

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

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## Independent Auditor's Report

To the Board of Education of  
Fremont-Mills Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Fremont-Mills Community School District, Tabor, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Fremont-Mills Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Fremont-Mills Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 17, 2004, on our consideration of Fremont-Mills Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 15 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fremont-Mills Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

August 17, 2004

## **Management Discussion & Analysis**

This section of the Fremont-Mills Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2004. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Efforts have been made to provide comparison to prior year data when such data is available. In subsequent years, comparison to prior year data will be provided for all key financial information.

### **Financial Highlights**

General Fund revenues decreased from \$3,264,103 in fiscal 2003 to \$3,217,768 in fiscal 2004, while expenditures increased from \$3,222,679 in 2003 to \$3,434,329 in 2004. This resulted in a decrease in the general fund balance from \$382,794 in 2003 to \$251,066 in fiscal year 2004, a decrease of \$131,738.

- During the year ended June 30, 2004, the State of Iowa imposed a 2.5% reduction in State Foundation aid, which reduced the General Fund revenues by \$40,000. Since the reduction occurred mid year, the District had already obligated the resources to fund salaries and programs. The District responded to the reduction by using a portion of the District's unreserved, undesignated fund balance, rather than reducing staff at this late date, including the additional 5<sup>th</sup> grade teacher and two aides that were added at the beginning of the year.
- Additional one-time expenditures for equipment and supplies for the new building addition were a factor in the reduced balance.
- Storm damage on May 26, 2004, necessitated the unplanned purchase of a new vehicle prior to the beginning of the new fiscal year in order to provide for the drivers education program. This unexpectedly increased our expenditures for the fiscal year by \$16,000. Total storm damage cost was estimated at \$300,000, and will be a factor in the fiscal 2005 balances.

### **Overview of the Financial Statements**

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District’s operations in more detail than the District-wide statements.
- The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year.

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

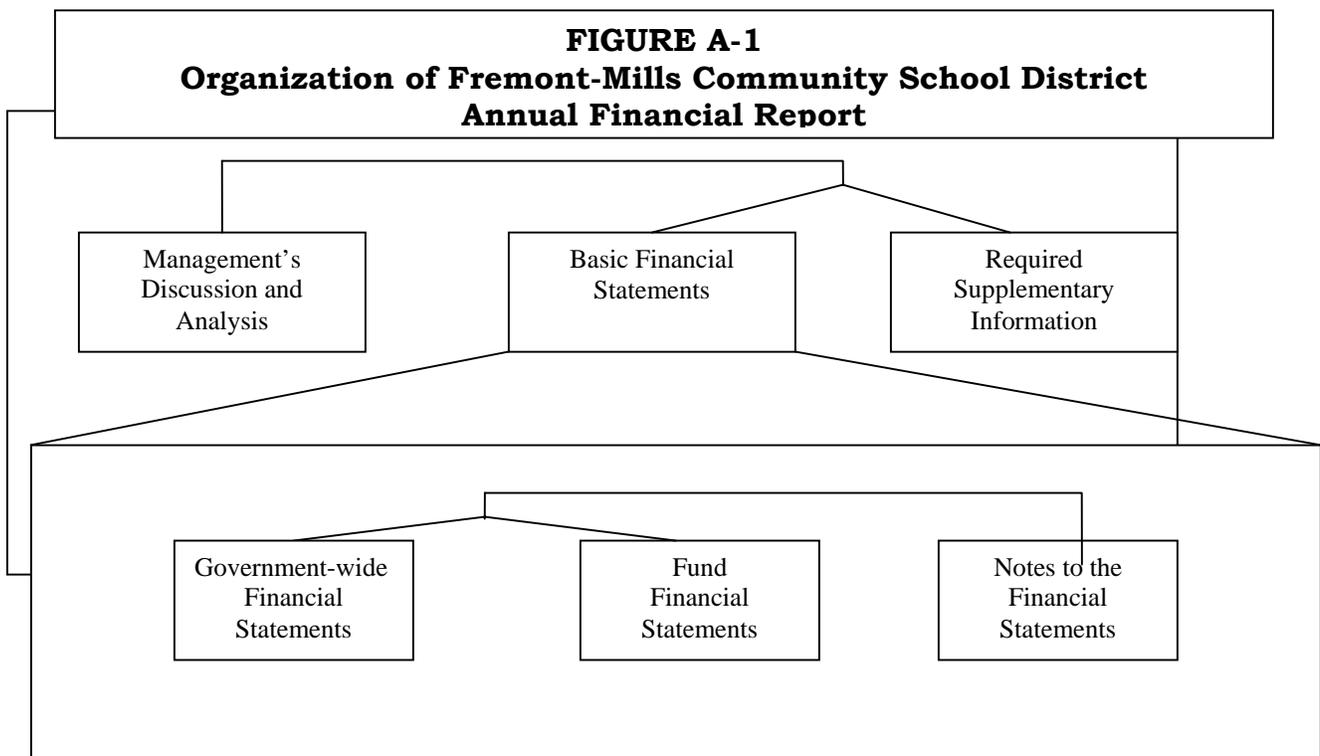


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

**FIGURE A-2**  
**Major Features of the Government-Wide and Fund Financial Statements**

		Fund Statements		
	Government-wide 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	Instances in which the district administers resource on behalf of someone else, such as scholarship programs
Required financial statements	State of net assets Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economics resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid.

**Government-wide Statements**

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

The two Government-wide statements report the District’s *net assets* and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or *position*.

- Over time, increases or decreases in the District’s net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District’s overall health, you need to consider additional non-financial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

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 taxes and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District’s food service program is included here.

## **Fund Financial Statements**

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

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

The District has three kinds of funds:

- *Governmental funds*: Most of the District’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.
  - The District’s governmental funds include the General Fund; Special Revenue Funds; Debt Service Fund; Capital Projects Fund and the Permanent Funds.
- *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 District-wide statements.

The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the school nutrition fund.

The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District currently has one internal service fund, the employees Section 125 Cafeteria Plan Fund.

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

- Private-Purpose Trust fund Scholarship funds – the District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds which the District administers on behalf of others, including the Staff Lounge Pop Funds, and the Athletic Booster Club.

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

### **Financial Analysis of the District as a Whole**

Net assets: Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004

**Figure A-3  
Fremont-Mills Community School  
Condensed Statement of Net Assets**

	Governmental Activities	Business Activities	Total School District
Current and other assets	2,545,423	40,460	2,585,883
Capital assets	3,823,443	19,524	3,842,967
Total assets	6,368,866	59,984	6,428,850
Current liabilities	1,923,672	1,723	1,925,395
Long-term liabilities	2,370,265		2,370,265
Total liabilities	4,293,937	1,723	4,295,660
Net assets			
Invested in capital assets, net of related debt	1,468,443	19,524	1,487,967
Restricted	300,449		300,449
Unrestricted	306,037	38,737	344,774
Total net assets	2,074,929	58,261	2,133,190

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

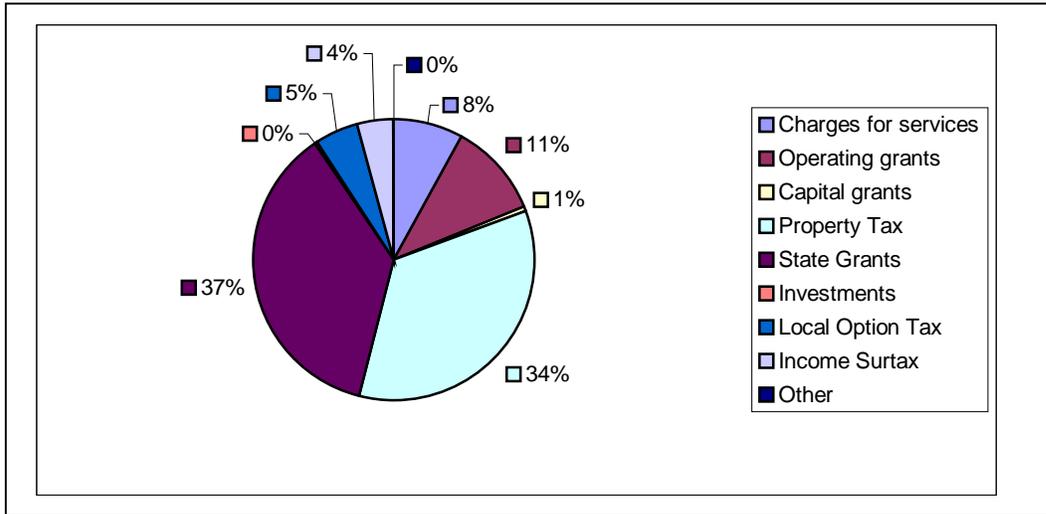
**Figure A-4  
Fremont-Mills Community School  
Changes in Net Assets - June 30, 2004**

	Governmental Activities	Business Type Activities	Total School District
<b>Revenues:</b>			
Program revenues:			
Charges for service	305,863	94,600	400,463
Operating grants and contributions	418,143	78,536	496,679
Capital grants and contributions	20,059		20,059
General revenues:			
Property tax	1,315,395		1,315,395
Unrestricted State Grants	1,403,127		1,403,127
Unrestricted Investment earnings	4,021		4,021
Other	354,106		354,106
<b>Total Revenues</b>	<b>3,820,714</b>	<b>173,136</b>	<b>3,993,850</b>
<b>Expenses:</b>			
Governmental activities:			
Instruction	2,358,695		2,358,695
Support services	1,103,166		1,103,166
Non-instructional programs	7,850		7,850
Other expenses	290,010		290,010
Total governmental activities	3,759,721		3,759,721
Business-type activities:			
Non-instructional programs		160,523	160,523
<b>Total expenses</b>	<b>3,759,721</b>	<b>160,523</b>	<b>3,920,244</b>
<b>Change in net assets</b>	<b>60,993</b>	<b>12,613</b>	<b>73,606</b>

### **Governmental activities**

- The cost financed by users of the District’s programs was \$305,863.
- Federal and state governments subsidized certain program with grants and contributions totaling \$418,143.
- The net cost of governmental activities was financed with \$1,477,718 in property tax,
- \$162,323 in Income Surtax
- \$191,747 in Local Option Sales Tax,
- \$1,403,127 in State Foundation Aid and other unrestricted state grants,
- \$4057 in investments interest and other revenues.

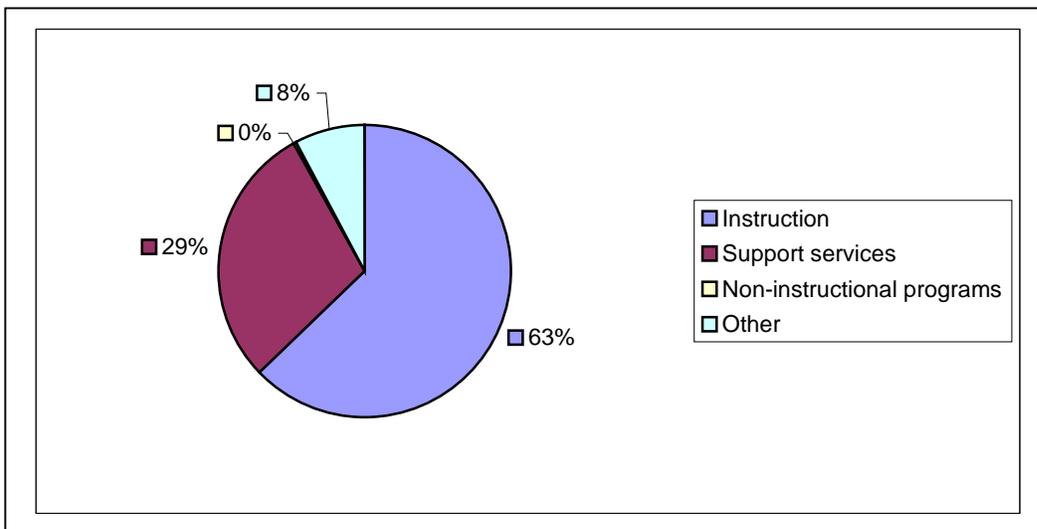
Total revenues for the District's governmental activities were \$3,820,714 and are represented as percentages by the following chart



Expenditures for governmental activities totaled \$3,759,721

- Instruction \$2,358,695
- Support Services \$1,103,166
- Non-instructional programs \$7850
- Other expenses \$290,010

Expenditures for the governmental activities totaled \$3,759,721 and are represented as percentages by the following chart.



**Figure A-5**  
**Fremont-Mills Community School District**  
**Total and Net Cost of Governmental Activities**

	Total Cost of Services	Net Cost of Services
Instruction	2,358,695	1,851,387
Support Services	1,103,166	1,012,546
Non-instructional programs	7,850	7,850
Other expenses	<u>290,010</u>	<u>143,873</u>
<b>Totals</b>	<b>3,759,721</b>	<b>3,015,656</b>

**Business-Type Activities**

Revenues of the District’s business type activities were \$173,136 and expenses were \$160,523. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements. The expenditures listed here do not include an additional \$6,668 paid by the General Fund for FICA and IPERS expenses. The charges for meals to students did not increase this year, the increase in the fund balance of \$12,613 is attributed to an improved management of purchase of supplies.

**Financial Analysis of the District’s Funds**

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

As the District completed the year, its governmental funds reported combined fund balances of \$452,110 as compared to last year’s ending fund balances of \$1,876,207, the majority of the difference is due to the near completion of the science and media center and remodeling project.

**Governmental Fund Highlights**

The District’s deteriorating General Fund financial position is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase was more than offset by the increase in expenditures, requiring the District to use carryover fund balances to meet its financial obligation during the year.

The General Fund balance decreased from \$382,794 to \$251,066, due in part to the negotiated salary and benefits settlement, the addition of one and one half elementary teachers and two elementary aides, in part to support the early childhood program.

The unexpected across the board cut from state aid was a factor as was additional one time costs to furnish the new addition.

The Physical Plant and Equipment Levy (PPEL) balance increased from \$96,607 to \$197,469 due to increased revenue from the Voted PPEL and the Income Surtax.

The Capital Projects fund balance decreased from \$1,341,187 to a negative \$48,652 due near completion of the building project. Funds from the Local Option Sales Tax and a transfer of funds from the PPEL will balance this in the next fiscal year.

### **Proprietary Fund Highlights**

The financial situation of the School Nutrition Fund is the best the school district has seen. The balance of the Fund increased by \$12,613 to a \$58,261 balance. This is attributed to careful purchasing and planning by the food service manager. For the first time, in fiscal year 2005, the School Nutrition Fund will have sufficient revenue to cover the cost of FICA and IPERS, which has been covered by the General Fund in the past. In fiscal year 2004, this amounted to \$6,668.

### **Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except internal service funds, private purpose trust and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the cash basis. Over the course of the year, the District amended its certified budget once for increased expenditures in the support services and other expenditures areas, largely due to the construction project ongoing during the year.

The amendment to increase the support services expenditures by \$51,000 was published in May. Unexpected expenditures after the last date to publish amendments included more than \$20,000 in storm damage, also a factor was increased electrical and natural gas costs during the construction and first half year of occupying the building addition. These costs are anticipated to level off after the first year. Although the support services expenditures were \$31,144 over the published amount, the total expenditures were \$294,322 less than the total published.

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

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget", which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of

Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the “unspent (maximum) authorized budget” and pertains only to the General Fund of the District. The maximum authorized budget is the total “spending authority” in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the “actual General Fund cash”. It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

A schedule showing the original and final budget amounts compared to the District’s actual financial activity is included in the required supplementary information section of this report, pages 42-44.

## **Capital Asset and Debt Administration**

### **Capital Assets**

At June 30, 2004 the District had invested \$3,842,967, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, and transportation equipment. See figure A-6. This amount represents a net increase 76 percent from last year, due to the near completion of the 2.8 million dollar building project. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$92,728.

The original cost of the District’s capital assets was \$5,422,695. Governmental funds account for \$5,334,782 with the remainder of \$87,913 in the proprietary, School Nutrition Fund.

**Figure A-6  
Fremont-Mills Community School District  
Capital Assets, net of Depreciation**

	Governmental Activities	Business-type Activities	Total School District
Land	40,000		40,000
Construction in progress	2,712,130		2,712,130
Buildings	767,521		767,521
Improvements, other than buildings	3,910		3,910
Furniture and equipment	299,882	19,524	319,406
Total	3,823,443	19,524	3,842,967

## Long-Term Debt

At year-end, the District had \$2,370,265 in general obligation debt and other long-term debt outstanding. This represents an increase of 8.5 percent from last year. See Figure A-7 More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

**Figure A-7**  
**Fremont-Mills Community School District**  
**Long-Term Liabilities**

General Obligation Bonds	1,860,000
Capital Loan Notes	495,000
Early Retirement	15,265
	2,370,265

General Obligation Bonds were reduced by \$65,000 in fiscal year 2004. A transfer from the Capital Projects Fund (Local Option Sales Tax) of \$160,070 covered the principal and interest on these bonds.

The Capital Loan notes were increased by an additional issue of Capital Loan Notes in the amount of \$305,000 in order to finance additional options taken on the building project. Payments of principal and interest for the Capital Loan Notes were financed by the PPEL Fund (Property, Plant and Equipment Levy). A transfer of \$78,237 was made to the Debt Service fund for these expenses, and reduced the Capital Loan notes by \$50,000.

The District offered an early retirement plan for teachers. Two teachers were approved for the early retirement incentive and will be paid a total of \$15,265 from Management funds.

## Factors Bearing on the District's Future

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

A storm in late May, 2004, did considerable damage to the District's building, transportation equipment, athletic fields, and playground. Up to \$300,000 in damage was estimated. The elementary building sustained the most damage with a portion of the roof peeled back, allowing 6 classrooms to sustain major water damage. The District's insurance company called in a storm clean up crew to dry and clean the carpets, and salvage as much as possible from the 6 classrooms that were affected. In addition, all three small vehicles owned by the District were totaled, several busses required new windshields, and the football field lights were destroyed, along with the press box. It will be well into fiscal year 2005 before the damage will be completely repaired. The District's insurance will cover the major portion, but many of the items destroyed were fully depreciated.

## **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and 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 Susan Shepherd, Board Secretary/Treasurer, Fremont-Mills Community School, 27 Jackson Blvd, Tabor, Iowa 51653

## BASIC FINANCIAL STATEMENTS

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	869,616	31,789	901,405
Receivables:			
Property tax:			
Delinquent	27,472	-	27,472
Succeeding year	1,328,419	-	1,328,419
Accounts	52,204	83	52,287
Accrued interest	222	-	222
Due from other governments	267,490	6,385	273,875
Inventories	-	2,203	2,203
Capital assets, net of accumulated depreciation	3,823,443	19,524	3,842,967
<b>Total assets</b>	<b>6,368,866</b>	<b>59,984</b>	<b>6,428,850</b>
<b>Liabilities</b>			
Accounts payable	238,891	-	238,891
Salaries and benefits payable	337,110	-	337,110
Accrued interest payable	19,252	-	19,252
Deferred revenue:			
Succeeding year property tax	1,328,419	-	1,328,419
Other	-	1,723	1,723
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	65,000	-	65,000
Capital loan notes	55,000	-	55,000
Early retirement	15,265	-	15,265
Portion due after one year:			
General obligation bonds payable	1,795,000	-	1,795,000
Capital loan notes	440,000	-	440,000
<b>Total liabilities</b>	<b>4,293,937</b>	<b>1,723</b>	<b>4,295,660</b>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type	Total
	\$	\$	\$
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,468,443	19,524	1,487,967
Restricted for:			
Phase III	1,506	-	1,506
Gifted and talented program	63,965	-	63,965
Iowa early intervention block grant	547	-	547
Management levy	21,507	-	21,507
Physical plant and equipment levy	197,469	-	197,469
Other special revenue purposes	15,455	-	15,455
Unrestricted	<u>306,037</u>	<u>38,737</u>	<u>344,774</u>
<b>Total net assets</b>	<u><u>2,074,929</u></u>	<u><u>58,261</u></u>	<u><u>2,133,190</u></u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2004

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants, Contributions and Restricted Interest</b>	<b>Capital Grants, Contributions and Restricted Interest</b>
<b>Governmental activities:</b>				
Instruction:				
Regular instruction	1,703,719	74,677	263,719	-
Special instruction	355,366	90,644	13,798	-
Other instruction	299,610	56,543	7,927	-
	<u>2,358,695</u>	<u>221,864</u>	<u>285,444</u>	<u>-</u>
Support services:				
Student services	50,946	-	-	-
Instructional staff services	73,146	-	6,301	-
Administration services	457,323	-	-	-
Operation and maintenance of plant services	314,917	83,999	-	-
Transportation services	206,834	-	320	-
	<u>1,103,166</u>	<u>83,999</u>	<u>6,621</u>	<u>-</u>
Non-instructional programs	<u>7,850</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	3,623	-	-	20,059
Long-term debt interest	122,913	-	-	-
AEA flowthrough	126,078	-	126,078	-
Depreciation (unallocated)*	37,396	-	-	-
	<u>290,010</u>	<u>-</u>	<u>126,078</u>	<u>20,059</u>
Total governmental activities	<u>3,759,721</u>	<u>305,863</u>	<u>418,143</u>	<u>20,059</u>
<b>Business type activities</b>				
Non-instructional programs:				
Food service operations	160,523	94,600	78,536	-
Total	<u>160,523</u>	<u>94,600</u>	<u>78,536</u>	<u>-</u>
Total	<u>3,920,244</u>	<u>400,463</u>	<u>496,679</u>	<u>20,059</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

**Change in net assets**

Net assets beginning of year, as restated

Net assets end of year

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

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
(1,365,323)	-	(1,365,323)
(250,924)	-	(250,924)
(235,140)	-	(235,140)
<u>(1,851,387)</u>	<u>-</u>	<u>(1,851,387)</u>
(50,946)	-	(50,946)
(66,845)	-	(66,845)
(457,323)	-	(457,323)
(230,918)	-	(230,918)
(206,514)	-	(206,514)
<u>(1,012,546)</u>	<u>-</u>	<u>(1,012,546)</u>
<u>(7,850)</u>	<u>-</u>	<u>(7,850)</u>
16,436	-	16,436
(122,913)	-	(122,913)
-	-	-
(37,396)	-	(37,396)
<u>(143,873)</u>	<u>-</u>	<u>(143,873)</u>
(3,015,656)	-	(3,015,656)
<u>-</u>	<u>12,613</u>	<u>12,613</u>
<u>(3,015,656)</u>	<u>12,613</u>	<u>(3,003,043)</u>
1,207,526	-	1,207,526
107,869	-	107,869
162,323	-	162,323
191,747	-	191,747
1,403,127	-	1,403,127
4,021	-	4,021
36	-	36
<u>3,076,649</u>	<u>-</u>	<u>3,076,649</u>
60,993	12,613	73,606
<u>2,013,936</u>	<u>45,648</u>	<u>2,059,584</u>
<u>2,074,929</u>	<u>58,261</u>	<u>2,133,190</u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2004

	General Fund	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	562,856	56,628	195,717	51,789	866,990
Receivables:					
Property tax:					
Delinquent	23,925	-	2,255	1,292	27,472
Succeeding year	1,160,114	-	106,305	62,000	1,328,419
Accounts	52,204	-	-	-	52,204
Accrued interest	-	222	-	-	222
Due from other governments	132,443	55,047	80,000	-	267,490
<b>Total assets</b>	<b>1,931,542</b>	<b>111,897</b>	<b>384,277</b>	<b>115,081</b>	<b>2,542,797</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	101,985	135,549	503	854	238,891
Salaries and benefits payable	337,110	-	-	-	337,110
Deferred revenue:					
Succeeding year property tax	1,160,114	-	106,305	62,000	1,328,419
Other	81,267	25,000	80,000	-	186,267
Total liabilities	1,680,476	160,549	186,808	62,854	2,090,687
Fund balances:					
Reserved for:					
Phase III	1,506	-	-	-	1,506
Gifted and talented program	63,965	-	-	-	63,965
Iowa early intervention block grant	547	-	-	-	547
Unreserved	185,048	(48,652)	197,469	52,227	386,092
Total fund balances	251,066	(48,652)	197,469	52,227	452,110
<b>Total liabilities and fund balances</b>	<b>1,931,542</b>	<b>111,897</b>	<b>384,277</b>	<b>115,081</b>	<b>2,542,797</b>

## FREMONT-MILLS Community SCHOOL DISTRICT

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

June 30, 2004

<b>Total fund balances of governmental funds (Exhibit C)</b>	452,110
--	---------

***Amounts reported for governmental activities in the  
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,823,443
--	-----------

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	186,267
---	---------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(19,252)
---	----------

An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	2,626
--	-------

Long-term liabilities, including bonds payable, capital loan notes payable and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(2,370,265)</u>
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<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>2,074,929</u></u>
--	-------------------------

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	General Fund	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,227,929	191,747	180,046	61,926	1,661,648
Tuition	110,342	-	-	-	110,342
Other	58,386	20,059	555	56,652	135,652
State sources	1,664,136	-	101	58	1,664,295
Federal sources	156,975	-	-	-	156,975
Total revenues	<u>3,217,768</u>	<u>211,806</u>	<u>180,702</u>	<u>118,636</u>	<u>3,728,912</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,668,045	-	-	24,195	1,692,240
Special instruction	355,366	-	-	-	355,366
Other instruction	233,585	-	-	62,049	295,634
	<u>2,256,996</u>	<u>-</u>	<u>-</u>	<u>86,244</u>	<u>2,343,240</u>
Support services:					
Student services	50,733	-	-	-	50,733
Instructional staff services	69,075	-	-	-	69,075
Administration services	439,194	-	-	17,342	456,536
Plant operation and maintenance	305,391	-	-	9,996	315,387
Transportation services	179,012	-	-	13,296	192,308
	<u>1,043,405</u>	<u>-</u>	<u>-</u>	<u>40,634</u>	<u>1,084,039</u>
Non-instructional programs	<u>7,850</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,850</u>
Other expenditures:					
Facilities acquisition	-	1,736,610	7,603	-	1,744,213
Long-term debt:					
Principal	-	-	-	115,000	115,000
Interest and fiscal charges	-	-	-	118,457	118,457
AEA flowthrough	126,078	-	-	-	126,078
	<u>126,078</u>	<u>1,736,610</u>	<u>7,603</u>	<u>233,457</u>	<u>2,103,748</u>
Total expenditures	<u>3,434,329</u>	<u>1,736,610</u>	<u>7,603</u>	<u>360,335</u>	<u>5,538,877</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(216,561)</u>	<u>(1,524,804)</u>	<u>173,099</u>	<u>(241,699)</u>	<u>(1,809,965)</u>
Other financing sources (uses):					
Compensation for loss of fixed assets	83,999	-	-	-	83,999
Proceeds from long-term loans	-	-	301,035	-	301,035
Sales of materials and equipment	834	-	-	-	834
Operating transfers in	-	301,035	-	238,307	539,342
Operating transfers out	-	(166,070)	(373,272)	-	(539,342)
Total other financing sources (uses)	<u>84,833</u>	<u>134,965</u>	<u>(72,237)</u>	<u>238,307</u>	<u>385,868</u>
Net change in fund balances	(131,728)	(1,389,839)	100,862	(3,392)	(1,424,097)
Fund balances beginning of year, as restated	<u>382,794</u>	<u>1,341,187</u>	<u>96,607</u>	<u>55,619</u>	<u>1,876,207</u>
Fund balances end of year	<u>251,066</u>	<u>(48,652)</u>	<u>197,469</u>	<u>52,227</u>	<u>452,110</u>

See notes to financial statements.

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		(1,424,097)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	1,745,545	
Depreciation expense	<u>(90,096)</u>	1,655,449
Income surtaxes and other receivables not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		33,892
Loss on disposal of assets with remaining basis is recorded for the Statement of Activities, but not in the governmental funds.		(1,923)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		115,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		(491)
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		(12,505)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		(305,000)
An internal service fund is used by the District's management to charge the costs of the or employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>668</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>60,993</u></u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2004

	Enterprise Funds	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	31,789	2,626
Accounts receivable	83	-
Due from other governments	6,385	-
Inventories	2,203	-
Capital assets, net of accumulated depreciation	19,524	-
<b>Total assets</b>	59,984	2,626
<b>Liabilities</b>		
Deferred revenue	1,723	-
<b>Net assets</b>		
Invested in capital assets, net of related debt	19,524	-
Unrestricted	38,737	2,626
<b>Total net assets</b>	58,261	2,626

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	Enterprise Funds	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Service Fund
	\$	\$
Operating revenue:		
Local sources:		
Charges for service	94,600	8,270
Operating expenses:		
Non-instructional programs:		
Salaries	50,706	-
Benefits	-	7,602
Supplies	107,185	-
Depreciation	2,632	-
	<u>160,523</u>	<u>7,602</u>
Operating gain (loss)	<u>(65,923)</u>	<u>668</u>
Non-operating revenue:		
State sources	2,776	-
Federal sources	75,760	-
Total non-operating revenue	<u>78,536</u>	<u>-</u>
Change in net assets	12,613	668
Net assets beginning of year, as restated	<u>45,648</u>	<u>1,958</u>
Net assets end of year	<u><u>58,261</u></u>	<u><u>2,626</u></u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2004

	Enterprise Funds Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	95,040	-
Cash received from services provided to other funds	-	8,270
Cash payments to employees for services	(50,706)	(7,602)
Cash payments to suppliers for goods or services	(94,370)	-
Net cash used by operating activities	<u>(50,036)</u>	<u>668</u>
Cash flows from non-capital financing activities:		
State grants received	2,776	-
Federal grants received	59,347	-
Net cash provided by non-capital financing activities	<u>62,123</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(3,205)	-
Cash flows from investing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	8,882	668
Cash and cash equivalents at beginning of year	<u>22,907</u>	<u>1,958</u>
Cash and cash equivalents at end of year	<u><u>31,789</u></u>	<u><u>2,626</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(65,923)	668
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	10,028	-
Depreciation	2,632	-
Decrease (increase) in inventories	2,787	-
Decrease (increase) in accounts receivable	88	-
(Decrease) increase in deferred revenue	352	-
Net cash used in operating activities	<u><u>(50,036)</u></u>	<u><u>668</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2004, the District received \$10,028 of federal commodities.

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2004

	Private Purpose Trust Scholarship	Agency
	\$	\$
<b>Assets</b>		
Cash and pooled investments	18,744	2,641
Accrued interest receivable	26	-
	<u>18,770</u>	<u>2,641</u>
<b>Liabilities</b>		
Accounts payable	-	4
Other payables	-	2,637
Total liabilities	<u>-</u>	<u>2,641</u>
<b>Net Assets</b>		
Reserved for scholarships	<u>18,770</u>	<u>-</u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trust Scholarship <u>\$</u>
Additions:	
Local sources:	
Interest	<u>362</u>
Deductions:	
Support services:	
Scholarships awarded	<u>500</u>
Change in net assets	(138)
Net assets beginning of year	<u>18,908</u>
Net assets end of year	<u><u>18,770</u></u>

# FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2004

### 1. Summary of Significant Accounting Policies

**Fremont-Mills** 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 **Tabor, Thurman, and Randolph**, Iowa and the predominately agricultural territory in a portion of **Mills and Fremont** Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

#### A. Reporting Entity

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

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

#### B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The Physical Plant and Equipment Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the physical plant and equipment property tax levy.

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's employee benefit flexible benefit plan.

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

The Private-Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003, through June 30, 2004, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	2,000
Improvements other than buildings	2,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

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

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

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

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

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

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

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the support services function exceeded the amount budgeted.

## 2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 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.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

### 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
		\$
Capital Projects Fund	Special Revenue: Physical Plant and Equipment Levy Fund	301,035
Debt Service Fund	Capital Projects Fund	160,070
Debt Service Fund	Special Revenue: Physical Plant and Equipment Levy Fund	78,237

These transfers moved revenues from the funds statutorily required to collect the resources to the funds statutorily required to expend the resources.

### 4. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Construction in progress	1,000,520	1,711,610	-	2,712,130
Land	40,000	-	-	40,000
Total capital assets not being depr.	<u>1,040,520</u>	<u>1,711,610</u>	<u>-</u>	<u>2,752,130</u>
Capital assets being depreciated:				
Buildings	1,787,886	3,980	-	1,791,866
Improvements other than buildings	48,514	-	17,369	31,145
Furniture and equipment	759,411	29,955	29,725	759,641
Total capital assets being deprec.	<u>2,595,811</u>	<u>33,935</u>	<u>47,094</u>	<u>2,582,652</u>

Less accumulated depreciation for:				
Buildings	987,660	36,685	-	1,024,345
Improvements other than buildings	43,893	711	17,369	27,235
Furniture and equipment	434,861	52,700	27,802	459,759
Total accumulated depreciation	<u>1,466,414</u>	<u>90,096</u>	<u>45,171</u>	<u>1,511,339</u>

Total capital assets being depreciated, net	<u>1,129,397</u>	<u>(56,161)</u>	<u>1,923</u>	<u>1,071,313</u>
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Governmental activities capital assets, net	<u>2,169,917</u>	<u>1,655,449</u>	<u>1,923</u>	<u>3,823,443</u>
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	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	84,708	3,205	-	87,913
Less accumulated depreciation	<u>65,757</u>	<u>2,632</u>	<u>-</u>	<u>68,389</u>
Business type activities capital assets, net	<u>18,951</u>	<u>573</u>	<u>-</u>	<u>19,524</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	3,282
Other	3,976
Support Services:	
Student services	213
Instructional staff services	8,677
Administration services	787
Operation and maintenance of plant services	4,748
Transportation	<u>31,017</u>
	52,700
Unallocated depreciation	<u>37,396</u>
Total depreciation expense – governmental activities	<u>90,096</u>
Business type activities:	
Food services	<u>2,632</u>

## 5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,925,000	-	65,000	1,860,000	65,000
Capital loan notes	240,000	305,000	50,000	495,000	55,000
Early retirement	2,760	15,265	2,760	15,265	15,265
Total	<u>2,167,760</u>	<u>320,265</u>	<u>117,760</u>	<u>2,370,265</u>	<u>135,265</u>

### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age [fifty-five](#) and must have completed [twenty](#) years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on [a percentage of the difference between the employee's current salary and the base salary](#). Early retirement expenditures for the year ended June 30, 2004 totaled \$14,274.

### General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of <a href="#">May, 1998</a>			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2005	6.50	65,000	96,545	161,545
2006	6.25	70,000	92,320	162,320
2007	5.50	75,000	87,945	162,945
2008	5.50	75,000	83,820	158,820
2009	5.50	80,000	79,695	159,695
2010-2014	4.50-4.90	475,000	335,025	810,025
2015-2019	5.00-5.20	590,000	208,258	798,258
2020-2022	5.25-5.35	430,000	46,532	476,532
		<u>1,860,000</u>	<u>1,030,140</u>	<u>2,890,140</u>

## Capital Loan Notes

The District issued \$260,000 of capital loan notes during the year ended June 30, 2002 and issued \$305,000 of notes during the year ended June 30, 2004. These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

Year Ending June 30,	2002 Issue			2004 Issue			Total
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	
	%	\$	\$	%	\$	\$	\$
2005	6.10	25,000	10,570	1.80	30,000	8,396	73,966
2006	6.10	25,000	9,045	2.10	30,000	7,856	71,901
2007	4.10	25,000	7,520	2.50	35,000	7,226	74,746
2008	4.20	25,000	6,495	3.00	35,000	6,350	72,845
2009	4.35	30,000	5,445	3.25	30,000	5,300	70,745
2010-2012	4.70	90,000	8,340	4.00	115,000	9,023	222,363
		<u>220,000</u>	<u>47,415</u>		<u>275,000</u>	<u>44,151</u>	<u>586,566</u>

During the year ended June 30, 2004 the District made principal and interest payments totaling \$67,687 under the note agreements.

## 6. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$121,339, \$112,223, and \$111,261 respectively, equal to the required contributions for each year.

## 7. Risk Management

Fremont-Mills Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision, and prescription drugs.

Each member's contributions to ISEBA fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. The District's annual contributions to ISEBA for the year ended June 30, 2004, were \$311,887.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

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

Fremont-Mills 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.

## **8. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$126,078 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## **9. Construction Commitment**

The District has entered into contracts totaling approximately \$2,283,000 for a school addition and remodeling. As of June 30, 2004 costs of \$2,207,000 had been incurred against the contracts. The balances remaining at June 30, 2004 will be paid as work on the project progresses.

## **10. Accounting Change and Restatement**

The Nutrition Fund beginning fund balance was restated by \$9,078 for Nutrition Fund equipment that was not reported in prior years.

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities, and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Funds				Total
	General	Capital Projects	PPEL	Nonmajor	
	\$	\$	\$	\$	\$
Net assets, June 30, 2003, as previously reported	382,794	1,341,187	96,607	55,619	1,876,207
GASB Interpretation 6 adjustments	-	-	-	-	-
Net assets, July 1, 2003, as restated for governmental funds	<u>382,794</u>	<u>1,341,187</u>	<u>96,607</u>	<u>55,619</u>	1,876,207
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$1,146,414					2,169,917
Net assets and liabilities of Internal Service Fund					1,958
Long-term liabilities:					
Bonds				1,925,000	
Capital loan notes				240,000	
Early retirement				<u>2,760</u>	(2,167,760)
Accrued interest payable					(18,761)
Deferred revenue					<u>152,375</u>
Net assets, July 1, 2003, as restated					<u>2,013,936</u>

## 11. Financial Condition

The Capital Projects Fund has a \$48,652 deficit fund balance at June 30, 2004.

REQUIRED SUPPLEMENTARY INFORMATION

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	1,952,363	95,040	2,047,403	2,040,053	2,040,053	7,350
Intermediate sources	-	-	-	95,000	95,000	(95,000)
State sources	1,661,905	2,776	1,664,681	1,768,293	1,768,293	(103,612)
Federal sources	158,609	69,375	227,984	199,000	199,000	28,984
Total receipts	<u>3,772,877</u>	<u>167,191</u>	<u>3,940,068</u>	<u>4,102,346</u>	<u>4,102,346</u>	<u>(162,278)</u>
Disbursements:						
Instruction	2,322,875	-	2,322,875	2,509,400	2,509,400	186,525
Support services	1,061,344	-	1,061,344	979,200	1,030,200	(31,144)
Non-instructional programs	5,971	158,309	164,280	170,000	170,000	5,720
Other expenditures	1,999,916	-	1,999,916	1,933,137	2,133,137	133,221
Total disbursements	<u>5,390,106</u>	<u>158,309</u>	<u>5,548,415</u>	<u>5,591,737</u>	<u>5,842,737</u>	<u>294,322</u>
Excess (deficiency) of receipts over (under) disbursements	(1,617,229)	8,882	(1,608,347)	(1,489,391)	(1,740,391)	132,044
Other financing sources (uses) net	<u>334,234</u>	<u>-</u>	<u>334,234</u>	<u>8,400</u>	<u>8,400</u>	<u>325,834</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	(1,282,995)	8,882	(1,274,113)	(1,480,991)	(1,731,991)	457,878
Balance beginning of year	<u>2,149,985</u>	<u>22,907</u>	<u>2,172,892</u>	<u>1,762,908</u>	<u>1,762,908</u>	<u>409,984</u>
Balance end of year	<u>866,990</u>	<u>31,789</u>	<u>898,779</u>	<u>281,917</u>	<u>30,917</u>	<u>867,862</u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
	\$	\$	\$
Revenues	3,772,877	(43,965)	3,728,912
Expenditures	5,390,106	148,771	5,538,877
Net	(1,617,229)	(192,736)	(1,809,965)
Other financing sources (uses) net	334,234	51,634	385,868
Beginning fund balances	2,149,985	(273,778)	1,876,207
Ending fund balances	<u>866,990</u>	<u>(414,880)</u>	<u>452,110</u>
	<u>Proprietary Fund</u>		
	<u>Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
	\$	\$	\$
Revenues	167,191	5,945	173,136
Expenditures	158,309	2,214	160,523
Net	8,882	3,731	12,613
Beginning fund balances	22,907	22,741	45,648
Ending fund balances	<u>31,789</u>	<u>26,472</u>	<u>58,261</u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the [cash basis](#). Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by [\\$251,000](#).

During the year ended June 30, [2004](#), disbursements in the [support services](#) function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds			Total
	Management	Student	Debt	
	Levy	Activity	Service	
	\$	\$	\$	\$
Cash and pooled investments	35,480	16,309	-	51,789
Receivables:				
Property tax:				
Delinquent	1,292	-	-	1,292
Succeeding year	62,000	-	-	62,000
<b>Total assets</b>	<b>98,772</b>	<b>16,309</b>	<b>-</b>	<b>115,081</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	-	854	-	854
Deferred revenue:				
Succeeding year property tax	62,000	-	-	62,000
Total liabilities	62,000	854	-	62,854
Fund balances:				
Unreserved fund balance	36,772	15,455	-	52,227
<b>Total liabilities and fund balances</b>	<b>98,772</b>	<b>16,309</b>	<b>-</b>	<b>115,081</b>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Management</u>	<u>Student</u>	<u>Debt</u>	
	<u>Levy</u>	<u>Activity</u>	<u>Service</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Revenues:				
Local sources:				
Local tax	61,926	-	-	61,926
Other	5	56,647	-	56,652
State sources	58	-	-	58
Total revenues	<u>61,989</u>	<u>56,647</u>	<u>-</u>	<u>118,636</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	24,195	-	-	24,195
Other instruction	-	62,049	-	62,049
Support services:				
Administration services	12,492	-	4,850	17,342
Operation and maintenance of plant services	9,996	-	-	9,996
Transportation services	13,296	-	-	13,296
Other expenditures:				
Long-term debt:				
Principal	-	-	115,000	115,000
Interest and fiscal charges	-	-	118,457	118,457
Total expenditures	<u>59,979</u>	<u>62,049</u>	<u>238,307</u>	<u>360,335</u>
Excess (deficiency) of revenues over (under) expenditures	2,010	(5,402)	(238,307)	(241,699)
Other financing sources (uses):				
Operating transfers in	-	-	238,307	238,307
Net change in fund balance	2,010	(5,402)	-	(3,392)
Fund balances beginning of year, as restated	<u>34,762</u>	<u>20,857</u>	<u>-</u>	<u>55,619</u>
Fund balances end of year	<u>36,772</u>	<u>15,455</u>	<u>-</u>	<u>52,227</u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Academic achievement	1,401	22	-	1,372	2,795
Annual	(5,735)	3,134	8,548		(11,149)
Art club	51	1,424	974	-	501
Athletics	(93)	21,025	20,334	-	598
Cheerleaders	1,760	423	439	-	1,744
Class of 2002	998	-	-	(998)	-
Class of 2003	54	320	-	(374)	-
Class of 2004	917	2,709	2,600	-	1,026
Class of 2005	280	10,073	8,403	-	1,950
Class of 2006	52	1,288	1,302	-	38
Class of 2007	42	35	-	-	77
Class of 2008	15	13	-	-	28
FFA	810	3,447	4,981	-	(724)
FHA	483	1,155	786	-	852
Spanish club	(25)	55	-	-	30
High school student council	2,541	2,880	2,820	-	2,601
Knight club	(249)	1,321	972	-	100
Middle school athletics	879	-	1,661	-	(782)
Middle school student council	2,320	5,535	3,561	-	4,294
National Honor Society	723	448	523	-	648
Play activities	4,210	117	604	-	3,723
Science club	(14)	-	-	-	(14)
Thespians	459	95	82	-	472
Interest on investments	7,903	104	-	-	8,007
Fund balance PeeWee sports	1,000	-	-	-	1,000
Powerlifters Club	-	-	1,600	-	(1,600)
Basketball club	75	304	1,139	-	(760)
International Travel	-	720	720	-	-
Total	<u>20,857</u>	<u>56,647</u>	<u>62,049</u>	<u>-</u>	<u>15,455</u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2004

	Employee Vending	Booster Club	Total
	\$	\$	\$
Balance beginning of year	1,630	2,574	4,204
Additions:			
Collections	1,611	-	1,611
Deductions:			
Miscellaneous	604	2,574	3,178
Balance end of year	<u>2,637</u>	<u>-</u>	<u>2,637</u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,661,648	1,667,927	1,479,513	1,243,049
Tuition	110,342	126,829	111,266	86,698
Other	135,652	183,186	148,246	132,553
State sources	1,664,295	1,624,248	1,658,352	1,914,859
Federal sources	156,975	125,702	88,443	88,822
Total revenues	<u>3,728,912</u>	<u>3,727,892</u>	<u>3,485,820</u>	<u>3,465,981</u>
Expenditures:				
Instruction:				
Regular instruction	1,692,240	1,608,557	1,483,508	1,442,548
Special instruction	355,366	364,290	373,260	435,374
Other instruction	295,634	303,264	316,996	304,900
Support services:				
Student services	50,733	44,530	53,278	54,760
Instructional staff services	69,075	48,748	50,944	40,457
Administration services	456,536	384,111	416,703	345,202
Operation and maintenance of plant services	315,387	233,277	205,016	213,039
Transportation services	192,308	218,406	217,031	231,114
Non-instructional programs	7,850	6,510	5,840	7,489
Other expenditures:				
Facilities acquisition	1,744,213	925,086	271,614	39,966
Long-term debt:				
Principal	115,000	83,285	2,994	2,728
Interest and other charges	118,457	118,838	987	878
AEA flowthrough	126,078	133,083	134,450	143,610
Total expenditures	<u>5,538,877</u>	<u>4,471,985</u>	<u>3,532,621</u>	<u>3,262,065</u>

## Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of the  
Fremont-Mills Community School District:

We have audited the financial statements of the Fremont-Mills Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 17, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Fremont-Mills 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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance 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, 2004 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. Prior year statutory comments have all been resolved except for items 04-II-E and 04-II-K.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered Fremont-Mills Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 04-I-A, 04-I-B, 04-I-C, and 04-I-D are material weaknesses. Prior year reportable conditions have all been resolved except for items 04-I-A, 04-I-B, and 04-I-C.

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

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

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

August 17, 2004

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

04-I-B Receipts: We could not locate the receipt book that the District is using for Student Activity Fund cash receipts. The recording of the initial receipt of cash is an important part of the internal control system.

Recommendation: A three part prenumbered receipt should be issued for all monies coming into the Student Activity Fund. One copy should be given to the person bringing in the money, the person issuing the receipt should keep one copy and the third copy should be given to the Board Secretary. The receipts should be entered into the accounting system by receipt number and the Board Secretary should account for the numerical sequence of the receipts.

District Response: We will review our current receipts system.

Conclusion: Response accepted.

04-I-C Athletic Gate Admissions: We noted that the District was not using a ticket system to control the proceeds from athletic events.

Recommendation: A school administrator should issue a roll of prenumbered tickets to each ticket taker. The first ticket number on the roll should be noted by the Administrator. Tickets should be sold by one ticket taker and should be collected from the spectators by another ticket taker. After the school event the cash proceeds should be counted by two people and the number of tickets sold should be reconciled to the dollars collected. The ticket to cash reconciliation should be compared to the bank deposit slip.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

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

04-I-C Athletic Gate Admissions (Continued):

District Response: We will review our current procedures and consider how a ticket system could be implemented.

Conclusion: Response accepted.

04-I-D School Expenditure Supporting Documentation and Board Approval: We noted the following items during our testing of District expenditures:

General Fund – We tested twenty-eight disbursements. We could not locate the supporting documentation for one \$600 payment to the post office and four payments, totaling \$9,298, were not on the lists of bills approved by the board for January, 2004.

Student Activity Fund – We tested fourteen disbursements. One payment of \$200 was missing detailed supporting documentation and one payment of \$1,537 was not on the list of bills approved by the board for January, 2004.

Recommendation: All District payments should be supported by detailed invoices, receipts, contracts or other documents prepared by or signed by entities outside of the District. These documents should specify exactly what the District is paying for and the amount to be paid.

The District should also review its procedures for preparing the lists of bills for board approval. Chapter 179.29 of the Code of Iowa provides that “the Board shall audit all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed.” Chapter 279.30 of the Code of Iowa allows payment of specific items, such as utilities, postage and printing, without prior Board approval. The Board may approve a resolution designating certain other disbursements that may be paid prior to a board meeting with the approval of the Board President. The Board’s written policy should comply with Chapter 279.30 of the Code of Iowa. Then, except as expressly permitted, no checks should be prepared for claims that have not been properly audited and allowed. Any payments made prior to board approval as allowed should be approved by the board at the next meeting.

District Response: The omission of the above items from the lists of bills approved by the board and the missing supporting documents were oversights. We will be more careful in the future.

Conclusion: Response accepted.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amount approved at one bank was exceeded during the year ended June 30, 2004.

Recommendation: The District should increase the maximum dollar amount allowed by its depository resolution so that the maximum will not be exceeded during the times when cash flow of the District is the greatest.

District Response: We will increase the maximum deposit amount allowed by our depository resolution.

Conclusion: Response accepted.

04-II-B Certified Budget: Disbursement for the year ended June 30, 2004, exceeded the amount budgeted in the support services function.

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

District Response: We did amend our budget but year-end disbursements in the support services area were more than anticipated.

Conclusion: Response accepted.

04-II-C 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.

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Susan Shepherd, Board Secretary, Spouse owns Shepherd Construction	Sand for long jump pit	108

In accordance with an Attorney General's opinion dated November 9, 1976, the transaction with the spouse of the District Secretary does not appear to represent a conflict of interest.

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

04-II-G Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board, except as explained in comment 04-I-D.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting (Continued):

04-II-H Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.

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

04-II-J Certified Annual Report (CAR): We reviewed a draft copy of the CAR and noted no significant deficiencies in the amounts reported.

04-II-K Financial Condition: The Student Activity Fund has several accounts with deficit balances and the Capital Projects Fund has a \$48,652 fund deficit at June 30, 2004.

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

District Response: The Capital Projects Fund deficit will be covered by the Physical Plant and Equipment Levy Fund or by Local Option Sales Tax in the up coming year. We are working on ways to eliminated the deficits in the Students Activity Fund.

Conclusion: Response accepted.