatility of fuel prices is of major concern to the District, especially in light of state funding for transportation decreasing at the same time that all other expenses are increasing. Because we are a small, rural school district with the majority of our students living outside of Westcliffe, the operation of our bus routes is imperative to providing our students with a quality education. There has been a reduction in staff in the District due to budget restrictions (primarily achieved by not replacing staff leaving the District at this time and by reassignment of current personnel). The District continues to subsidize the food service program from the General Fund; however, the board and management of the District continue to support the program for the benefit of the District's students. Raising prices for meals served in the program has not been deemed feasible at this time, due to the present poor economic conditions in the District.

Requests for Information

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Custer County School District C-1
709 Main Street, P.O. Box 730
Westcliffe, CO 81252

BASIC FINANCIAL STATEMENTS

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF NET ASSETS

June 30, 2012

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Investments	\$ 1,187,682	\$ 2,292	\$ 1,189,974
Accounts Receivable	208,759	567	209,326
Taxes Receivable	267,178	-	267,178
Inventories	-	2,909	2,909
Bond Issuance Costs, Net of Accumulated Amortization	133,110	-	133,110
Capital Assets, Net of Accumulated Depreciation	5,544,683	2,872	5,547,555
TOTAL ASSETS	7,341,412	8,640	7,350,052
LIABILITIES			
Accounts Payable	36,796	-	36,796
Accrued Salaries and Benefits	270,990	7,945	278,935
Noncurrent Liabilities			
Due Within One Year	369,896	-	369,896
Due in More Than One Year	3,978,446	-	3,978,446
TOTAL LIABILITIES	4,656,128	7,945	4,664,073
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,471,711	2,872	1,474,583
Restricted for Debt Service	652,937	-	652,937
Restricted for Emergencies	105,900	-	105,900
Unrestricted	454,736	(2,177)	452,559
TOTAL NET ASSETS	\$ 2,685,284	\$ 695	\$ 2,685,979

The accompanying notes are an integral part of the financial statements.

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	\$ 2,220,569	\$ 5,625	\$ 162,359
Supporting Services	1,642,504	-	102,900
Interest and Fiscal Charges	162,321	-	-
Total Governmental Activities	4,025,394	5,625	265,259
Business-Type Activities			
Food Service	181,856	33,030	76,691
Total Business-Type Activities	181,856	33,030	76,691
TOTAL PRIMARY GOVERNMENT	\$ 4,207,250	\$ 38,655	\$ 341,950
GENERAL REVENUES			
Local Property Taxes			
Specific Ownership Taxes			
State Equalization			
Grants and Contributions not			
Restricted to Specific Programs			
Investment Income			
Other			
TRANSFERS			
TOTAL GENERAL REVENUES AND TRANSFERS			
CHANGE IN NET ASSETS			
NET ASSETS, Beginning			
NET ASSETS, Ending			

The accompanying notes are an integral part of the financial statements.

NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
\$ (2,052,585)	\$ -	\$ (2,052,585)
(1,539,604)	-	(1,539,604)
<u>(162,321)</u>	<u>-</u>	<u>(162,321)</u>
<u>(3,754,510)</u>	<u>-</u>	<u>(3,754,510)</u>
<u>-</u>	<u>(72,135)</u>	<u>(72,135)</u>
<u>-</u>	<u>(72,135)</u>	<u>(72,135)</u>
<u>(3,754,510)</u>	<u>(72,135)</u>	<u>(3,826,645)</u>
2,614,516	-	2,614,516
266,083	-	266,083
758,399	-	758,399
166,869	-	166,869
1,989	-	1,989
69,325	-	69,325
<u>(72,000)</u>	<u>72,000</u>	<u>-</u>
<u>3,805,181</u>	<u>72,000</u>	<u>3,877,181</u>
50,671	(135)	50,536
<u>2,634,613</u>	<u>830</u>	<u>2,635,443</u>
\$ <u><u>2,685,284</u></u>	\$ <u><u>695</u></u>	\$ <u><u>2,685,979</u></u>

CUSTER COUNTY SCHOOL DISTRICT C-1

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	<u>GENERAL</u>	<u>BOND REDEMPTION</u>	<u>TOTAL</u>
ASSETS			
Cash and Investments	\$ 572,585	\$ 615,097	\$ 1,187,682
Accounts Receivable	208,759	-	208,759
Taxes Receivable	<u>229,338</u>	<u>37,840</u>	<u>267,178</u>
TOTAL ASSETS	<u>\$ 1,010,682</u>	<u>\$ 652,937</u>	<u>\$ 1,663,619</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 36,796	\$ -	\$ 36,796
Accrued Salaries and Benefits	270,990	-	270,990
Deferred Revenues	<u>110,309</u>	<u>19,962</u>	<u>130,271</u>
TOTAL LIABILITIES	<u>418,095</u>	<u>19,962</u>	<u>438,057</u>
FUND BALANCES			
Restricted for Debt Service	-	632,975	632,975
Restricted for Emergencies	105,900	-	105,900
Unrestricted, Unassigned	<u>486,687</u>	<u>-</u>	<u>486,687</u>
TOTAL FUND BALANCES	<u>592,587</u>	<u>632,975</u>	<u>1,225,562</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,010,682</u>	<u>\$ 652,937</u>	<u>\$ 1,663,619</u>

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Total Fund Balances of Governmental Funds	\$ 1,225,562
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	5,544,683
Other long-term assets are not available to pay current expenditures and, therefore, are deferred in governmental funds. This amount represents property taxes not available as current financial resources.	130,271
Long-term liabilities and related items, including bonds payable (\$4,206,082), compensated absences (\$95,636), early retirement (\$46,624), and bond issuance costs \$133,110, are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(4,215,232)</u>
Total Net Assets of Governmental Activities	<u>\$ 2,685,284</u>

The accompanying notes are an integral part of the financial statements.

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>GENERAL</u>	<u>BOND REDEMPTION</u>	<u>TOTAL</u>
REVENUES			
Local Sources	\$ 2,740,817	\$ 402,102	\$ 3,142,919
State Sources	845,092	-	845,092
Federal Sources	159,986	-	159,986
	<u>3,745,895</u>	<u>402,102</u>	<u>4,147,997</u>
TOTAL REVENUES			
EXPENDITURES			
Instruction	2,101,107	-	2,101,107
Supporting Services	1,597,374	-	1,597,374
Debt Service			
Principal	-	235,000	235,000
Interest and Fiscal Charges	-	147,828	147,828
Bond Issuance Costs	-	66,589	66,589
	<u>3,698,481</u>	<u>449,417</u>	<u>4,147,898</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>47,414</u>	<u>(47,315)</u>	<u>99</u>
OTHER FINANCING SOURCES (USES)			
Bonds Issued	-	2,010,000	2,010,000
Bond Premium	-	79,349	79,349
Payment to Escrow Agent	-	(2,022,760)	(2,022,760)
Transfers Out	(72,000)	-	(72,000)
	<u>(72,000)</u>	<u>66,589</u>	<u>(5,411)</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	(24,586)	19,274	(5,312)
FUND BALANCES, Beginning	<u>617,173</u>	<u>613,701</u>	<u>1,230,874</u>
FUND BALANCES, Ending	\$ <u><u>592,587</u></u>	\$ <u><u>632,975</u></u>	\$ <u><u>1,225,562</u></u>

The accompanying notes are an integral part of the financial statements.

CUSTER COUNTY SCHOOL DISTRICT C-1

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balances of Governmental Funds	\$ (5,312)
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net assets and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This amount represents depreciation expense in the current year.	(198,019)
Revenues in the statement of activities that do not provide current financial resources are deferred in the governmental funds. This amount represents the change in property tax revenues not available as current financial resources.	68
Repayments of bond principal are expenditures in the governmental funds, but they reduce long-term liabilities in the statement of net assets and do not affect the statement of activities.	235,000
Debt proceeds provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items: bonds issued (\$2,010,000), bond premium (\$79,349), bond issuance costs \$66,589, and payment to escrow agent \$2,022,760.	-
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 governmental funds. This amount represents the amortization of bond issuance costs (\$14,077), amortization of bond premiums \$6,104, amortization of loss on refunding (\$20,597), the change in compensated absences \$11,910, and the change in early retirement \$35,594.	18,934
Change in Net Assets of Governmental Activities	\$ <u>50,671</u>

The accompanying notes are an integral part of the financial statements.

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2012

	<u>FOOD SERVICE</u>
ASSETS	
Current Assets	
Cash	\$ 2,292
Accounts Receivable	567
Inventories	<u>2,909</u>
Total Current Assets	5,768
Noncurrent Assets	
Capital Assets, Net of Accumulated Depreciation	<u>2,872</u>
TOTAL ASSETS	<u>8,640</u>
LIABILITIES	
Current Liabilities	
Accrued Salaries and Benefits	<u>7,945</u>
TOTAL LIABILITIES	<u>7,945</u>
NET ASSETS	
Invested in Capital Assets	2,872
Unrestricted	<u>(2,177)</u>
TOTAL NET ASSETS	<u>\$ 695</u>

The accompanying notes are an integral part of the financial statements.

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
 Year Ended June 30, 2012

	<u>FOOD SERVICE</u>
OPERATING REVENUES	
Local Sources	
Charges for Services	\$ <u>33,030</u>
OPERATING EXPENSES	
Salaries	59,346
Employee Benefits	22,437
Purchased Services	940
Commodities	7,784
Supplies and Materials	90,374
Depreciation	<u>975</u>
TOTAL OPERATING EXPENSES	<u>181,856</u>
NET OPERATING LOSS	<u>(148,826)</u>
NONOPERATING INCOME	
State Sources	2,121
Federal Sources	
School Lunch and Breakfast Program	66,786
Donated Commodities	<u>7,784</u>
TOTAL NONOPERATING INCOME	<u>76,691</u>
NET LOSS BEFORE TRANSFERS	(72,135)
Transfers In	<u>72,000</u>
CHANGE IN NET ASSETS	(135)
NET ASSETS, Beginning	<u>830</u>
NET ASSETS, Ending	\$ <u><u>695</u></u>

The accompanying notes are an integral part of the financial statements.

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Increase (Decrease) in Cash

Year Ended June 30, 2012

	<u>FOOD SERVICE</u>
Cash Flows From Operating Activities	
Cash Received from Sale of Meals	\$ 32,463
Cash Paid to Employees	(81,908)
Cash Paid to Suppliers	<u>(91,980)</u>
Net Cash Used for Operating Activities	<u>(141,425)</u>
Cash Flows From Noncapital Financing Activities	
Cash Received from State Sources	2,121
Cash Received from Federal Sources	66,786
Transfers In	<u>72,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>140,907</u>
NET INCREASE (DECREASE) IN CASH	(518)
CASH, Beginning	<u>2,810</u>
CASH, Ending	<u><u>\$ 2,292</u></u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Net Operating Loss	\$ (148,826)
Adjustments to Reconcile Net Operating Loss to Net Cash Used for Operating Activities	
Donated Commodities	7,784
Depreciation Expense	975
Changes in Assets and Liabilities	
Accounts Receivable	(567)
Inventories	(666)
Accrued Salaries and Benefits	<u>(125)</u>
Net Cash Used for Operating Activities	<u><u>\$ (141,425)</u></u>
NON-CASH TRANSACTIONS	
Donated Commodities	<u><u>\$ 7,784</u></u>

The accompanying notes are an integral part of the financial statements.

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

June 30, 2012

	<u>PUPIL ACTIVITY</u>
ASSETS	
Cash and Investments	\$ <u>178,469</u>
LIABILITIES	
Due to Student Groups	\$ 151,639
Due to Scholarship Fund	14,933
Due to Teachers' Support Fund	<u>11,897</u>
TOTAL LIABILITIES	\$ <u>178,469</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Custer County School District C-1 (the “District”) conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting standards and principles. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the District, organizations for which the District is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the District. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the District. Legally separate organizations for which the District is financially accountable are considered part of the reporting entity. Financial accountability exists if the District appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens, on the District.

Based on the application of this criteria, the District does not include additional organizations in its reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for the governmental funds, the proprietary fund, and the fiduciary fund, even though the latter is excluded from the District’s government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the fund financial statements, the District reports the following major governmental funds:

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Bond Redemption Fund - This fund accounts for a dedicated property tax restricted for payment of the District's general obligation debt.

Additionally, the District reports the following fund types:

The *Food Service Enterprise Fund* accounts for the financial activities of the District's student breakfast and lunch program.

The *Agency Fund* accounts for funds held by the District for student organizations, scholarship funds and the teachers' support fund. The District holds all resources in a purely custodial capacity.

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

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

Taxes, intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues 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, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Assets, Liabilities and Fund Balances/Net Assets**

Investments - Investments are reported at fair value.

Receivables - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Property taxes levied in the current year but not received at year end are reported as property taxes receivable and are presented net of an allowance for uncollectible taxes.

Inventories - Inventories of the proprietary fund are valued at the lower of cost or market, using the first in, first out method. Donated commodities, received at no cost under a program supported by the federal government, are valued based upon the cost furnished by the federal government.

Capital Assets - Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund in the fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property and equipment is depreciated using the straight-line method over the following estimated useful lives.

Buildings and Improvements	20 - 50 years
Transportation Vehicles	5 - 10 years
Equipment	5 - 10 years

Accrued Salaries and Benefits - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from September to August, but are earned during a school year of approximately nine months. The accrued salaries and benefits earned, but unpaid, are reported as a liability in the financial statements.

Deferred Revenues - Property taxes earned but not available as current financial resources are reported as deferred revenues in the governmental fund financial statements.

Compensated Absences - District employees are entitled to certain compensated absences based on their length of employment. Except for sick and vacation leave, compensated absences do not vest or accumulate and are recorded as expenditures when paid. A long-term liability has been reported in the government-wide financial statements for the accrued sick and vacation leave.

Early Retirement - Certain District employees were eligible to receive early retirement benefits. Early retirement payments were deferred and paid over three years from the retirement date. A long-term liability is reported in the government-wide financial statements when the early retirement benefits are accepted by the employee and approved by the Board of Education.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Assets, Liabilities and Fund Balances/Net Assets (Continued)**

Long-Term Debt - In the government-wide financial statements, and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Net Assets/Fund Balances - In the government-wide and fund financial statements, net assets and fund balances are restricted when constraints placed on the use of resources are externally imposed. The District has not established a formal policy for its use of restricted and unrestricted fund balances. However, if both restricted and unrestricted fund balances are available, the District uses restricted fund balance first.

Property Tax Revenues

Property taxes attach as an enforceable lien on property on January 1, and are levied the following December. Taxes are payable in full the following April 30 or in two installments on February 28 and June 15. The County Treasurer's Office collects property taxes and remits to the District on a monthly basis.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss.

NOTE 2: CASH AND INVESTMENTS

At June 30, 2012, the District had the following cash and investments.

Cash on Hand	\$ 200
Deposits	753,146
Investments	<u>615,097</u>
Total	<u>\$ 1,368,443</u>

Cash and investments are reported in the financial statements as follows:

Governmental Activities	\$ 1,187,682
Business-Type Activities	2,292
Fiduciary Fund	<u>178,469</u>
Total	<u>\$ 1,368,443</u>

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 2: CASH AND INVESTMENTS (Continued)**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2012, the District had bank deposits of \$446,216 collateralized with securities held by the financial institution's agent but not in the District's name.

Investments

The District is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

Interest Rate Risk - State statutes generally limit the maturity date of investment securities to five years from the date of purchase unless the governing board authorizes investment for a period in excess of five years.

Credit Risk - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with the Securities and Exchange Commission's Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by a nationally recognized statistical rating organizations (NRSRO). At June 30, 2012, the District had \$615,097 invested in a money market fund that was rated AAAm by Standard and Poor's and Aaa by Moody's Investors Service.

Concentration of Credit Risk - State statutes generally do not limit the amount the District may invest in a single issuer of investment securities.

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 3: CAPITAL ASSETS

Activity for capital assets during the year ended June 30, 2012, is summarized below:

	Balances 6/30/11	Additions	Deletions	Balances 6/30/12
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 176,400	\$ -	\$ -	\$ 176,400
Total Capital Assets, Not Being Depreciated	<u>176,400</u>	<u>-</u>	<u>-</u>	<u>176,400</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	7,876,252	-	-	7,876,252
Transportation Vehicles	759,774	-	33,930	725,844
Equipment	<u>23,342</u>	<u>-</u>	<u>-</u>	<u>23,342</u>
Total Capital Assets, Being Depreciated	<u>8,659,368</u>	<u>-</u>	<u>33,930</u>	<u>8,625,438</u>
Less Accumulated Depreciation				
Buildings and Improvements	(2,444,582)	(172,744)	-	(2,617,326)
Transportation Vehicles	(630,244)	(24,000)	(33,930)	(620,314)
Equipment	<u>(18,240)</u>	<u>(1,275)</u>	<u>-</u>	<u>(19,515)</u>
Total Accumulated Depreciation	<u>(3,093,066)</u>	<u>(198,019)</u>	<u>(33,930)</u>	<u>(3,257,155)</u>
Total Capital Assets, Being Depreciated, Net	<u>5,566,302</u>	<u>(198,019)</u>	<u>-</u>	<u>5,368,283</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,742,702</u>	<u>\$ (198,019)</u>	<u>\$ -</u>	<u>\$ 5,544,683</u>
Business-Type Activities				
Capital Assets, Being Depreciated				
Equipment	\$ 18,627	\$ -	\$ -	\$ 18,627
Less Accumulated Depreciation				
Equipment	<u>(14,780)</u>	<u>(975)</u>	<u>-</u>	<u>(15,755)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,847</u>	<u>\$ (975)</u>	<u>\$ -</u>	<u>\$ 2,872</u>

Depreciation expense was charged to programs of the District as follows.

Governmental Activities	
Instruction	\$ 166,966
Supporting Services	<u>31,053</u>
Total	<u>\$ 198,019</u>

NOTE 4: SHORT-TERM DEBT

During the year ended June 30, 2012, the District borrowed \$893,280 from the State-sponsored interest-free loan program to provide cash flow throughout the fiscal year. The loan was paid in full in May, 2012, from property taxes received from February through May.

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2012.

	Balances 6/30/11	Additions	Payments	Balances 6/30/12	Due Within One Year
General Obligation Bonds					
Series 2004	\$ 1,860,000	\$ -	\$ 1,780,000	\$ 80,000	\$ 25,000
Series 2005	2,500,000	-	210,000	2,290,000	220,000
Series 2012	-	2,010,000	-	2,010,000	60,000
Bond Premium	-	79,349	6,104	73,245	-
Loss on Refunding	-	(267,760)	(20,597)	(247,163)	-
Compensated Absences	107,546	8,678	20,588	95,636	29,300
Early Retirement	82,218	-	35,594	46,624	35,596
Total	<u>\$ 4,549,764</u>	<u>\$ 1,830,267</u>	<u>\$ 2,031,689</u>	<u>\$ 4,348,342</u>	<u>\$ 369,896</u>

General Obligation Bonds

In December, 2004, the District issued \$1,990,000 General Obligation Bonds and \$30,000 of registered coupons to construct a physical education complex. During the year ended June 30, 2012, a portion of the bonds were refunded. Interest payments on the remaining bonds are due semi-annually on June 1 and December 1, at rates ranging from 3.5% to 3.7% per annum. Principal payments are due annually on December 1, through 2014.

In June, 2005, the District issued \$2,610,000 General Obligation Refunding Bonds to partially refund the existing General Obligation Bonds, Series 2000. Interest payments are due semi-annually on June 1 and December 1, at rates ranging from 2.9% to 3.875% per annum. Principal payments are due annually on December 1, through 2020.

In April, 2012, the District issued \$1,900,000 General Obligation Refunding Bonds and \$110,000 of registered coupons to refund \$1,755,000 of the existing General Obligation Bonds, Series 2004. Interest payments are due semi-annually on June 1 and December 1, at rates ranging from .75% to 3% per annum. Principal payments are due annually on December 1, through 2024.

Future debt service requirements for the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 305,000	\$ 136,325	\$ 441,325
2014	275,000	127,094	402,094
2015	290,000	117,464	407,464
2016	295,000	107,465	402,465
2017	305,000	97,103	402,103
2018 - 2022	1,725,000	311,035	2,036,035
2023 - 2025	1,185,000	49,332	1,234,332
Total	<u>\$ 4,380,000</u>	<u>\$ 945,818</u>	<u>\$ 5,325,818</u>

CUSTER COUNTY SCHOOL DISTRICT C-1

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 5: LONG-TERM DEBT (Continued)

Defeased Debt

In April, 2012, proceeds of the General Obligation Refunding Bonds, Series 2012, in the amount of \$2,022,760 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service requirements for \$1,755,000 of the General Obligation Bonds, Series 2004. Although the refunding resulted in the recognition of an accounting loss of \$267,760, the District reduced its aggregate debt service payments by approximately \$261,600 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$230,726. As a result, the refunded bonds are considered defeased and the liability has been removed from the financial statements. The outstanding balance of the defeased bonds at June 30, 2012, was \$1,755,000.

Compensated Absences and Early Retirement

Accrued compensated absences and early retirement are expected to be liquidated with revenues of the General Fund.

Payments to maturity for the early retirement obligation are as follows:

Year Ended June 30,

2013	\$ 35,596
2014	<u>11,028</u>
Total	<u><u>\$ 46,624</u></u>

NOTE 6: INTERFUND TRANSACTIONS

During the year ended June 30, 2012, the General Fund subsidized the operations of the Food Service Fund through a transfer of \$72,000.

NOTE 7: JOINTLY GOVERNED ORGANIZATION

The District, in conjunction with other surrounding districts, created the South Central Board of Cooperative Educational Services (BOCES). The BOCES is an organization that provides member districts educational services at a shared lower cost per district. The BOCES board is comprised of one member from each participating district. The District paid \$59,063 to the BOCES during the year ended June 30, 2012. The BOCES' financial statements can be obtained by writing to South Central BOCES, 323 South Purcell Boulevard, Pueblo West, Colorado 81007, or by calling 719-647-0023.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE 8: DEFINED BENEFIT PENSION PLAN

Plan Description - The District contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The SDTF provides retirement and disability, post-retirement annual increases, and death benefits for members or their beneficiaries. All employees of the District are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the SDTF. That report may be obtained by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Funding Policy - The contribution requirements of Plan members and the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members was 8% of covered salary. The District's contribution rate for calendar years 2010, 2011 and 2012 was 13.85%, 14.75% and 15.65% of covered salary, respectively. Also, a portion of the District's contribution (1.02% of covered salary) was allocated to the Health Care Trust Fund (See Note 9). The District's contributions to the SDTF for the years ended June 30, 2012, 2011 and 2010 were \$326,825, \$336,275 and \$336,331, respectively, equal to the required contributions for each year.

NOTE 9: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The District contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained as described previously.

Funding Policy - The District was required to contribute at a rate of 1.02% of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The District's apportionment to the HCTF for the years ended June 30, 2012, 2011 and 2010 was \$21,924, \$23,982 and \$25,585, respectively, equal to the required amounts for each year.

NOTE 10: COMMITMENTS AND CONTINGENCIES**Claims and Judgments**

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. At June 30, 2012, significant amounts of grant expenditures have not been audited but the District believes that disallowed expenditures, if any, based on subsequent audits would not have a material effect on the overall financial position of the District.

CUSTER COUNTY SCHOOL DISTRICT C-1
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 10: **COMMITMENTS AND CONTINGENCIES** (Continued)

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. In November 1997, electors within the District authorized the District to collect, retain and expend all revenues collected or received by the District effective for the 1996-97 fiscal year and each subsequent year thereafter, notwithstanding the limitations of the Amendment.

The Amendment is subject to many interpretations, but the District believes it is in substantial compliance with the Amendment. As required by the Amendment, the District has established a reserve for emergencies, representing 3% of qualifying expenditures. This reserve, in the amount of \$105,900, is reported as restricted fund balance in the General Fund.

Litigation

The District has threatened litigation. However, the outcome of the litigation cannot be predicted at this time.

REQUIRED SUPPLEMENTARY INFORMATION

CUSTER COUNTY SCHOOL DISTRICT C-1

BUGETARY COMPARISON SCHEDULEGENERAL FUND

Year Ended June 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Property Taxes	\$ 2,193,561	\$ 2,193,561	\$ 2,203,685	\$ 10,124
Specific Ownership Taxes	253,371	253,371	266,083	12,712
Delinquent Taxes, Penalties and Interest	8,000	8,500	8,712	212
Tuition	7,500	-	5,625	5,625
Donations	-	-	70,152	70,152
Investment Income	1,700	1,500	1,938	438
Payments in Lieu of Taxes	110,000	110,000	93,430	(16,570)
BOCES Reimbursement	7,922	17,922	21,867	3,945
Other	62,000	67,000	69,325	2,325
Total Local Sources	2,644,054	2,651,854	2,740,817	88,963
State Sources				
State Equalization	761,626	765,676	758,399	(7,277)
Vocational Education	18,000	18,000	27,958	9,958
Transportation	71,000	71,000	58,735	(12,265)
Total State Sources	850,626	854,676	845,092	(9,584)
Federal Sources				
Grants	175,657	175,734	159,986	(15,748)
TOTAL REVENUES	3,670,337	3,682,264	3,745,895	63,631
EXPENDITURES				
Instruction	2,073,428	2,084,691	2,101,107	(16,416)
Supporting Services				
Students	114,829	115,804	77,251	38,553
Instructional Staff	23,514	23,517	22,295	1,222
General Administration	339,107	346,012	405,775	(59,763)
School Administration	251,182	251,191	250,858	333
Business Services	67,356	67,358	66,815	543
Operations and Maintenance	459,312	472,168	453,932	18,236
Student Transportation	227,566	208,181	253,506	(45,325)
Central Support	40,000	40,000	53,220	(13,220)
Facilities	30,000	30,000	13,722	16,278
Total Supporting Services	1,552,866	1,554,231	1,597,374	(43,143)
TOTAL EXPENDITURES	3,626,294	3,638,922	3,698,481	(59,559)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	44,043	43,342	47,414	4,072
OTHER FINANCING SOURCES (USES)				
Transfers Out	(65,000)	(65,000)	(72,000)	(7,000)
NET CHANGE IN FUND BALANCE	(20,957)	(21,658)	(24,586)	(2,928)
FUND BALANCE, Beginning	630,752	617,276	617,173	(103)
FUND BALANCE, Ending	\$ 609,795	\$ 595,618	\$ 592,587	\$ (3,031)

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2012

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted for all funds on a basis consistent with generally accepted accounting principles, except the Food Service Fund which utilizes a non-GAAP budgetary basis. Capital outlay is budgeted as an expenditure and depreciation is not budgeted. The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- By May 31, management submits to the Board of Education a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted by the Board of Education to obtain taxpayer comments.
- Prior to June 30, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Education.
- All appropriations lapse at fiscal year end.

Legal Compliance

For the year ended June 30, 2012, the General and Bond Redemption Fund expenditures and transfers out exceeded the amounts budgeted by \$66,559 and \$16,387, respectively. These may be violations of State statutes.

SUPPLEMENTARY INFORMATION

CUSTER COUNTY SCHOOL DISTRICT C-1

BUGETARY COMPARISON SCHEDULEBOND REDEMPTION FUND

Year Ended June 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Property Taxes	\$ 423,030	\$ 423,030	\$ 402,051	\$ (20,979)
Investment Income	10,000	10,000	51	(9,949)
TOTAL REVENUES	433,030	433,030	402,102	(30,928)
EXPENDITURES				
Debt Service				
Principal	225,000	225,000	235,000	(10,000)
Interest and Fiscal Charges	208,030	208,030	147,828	60,202
Bond Issuance Costs	-	-	66,589	(66,589)
TOTAL EXPENDITURES	433,030	433,030	449,417	(16,387)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(47,315)	(47,315)
OTHER FINANCING SOURCES (USES)				
Bonds Issued	-	-	2,010,000	2,010,000
Bond Premium	-	-	79,349	79,349
Payment to Escrow Agent	-	-	(2,022,760)	(2,022,760)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	66,589	66,589
NET CHANGE IN FUND BALANCE	-	-	19,274	19,274
FUND BALANCE, Beginning	600,608	613,701	613,701	-
FUND BALANCE, Ending	\$ 600,608	\$ 613,701	\$ 632,975	\$ 19,274

See the accompanying Independent Auditors' Report.

CUSTER COUNTY SCHOOL DISTRICT C-1

BUGETARY COMPARISON SCHEDULEFOOD SERVICE FUND

Year Ended June 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Charges for Services	\$ 62,514	\$ 64,000	\$ 33,030	\$ (30,970)
State Sources	1,700	1,700	2,121	421
Federal Sources				
School Lunch and Breakfast Program	43,000	43,925	66,786	22,861
Transfers In	63,403	65,000	72,000	7,000
	<u>170,617</u>	<u>174,625</u>	<u>173,937</u>	<u>(688)</u>
TOTAL REVENUES				
EXPENDITURES				
Salaries	61,956	61,956	59,346	2,610
Employee Benefits	28,111	28,119	22,437	5,682
Purchased Services	1,050	1,050	940	110
Supplies and Materials	74,500	78,500	90,374	(11,874)
Equipment	5,000	5,000	-	5,000
	<u>170,617</u>	<u>174,625</u>	<u>173,097</u>	<u>1,528</u>
TOTAL EXPENDITURES				
CHANGE IN NET ASSETS, Budgetary Basis	\$ <u>-</u>	\$ <u>-</u>	840	\$ <u>840</u>
ADJUSTMENTS TO GAAP BASIS				
Depreciation			(975)	
Donated Commodities Received			7,784	
Donated Commodities Used			<u>(7,784)</u>	
CHANGE IN NET ASSETS, GAAP Basis			\$ <u>(135)</u>	

See the accompanying Independent Auditors' Report.

CUSTER COUNTY SCHOOL DISTRICT C-1

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUND

Year Ended June 30, 2012

	BALANCE 6/30/11	ADDITIONS	DEDUCTIONS	BALANCE 6/30/12
ASSETS				
Cash and Investments	\$ <u>189,328</u>	\$ <u>160,514</u>	\$ <u>171,373</u>	\$ <u>178,469</u>
LIABILITIES				
Due to Student Groups	\$ 150,191	\$ 160,266	\$ 158,818	\$ 151,639
Due to Scholarship Fund	15,708	225	1,000	14,933
Due to Teachers' Support Fund	<u>23,429</u>	<u>23</u>	<u>11,555</u>	<u>11,897</u>
TOTAL LIABILITIES	\$ <u>189,328</u>	\$ <u>160,514</u>	\$ <u>171,373</u>	\$ <u>178,469</u>

See the accompanying Independent Auditors' Report.

CUSTER COUNTY SCHOOL DISTRICT C-1

BUGETARY COMPARISON SCHEDULEAGENCY FUND

Year Ended June 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
ADDITIONS				
Revenues	\$ 400,000	\$ 400,000	\$ 160,514	\$ (239,486)
DEDUCTIONS				
Expenditures	400,000	400,000	171,373	228,627
Reserves	196,055	189,328	-	189,328
TOTAL EXPENDITURES	596,055	589,328	171,373	417,955
NET CHANGE IN DUE TO OTHER GROUPS	(196,055)	(189,328)	(10,859)	178,469
DUE TO OTHER GROUPS, Beginning	196,055	189,328	189,328	-
DUE TO OTHER GROUPS, Ending	\$ -	\$ -	\$ 178,469	\$ 178,469

See the accompanying Independent Auditors' Report.

COMPLIANCE SECTION



Board of Education
Custer County School District C-1
Westcliffe, Colorado

**INDEPENDENT AUDITORS' REPORT ON
AUDITOR'S INTEGRITY REPORT**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Custer County School District C-1 as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the Custer County School District C-1, and have issued our report thereon dated February 25, 2013, which contained an unqualified opinion on those financial statements. The financial statements are the responsibility of the Custer County School District C-1's management. Our responsibility is to express opinions on the financial statements based on our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Custer County School District C-1's financial statements as a whole. The accompanying auditor's integrity report is presented for purposes of additional analysis as required by State of Colorado statutes and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the auditor's integrity report is fairly stated in all material respects in relation to the financial statements as a whole.

Swanhorst & Company LLC

February 25, 2013

02/25/2013
02:13 PM

Colorado Department of Education
Fiscal Year 2011-2012
Colorado School District/BOCES
Auditor's Integrity Report

CUSTER COUNTY SCHOOL DISTRICT C-1
District Code: 0860

Revenues, Expenditures, & Fund Balance by Fund

Fund Type & Number	Beg Fund Balance & Prior Per Adj (6880*) +	1000 - 5999 Total Revenues & Other Sources -	0001 - 0999 Total Expenditures & Other Uses =	6700 - 6799 & Prior Per Adj (6880*) Ending Fund Balance
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Governmental				
10 General Fund	528,478	3,649,457	3,650,008	527,928
18 Risk Mgmt Sub-Fund of General Fund	88,694	24,437	48,473	64,657
19 Colorado Preschool Program Fund	0	0	0	0
Subtotal	617,172	3,673,894	3,698,481	592,585
11 Charter School Fund	0	0	0	0
20,26-29 Special Revenue Fund	0	0	0	0
21 Capital Reserve Spec Revenue Fund	0	0	0	0
22 Govt Designated-Purpose Grants Fund	0	0	0	0
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	613,702	2,491,449	2,472,176	632,974
39 Non-Voter Approved Debt Service Fund	0	0	0	0
41 Building Fund	0	0	0	0
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	0	0	0	0
TOTALS	1,230,874	6,165,343	6,170,658	1,225,559
Proprietary				
51 Food Service Fund	830	181,721	181,856	694
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
TOTALS	830	181,721	181,856	694
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	189,328	160,514	171,373	178,469
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
TOTALS	189,328	160,514	171,373	178,469

*If you have a prior period adjustment in any fund (Balance Sheet 6880), the amount of your prior period adjustment is added into both your ending and beginning fund balances on this report.

From submitted data file: fd0860.06a

Program: fdrdh.sqr

File: fd0860.dha

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