

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Fremont-Mills Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2005, 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, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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, 2004, (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 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fremont-Mills Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,217,768 in fiscal 2004 to \$3,447,680 in fiscal 2005, while General Fund expenditures increased from \$3,434,329 in fiscal 2004 to \$3,736,047 in fiscal 2005. The District's General Fund balance shows a decrease of -58% from \$251,066 in fiscal 2004 to \$105,988 in fiscal 2005.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures, and as a result of increased costs resulting from storm damage to the school building that was not completely covered by insurance. As a result, the District funded a portion of the current year General Fund salaries, benefits and the replacement of supplies and equipment from the carryover fund balance.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

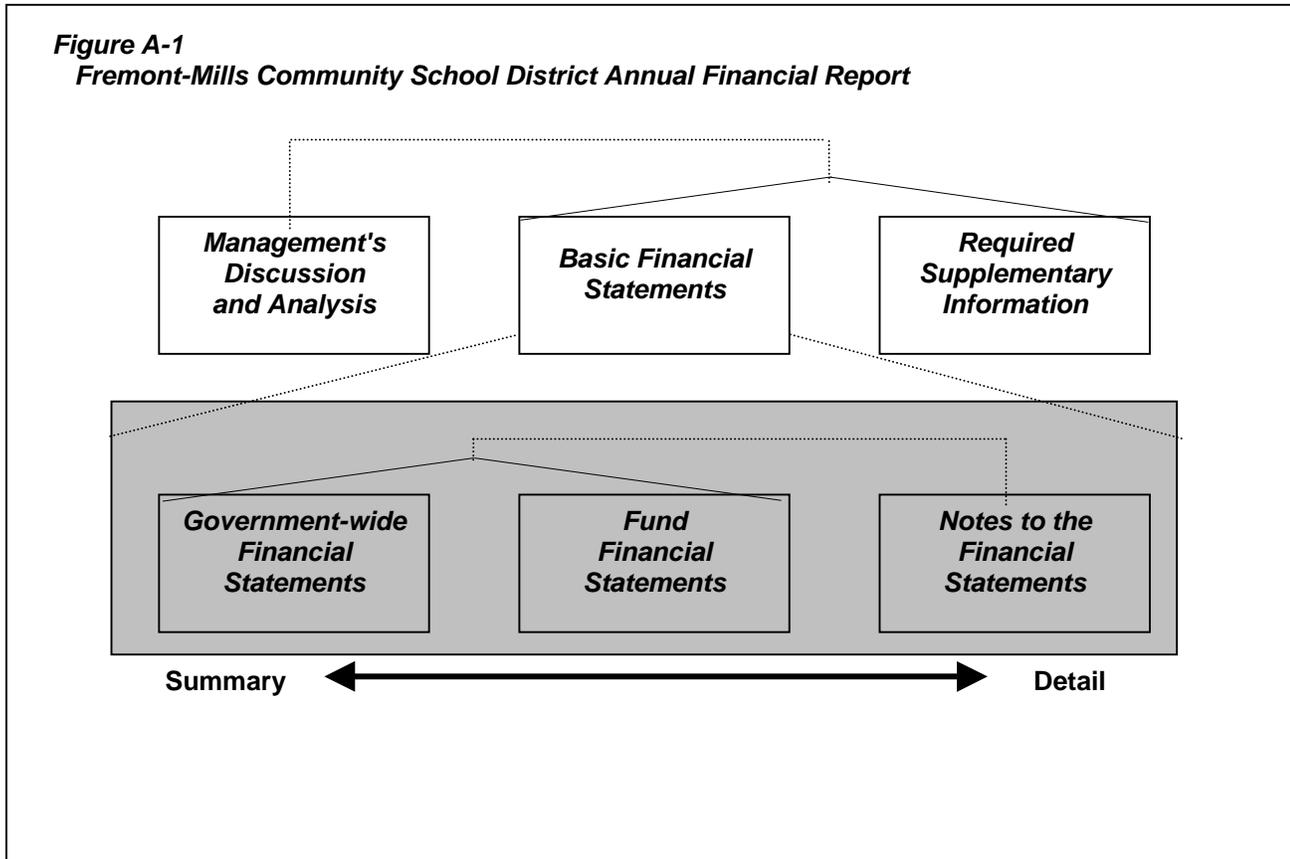


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

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

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

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

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

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

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A-3 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2004.

Condensed Statement of Net Assets							
	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Current and other assets	2,295,383	2,545,423	41,582	40,460	2,336,965	2,585,883	-9.63%
Capital assets	3,925,577	3,823,443	23,451	19,524	3,949,028	3,842,967	2.76%
Total assets	6,220,960	6,368,866	65,033	59,984	6,285,993	6,428,850	-2.22%
Long-term liabilities	2,258,198	2,370,265			2,258,198	2,370,265	-4.73%
Other liabilities	1,865,541	1,923,672	1,296	1,723	1,866,837	1,925,395	-3.04%
Total liabilities	4,123,739	4,293,937	1,296	1,723	4,125,035	4,295,660	-3.97%
Net assets:							
Invested in capital assets							
net of related debt	1,690,577	1,468,443	23,451	19,524	1,714,028	1,487,967	15.19%
Restricted	242,961	300,449			242,961	300,449	-19.13%
Unrestricted	163,683	306,037	40,286	38,737	203,969	344,774	-40.84%
TOTAL NET ASSETS	2,097,221	2,074,929	63,737	58,261	2,160,958	2,133,190	1.30%

The District's combined net assets increased by 1.30% or approximately \$27,768, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased by -\$57,488 (-19.1%%) over the prior year. The decrease was primarily a result of increased expenditures in the PPEL fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately -\$140,805 or -40.8%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year, included unfunded repairs and replacement of supplies and equipment due to storm damage not covered by insurance.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4
Fremont Mills Community
School
Changes in Net Assets - June 30, 2005

	Governmental Activities		Business-type Activities		Total School District		Percentage Change 2004-2005
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	222,976	305,863	91,003	94,600	313,979	400,463	
Operating grants & contributions	475,319	418,143	79,881	78,536	555,200	496,679	
Capital grants & contributions	3,275	20,059	0	0	3,275	20,059	
General Revenues							
Property taxes	1,321,975	1,153,395			1,321,975	1,315,395	
Income Surtax	159,941	162,323			159,941	162,323	
Local option sales tax	224,874	191,747			224,874	191,747	
Unrestricted state grants	1,545,831	1,403,127			1,545,831	1,403,127	
Unrestricted investment earnings	5,803	4,021			5,803	4,021	
Other revenue	144,344	36			144,344	36	
Total Revenues	\$4,104,338	\$3,820,714	\$170,884	\$173,136	\$4,275,222	\$3,993,850	7%
Expenses:							
Instruction	2,602,319	2,358,695			2,602,319	2,358,695	
Support services	1,140,301	1,103,166			1,140,301	1,103,166	
Non-instructional programs	2,449	7,850	165,408	160,523	167,857	168,373	
Other expenditures	336,977	290,010			336,977	290,010	
Total Expenses	\$4,082,046	\$3,759,721	\$165,408	\$160,523	\$4,247,454	\$3,920,244	8%
Transfers							
CHANGE IN NET ASSETS	\$22,292	\$60,993	\$5,476	\$12,613	\$27,768	\$73,606	-62%
Net assets beginning of year	2,074,929	2,013,936	58,261	45,648	2,133,190	2,059,584	4%
Net assets end of year	\$2,097,221	\$2,074,929	\$63,737	\$58,261	\$2,160,958	\$2,133,190	1%

Property tax, income surtax, local option sales taxes and unrestricted state grants account for nearly 76.22% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88.11% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,104,338 and expenses were \$4,082,046. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
	\$	\$	\$	\$
Instruction	2,602,319	2,358,695	2,035,728	1,851,387
Support Services	1,140,301	1,103,166	1,129,649	1,012,546
Non-instructional Programs	2,449	7,850	2,449	7,850
Other Expenses	336,977	290,010	212,650	143,873
TOTAL	4082,046	3,759,721	3,380,476	3,015,656

- The cost financed by users of the District's programs was \$222,976.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$478,594.
- The net cost of governmental activities was financed with \$1,706,790 in property and other taxes and \$1,545,831 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$170,884 and expenses were \$165,408. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The net increase of \$5,476 in the School Nutrition Fund is attributed to excellent management of the purchase of supplies, and the increased revenue from ala carte sales. The charges to students for meals did not increase again this year.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$293,302 below last year's ending fund balances of \$452,110. The primary reason for the decrease in combined fund balances is due to the increased costs in the general fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$251,066 to \$105,988, due in part to the negotiated salary and benefits settlement, and increased costs due to the storm damage.
- The Nonmajor Governmental Funds decreased from \$201,044 to \$187,314 due in part to the completion of the building project started in FY03.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$58,261 at June 30, 2004 to \$63,737 at June 30, 2005, representing an increase of approximately 9%. For fiscal 2005 the District did not increase meal prices, however, additional sales of ala cart foods have resulted in increased revenue and net assets. The Internal Service Fund balance of \$2,180 at June 30, 2005 is only a \$446 decrease in the balance of \$2,626 at June 30, 2004 – attributable to normal annual fluctuations.

BUDGETARY HIGHLIGHTS

Over the course of the year, Fremont-Mills Community School District amended its annual budget once to reflect additional expenditures related to the storm damage repair.

The District's receipts were -\$71,404 less than budgeted receipts, a variance of -1.70%

Total expenditures were -\$967,667 (-17.51%) less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was amended to allow for the expenditures related to the storm damage, with \$200,000 of the costs covered by insurance, an additional estimated \$100,000 in expenditures from the general fund are related to replacing supplies and equipment not covered by insurance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$3,949,028, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, and transportation equipment. (See Figure A-6) This represents a net increase of 3% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$155,533

The original cost of the District's capital assets was \$5,627,371. Governmental funds account for \$5,532,303, with the remainder of \$95,068 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2004-2005
	Activities		Activities		School District		
	2005	2004	2005	2004	2005	2004	
Land	40,000	40,000			40,000	40,000	0.00%
Construction in progress	0	2,712,130			0	2,712,130	-100.00%
Buildings	3,489,099	767,521			3,489,099	767,521	354.59%
Improvements	88,703	3,910			88,703	3,910	2168.62%
Equipment & Furniture	307,775	299,882	23,451	19,524	331,226	319,406	3.70%
	3,925,577	3,823,443	23,451	19,524	3,949,028	3,,842,967	2.76%

Long-Term Debt

At June 30, 2005, the District had \$2,258,198 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

A-7

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

	Total School District		Percentage Change 2004-2005
	2005	2004	
General Obligation Bonds	1,,795,000	1,860,000	-3.49%
Capital Loan Notes	440,000	495,000	-11.11%
Early Retirement	23,198	15,265	51.97%
	2,258,198	2,370,265	-4.73%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- School financing is highly dependent upon student enrollment. The District's September 2005 enrollment decreased by 21 students. This drop in enrollment will decrease the District's funding for fiscal year 2007.
- Although the District has experienced declining enrollment, the District anticipates a potential increase in future enrollment due to new housing in progress in the northern areas of the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact 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, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	519,623	37,889	557,512
Receivables:			
Property tax:			
Delinquent	29,753	-	29,753
Succeeding year	1,438,548	-	1,438,548
Accounts	3,010	99	3,109
Due from other governments	304,449	-	304,449
Inventories	-	3,594	3,594
Capital assets, net of accumulated depreciation	3,925,577	23,451	3,949,028
Total assets	6,220,960	65,033	6,285,993
Liabilities			
Accounts payable	78,865	-	78,865
Salaries and benefits payable	329,924	-	329,924
Accrued interest payable	18,204	-	18,204
Deferred revenue:			
Succeeding year property tax	1,438,548	-	1,438,548
Other	-	1,296	1,296
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	70,000	-	70,000
Capital loan notes	55,000	-	55,000
Early retirement	23,198	-	23,198
Portion due after one year:			
General obligation bonds payable	1,725,000	-	1,725,000
Capital loan notes	385,000	-	385,000
Total liabilities	4,123,739	1,296	4,125,035

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	1,690,577	23,451	1,714,028
Restricted for:			
Gifted and talented program	57,619	-	57,619
Iowa early intervention block grant	12,639	-	12,639
Physical plant and equipment levy	56,425	-	56,425
Other special revenue purposes	8,093	-	8,093
Local option sales tax capital projects	108,185	-	108,185
Unrestricted	163,683	40,286	203,969
Total net assets	<u>2,097,221</u>	<u>63,737</u>	<u>2,160,958</u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,806,636	142,862	279,425	-
Special instruction	462,817	8,655	51,633	-
Other instruction	332,866	71,459	9,282	3,275
	<u>2,602,319</u>	<u>222,976</u>	<u>340,340</u>	<u>3,275</u>
Support services:				
Student services	52,923	-	-	-
Instructional staff services	46,489	-	-	-
Administration services	431,881	-	-	-
Operation and maintenance of plant services	351,487	-	10,023	-
Transportation services	257,521	-	629	-
	<u>1,140,301</u>	<u>-</u>	<u>10,652</u>	<u>-</u>
Non-instructional programs	<u>2,449</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Long-term debt interest	114,462	-	-	-
AEA flowthrough	124,327	-	124,327	-
Depreciation (unallocated)*	98,188	-	-	-
	<u>336,977</u>	<u>-</u>	<u>124,327</u>	<u>-</u>
Total governmental activities	<u>4,082,046</u>	<u>222,976</u>	<u>475,319</u>	<u>3,275</u>
Business type activities:				
Non-instructional programs:				
Food service operations	165,408	91,003	79,881	-
Total	<u>4,247,454</u>	<u>313,979</u>	<u>555,200</u>	<u>3,275</u>
General Revenues:				
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

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, 2005

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,384,349)	-	(1,384,349)
(402,529)	-	(402,529)
(248,850)	-	(248,850)
<u>(2,035,728)</u>	<u>-</u>	<u>(2,035,728)</u>
(52,923)	-	(52,923)
(46,489)	-	(46,489)
(431,881)	-	(431,881)
(341,464)	-	(341,464)
(256,892)	-	(256,892)
<u>(1,129,649)</u>	<u>-</u>	<u>(1,129,649)</u>
(2,449)	-	(2,449)
(114,462)	-	(114,462)
-	-	-
(98,188)	-	(98,188)
<u>(212,650)</u>	<u>-</u>	<u>(212,650)</u>
(3,380,476)	-	(3,380,476)
-	5,476	5,476
<u>(3,380,476)</u>	<u>5,476</u>	<u>(3,375,000)</u>
1,216,275	-	1,216,275
105,700	-	105,700
159,941	-	159,941
224,874	-	224,874
1,545,831	-	1,545,831
5,803	-	5,803
144,344	-	144,344
<u>3,402,768</u>	<u>-</u>	<u>3,402,768</u>
22,292	5,476	27,768
<u>2,074,929</u>	<u>58,261</u>	<u>2,133,190</u>
<u>2,097,221</u>	<u>63,737</u>	<u>2,160,958</u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments	422,752	94,691	517,443
Receivables:			
Property tax:			
Delinquent	25,985	3,768	29,753
Succeeding year	1,237,958	200,590	1,438,548
Accounts	1,498	1,512	3,010
Due from other governments	164,933	139,516	304,449
	<u>1,853,126</u>	<u>440,077</u>	<u>2,293,203</u>
Total assets	1,853,126	440,077	2,293,203
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	77,547	1,318	78,865
Salaries and benefits payable	329,924	-	329,924
Deferred revenue:			
Succeeding year property tax	1,237,958	200,590	1,438,548
Other	101,709	50,855	152,564
Total liabilities	<u>1,747,138</u>	<u>252,763</u>	<u>1,999,901</u>
Fund balances:			
Reserved for:			
Gifted and talented program	57,619	-	57,619
Iowa early intervention block grant	12,639	-	12,639
Unreserved reported in:			
General fund	35,730	-	35,730
Special revenue funds	-	79,129	79,129
Capital projects funds	-	108,185	108,185
Total fund balances	<u>105,988</u>	<u>187,314</u>	<u>293,302</u>
Total liabilities and fund balances	1,853,126	440,077	2,293,203

FREMONT-MILLS Community SCHOOL DISTRICT

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

June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 293,302
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,925,577
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	152,564
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	(18,204)
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.	2,180
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>(2,258,198)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,097,221</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	1,268,010	448,443	1,716,453
Tuition	116,356	-	116,356
Other	42,352	116,091	158,443
State sources	1,816,263	188	1,816,451
Federal sources	204,699	-	204,699
Total revenues	<u>3,447,680</u>	<u>564,722</u>	<u>4,012,402</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,754,578	40,071	1,794,649
Special instruction	462,817	-	462,817
Other instruction	254,202	78,926	333,128
	<u>2,471,597</u>	<u>118,997</u>	<u>2,590,594</u>
Support services:			
Student services	52,710	-	52,710
Instructional staff services	39,275	-	39,275
Administration services	422,449	9,324	431,773
Plant operation and maintenance	405,802	24,490	430,292
Transportation services	219,887	62,354	282,241
	<u>1,140,123</u>	<u>96,168</u>	<u>1,236,291</u>
Non-instructional programs	-	2,449	2,449
Other expenditures:			
Facilities acquisition	-	125,328	125,328
Long-term debt:			
Principal	-	120,000	120,000
Interest and fiscal charges	-	115,510	115,510
AEA flowthrough	124,327	-	124,327
	<u>124,327</u>	<u>360,838</u>	<u>485,165</u>
Total expenditures	<u>3,736,047</u>	<u>578,452</u>	<u>4,314,499</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(288,367)</u>	<u>(13,730)</u>	<u>(302,097)</u>
Other financing sources (uses):			
Compensation for loss of fixed assets	141,819	-	141,819
Sales of materials and equipment	1,470	-	1,470
Operating transfers in	-	426,710	426,710
Operating transfers out	-	(426,710)	(426,710)
Total other financing sources (uses)	<u>143,289</u>	<u>-</u>	<u>143,289</u>
Net change in fund balances	(145,078)	(13,730)	(158,808)
Fund balances beginning of year	<u>251,066</u>	<u>201,044</u>	<u>452,110</u>
Fund balances end of year	<u>105,988</u>	<u>187,314</u>	<u>293,302</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, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(158,808)
<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	275,304	
Depreciation expense	<u>(152,245)</u>	123,059
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.		
		(33,703)
Loss on disposal of assets with remaining basis is recorded for the Statement of Activities, but not in the governmental funds.		
		(20,925)
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.		
		120,000
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.		
		1,048
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		(7,933)
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 net revenue (expense) of the internal service fund is reported with governmental activities.		
		<u>(446)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>22,292</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	Enterprise Fund Nonmajor School Nutrition	Governmental Activities - Internal Service Fund
	\$	\$
Assets		
Cash and cash equivalents	37,889	2,180
Accounts receivable	99	-
Due from other governments	-	-
Inventories	3,594	-
Capital assets, net of accumulated depreciation	23,451	-
Total assets	65,033	2,180
Liabilities		
Deferred revenue	1,296	-
Net assets		
Invested in capital assets, net of related debt	23,451	-
Unrestricted	40,286	2,180
Total net assets	63,737	2,180

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u> </u> \$
Operating revenue:		
Local sources:		
Charges for service	91,003	15,549
	<u> </u>	<u> </u>
Operating expenses:		
Non-instructional programs:		
Salaries	47,731	-
Benefits	6,037	15,995
Supplies	107,989	-
Depreciation	3,228	-
Other	423	-
	<u>165,408</u>	<u>15,995</u>
Operating gain (loss)	<u>(74,405)</u>	<u>(446)</u>
Non-operating revenue:		
State sources	2,692	-
Federal sources	77,189	-
Total non-operating revenue	<u>79,881</u>	<u>-</u>
Change in net assets	5,476	(446)
Net assets beginning of year	<u>58,261</u>	<u>2,626</u>
Net assets end of year	<u><u>63,737</u></u>	<u><u>2,180</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	90,560	-
Cash received from services provided to other funds	-	15,549
Cash payments to employees for services	(53,768)	(15,995)
Cash payments to suppliers for goods or services	(102,743)	-
Net cash used by operating activities	<u>(65,951)</u>	<u>(446)</u>
Cash flows from non-capital financing activities:		
State grants received	2,692	-
Federal grants received	76,514	-
Net cash provided by non-capital financing activities	<u>79,206</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(7,155)	-
Cash flows from investing activities	-	-
Net increase (decrease) in cash and cash equivalents	6,100	(446)
Cash and cash equivalents at beginning of year	31,789	2,626
Cash and cash equivalents at end of year	<u>37,889</u>	<u>2,180</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(74,405)	(446)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	7,060	-
Depreciation	3,228	-
Decrease (increase) in inventories	(1,391)	-
Decrease (increase) in accounts receivable	(16)	-
(Decrease) increase in deferred revenue	(427)	-
Net cash used in operating activities	<u>(65,951)</u>	<u>(446)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$7,060 of federal commodities.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
Assets		
Cash and pooled investments	18,722	2,886
Accrued interest receivable	20	-
	<u>18,742</u>	<u>2,886</u>
Total Assets	18,742	2,886
Liabilities		
Other payables	<u>-</u>	<u>2,886</u>
Net Assets		
Reserved for scholarships	<u><u>18,742</u></u>	<u><u>-</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Interest	322
Deductions:	
Support services:	
Scholarships awarded	<u>350</u>
Change in net assets	(28)
Net assets beginning of year	<u>18,770</u>
Net assets end of year	<u><u>18,742</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

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 fund:

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 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 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004, through June 30, 2005, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	30,583

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
		\$
Capital Projects Fund	Special Revenue: Physical Plant and Equipment Levy Fund	190,000
Debt Service Fund	Capital Projects Fund	161,945
Debt Service Fund	Special Revenue: Physical Plant and Equipment Levy Fund	74,765

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, 2005 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	2,712,130	-	2,712,130	-
Land	40,000	-	-	40,000
Total capital assets not being depr.	<u>2,752,130</u>	<u>-</u>	<u>2,712,130</u>	<u>40,000</u>
Capital assets being depreciated:				
Buildings	1,791,866	2,814,554	-	4,606,420
Improvements other than buildings	31,145	90,005	-	121,150
Furniture and equipment	759,641	82,875	77,783	764,733
Total capital assets being deprec.	<u>2,582,652</u>	<u>2,987,434</u>	<u>77,783</u>	<u>5,492,303</u>
Less accumulated depreciation for:				
Buildings	1,024,345	92,976	-	1,117,321
Improvements other than buildings	27,235	5,212	-	32,447
Furniture and equipment	459,759	54,057	56,858	456,958
Total accumulated depreciation	<u>1,511,339</u>	<u>152,245</u>	<u>56,858</u>	<u>1,606,726</u>

Total capital assets being depreciated, net	<u>1,071,313</u>	<u>2,835,189</u>	<u>20,925</u>	<u>3,885,577</u>
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Governmental activities capital assets, net	<u>3,823,443</u>	<u>2,835,189</u>	<u>2,733,055</u>	<u>3,925,577</u>
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	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	87,913	7,155	-	95,068
Less accumulated depreciation	<u>68,389</u>	<u>3,228</u>	<u>-</u>	<u>71,617</u>
Business type activities capital assets, net	<u>19,524</u>	<u>3,927</u>	<u>-</u>	<u>23,451</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	3,608
Other	3,094
Support Services:	
Student services	213
Instructional staff services	7,214
Administration services	108
Operation and maintenance of plant services	5,990
Transportation	<u>33,830</u>
	<u>54,057</u>
Unallocated depreciation	<u>98,188</u>
Total depreciation expense – governmental activities	<u>152,245</u>
Business type activities:	
Food services	<u>3,288</u>

5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,860,000	-	65,000	1,795,000	70,000
Capital loan notes	495,000	-	55,000	440,000	55,000
Early retirement	15,265	44,674	36,741	23,198	23,198
Total	<u>2,370,265</u>	<u>44,674</u>	<u>156,741</u>	<u>2,258,198</u>	<u>148,198</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, 2005 totaled \$36,741.

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May, 2002			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
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	4.50	85,000	75,295	160,295
2011-2015	4.60-5.00	495,000	312,650	807,650
2016-2020	5.05-5.25	620,000	178,135	798,135
2021-2022	5.30-5.35	295,000	23,735	318,735
		<u>1,795,000</u>	<u>933,595</u>	<u>2,728,595</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	
	%	\$	\$	%	\$	\$	
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	4.50	30,000	4,140	3.50	35,000	4,323	73,463
2011-2012	4.60-4.70	60,000	4,200	3.75-4.00	80,000	4,700	148,900
		<u>195,000</u>	<u>36,845</u>		<u>245,000</u>	<u>35,755</u>	<u>512,600</u>

During the year ended June 30, 2005 the District made principal and interest payments totaling \$73,966 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, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$124,008, \$121,339, and \$112,223 respectively, equal to the required contributions for each year.

7. Risk Management

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

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$16,303, of which \$8,151 was paid with the 2004-2005 premiums and \$8,151 is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$407,567.

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.

The 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 \$124,327 for the year ended June 30, 2005 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 \$110,200 for roof repairs. Work on the project has not started at June 30, 2005.

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, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	1,915,242	90,560	2,005,802	2,008,115	2,008,115	(2,313)
State sources	1,822,035	2,692	1,824,727	1,856,582	1,856,582	(31,855)
Federal sources	208,190	83,574	291,764	329,000	329,000	(37,236)
Total receipts	<u>3,945,467</u>	<u>176,826</u>	<u>4,122,293</u>	<u>4,193,697</u>	<u>4,193,697</u>	<u>(71,404)</u>
Disbursements:						
Instruction	2,585,582	-	2,585,582	3,069,800	3,069,800	484,218
Support services	1,219,212	-	1,219,212	1,083,000	1,383,000	163,788
Non-instructional programs	2,449	170,726	173,175	219,000	219,000	45,825
Other expenditures	621,217	-	621,217	855,053	855,053	233,836
Total disbursements	<u>4,428,460</u>	<u>170,726</u>	<u>4,599,186</u>	<u>5,226,853</u>	<u>5,526,853</u>	<u>927,667</u>
Excess (deficiency) of receipts over (under) disbursements	(482,993)	6,100	(476,893)	(1,033,156)	(1,333,156)	856,263
Other financing sources (uses) net	<u>133,446</u>	<u>-</u>	<u>133,446</u>	<u>-</u>	<u>150,000</u>	<u>(16,554)</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	(349,547)	6,100	(343,447)	(1,033,156)	(1,183,156)	839,709
Balance beginning of year	<u>866,990</u>	<u>31,789</u>	<u>898,779</u>	<u>1,193,222</u>	<u>1,193,222</u>	<u>(294,443)</u>
Balance end of year	<u><u>517,443</u></u>	<u><u>37,889</u></u>	<u><u>555,332</u></u>	<u><u>160,066</u></u>	<u><u>10,066</u></u>	<u><u>545,266</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
	\$	\$	\$
Revenues	3,945,467	66,935	4,012,402
Expenditures	4,428,460	(113,961)	4,314,499
Net	(482,993)	180,896	(302,097)
Other financing sources (uses) net	133,446	9,843	143,289
Beginning fund balances	866,990	(414,880)	452,110
Ending fund balances	<u>517,443</u>	<u>(224,141)</u>	<u>293,302</u>
	<u>Proprietary Fund</u>		
	<u>Enterprise</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
	\$	\$	\$
Revenues	176,826	(5,942)	170,884
Expenditures	170,726	(5,318)	165,408
Net	6,100	(624)	5,476
Beginning fund balances	31,789	26,472	58,261
Ending fund balances	<u>37,889</u>	<u>25,848</u>	<u>63,737</u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 the 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 \$300,000.

OTHER SUPPLEMENTARY INFORMATION

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds				Total
	Management	Student	Physical	Capital	
	Levy	Activity	Plant and	Projects	
	\$	\$	\$	\$	\$
Cash and pooled investments	13,223	7,899	12,533	61,036	94,691
Receivables:					
Property tax:					
Delinquent	1,388	-	2,380	-	3,768
Succeeding year	88,000	-	112,590	-	200,590
Accounts	-	1,512	-	-	1,512
Due from other governments	-	-	92,367	47,149	139,516
Total assets	102,611	9,411	219,870	108,185	440,077
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	-	1,318	-	-	1,318
Deferred revenue:					
Succeeding year property tax	88,000	-	112,590	-	200,590
Other	-	-	50,855	-	50,855
Total liabilities	<u>88,000</u>	<u>1,318</u>	<u>163,445</u>	<u>-</u>	<u>252,763</u>
Fund balances:					
Unreserved reported in:					
Special revenue funds	14,611	8,093	56,425	-	79,129
Capital projects fund	-	-	-	108,185	108,185
Total fund balances	<u>14,611</u>	<u>8,093</u>	<u>56,425</u>	<u>108,185</u>	<u>187,314</u>
Total liabilities and fund balances	102,611	9,411	219,870	108,185	440,077

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Special Revenue Funds					Total
	Management	Student	Physical	Capital	Debt	
	Levy	Activity	Plant and	Projects	Service	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	61,714	-	161,855	224,874	-	448,443
Other	556	71,564	42,130	1,841	-	116,091
State sources	60	-	128	-	-	188
Total revenues	<u>62,330</u>	<u>71,564</u>	<u>204,113</u>	<u>226,715</u>	<u>-</u>	<u>564,722</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	40,071	-	-	-	-	40,071
Other instruction	-	78,926	-	-	-	78,926
Support services:						
Administration services	8,124	-	-	-	1,200	9,324
Operation and maintenance of plant services	24,490	-	-	-	-	24,490
Transportation services	9,357	-	52,997	-	-	62,354
Non-instructional programs	2,449	-	-	-	-	2,449
Other expenditures:						
Facilities acquisition	-	-	27,395	97,933	-	125,328
Long-term debt:						
Principal	-	-	-	-	120,000	120,000
Interest and fiscal charges	-	-	-	-	115,510	115,510
Total expenditures	<u>84,491</u>	<u>78,926</u>	<u>80,392</u>	<u>97,933</u>	<u>236,710</u>	<u>578,452</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(22,161)</u>	<u>(7,362)</u>	<u>123,721</u>	<u>128,782</u>	<u>(236,710)</u>	<u>(13,730)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	190,000	236,710	426,710
Operating transfers out	-	-	(264,765)	(161,945)	-	(426,710)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(264,765)</u>	<u>28,055</u>	<u>236,710</u>	<u>-</u>
Net change in fund balance	(22,161)	(7,362)	(141,044)	156,837	-	(13,730)
Fund balances beginning of year	<u>36,772</u>	<u>15,455</u>	<u>197,469</u>	<u>(48,652)</u>	<u>-</u>	<u>201,044</u>
Fund balances end of year	<u>14,611</u>	<u>8,093</u>	<u>56,425</u>	<u>108,185</u>	<u>-</u>	<u>187,314</u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance	Revenues	Expenditures	Balance End
	Beginning of			of Year
	Year			
	\$	\$	\$	\$
Academic achievement	2,795	2	3,130	(333)
Annual	(11,149)	6,795	8,673	(13,027)
Art club	501	1,029	544	986
Athletics	598	29,095	33,600	(3,907)
Cheerleaders	1,744	928	1,349	1,323
Class of 2004	1,026	-	16	1,010
Class of 2005	1,950	(579)	725	646
Class of 2006	38	9,081	9,094	25
Class of 2007	77	2,035	1,277	835
Class of 2008	28	-	-	28
FFA	(724)	4,309	4,336	(751)
FHA	852	1,370	1,566	656
Spanish club	30	1,665	1,721	(26)
High school student council	2,601	3,268	3,721	2,148
Knight club	100	27	164	(37)
Middle school athletics	(782)	1,693	1,255	(344)
Middle school student council	4,294	2,450	1,816	4,928
National Honor Society	648	670	411	907
Play activities	3,723	4,981	3,312	5,392
Science club	(14)	-	-	(14)
Thespians	472	123	145	450
Interest on investments	8,007	105	-	8,112
Fund balance PeeWee sports	1,000	-	870	130
Powerlifters Club	(1,600)	-	-	(1,600)
Basketball club	(760)	2,517	1,201	556
Total	15,455	71,564	78,926	8,093

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2005

	<u>Employee Vending</u> \$	<u>Booster Club</u> \$	<u>Total</u> \$
Balance beginning of year	2,637	-	2,637
Additions:			
Collections	1,298	3,275	4,573
Deductions:			
Miscellaneous	<u>637</u>	<u>3,687</u>	<u>4,324</u>
Balance end of year	<u><u>3,298</u></u>	<u><u>(412)</u></u>	<u><u>2,886</u></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			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,716,453	1,661,648	1,667,927	1,479,513
Tuition	116,356	110,342	126,829	111,266
Other	158,443	135,652	183,186	148,246
State sources	1,816,451	1,664,295	1,624,248	1,658,352
Federal sources	204,699	156,975	125,702	88,443
Total revenues	<u>4,012,402</u>	<u>3,728,912</u>	<u>3,727,892</u>	<u>3,485,820</u>
Expenditures:				
Instruction:				
Regular instruction	1,794,649	1,692,240	1,608,557	1,483,508
Special instruction	462,817	355,366	364,290	373,260
Other instruction	333,128	295,634	303,264	316,996
Support services:				
Student services	52,710	50,733	44,530	53,278
Instructional staff services	39,275	69,075	48,748	50,944
Administration services	431,773	456,536	384,111	416,703
Operation and maintenance of plant services	430,292	315,387	233,277	205,016
Transportation services	282,241	192,308	218,406	217,031
Non-instructional programs	2,449	7,850	6,510	5,840
Other expenditures:				
Facilities acquisition	125,328	1,744,213	925,086	271,614
Long-term debt:				
Principal	120,000	115,000	83,285	2,994
Interest and other charges	115,510	118,457	118,838	987
AEA flowthrough	124,327	126,078	133,083	134,450
Total expenditures	<u>4,314,499</u>	<u>5,538,877</u>	<u>4,471,985</u>	<u>3,532,621</u>

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

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 as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 18, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fremont-Mills Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 judgment, 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 reportable 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 caused by error or fraud 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 05-I-A and 05-I-B are material weaknesses.

Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fremont-Mills Community School District and other parties to whom Fremont-Mills Community School 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 18, 2005

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

05-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.

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

General Fund – We tested twenty-four disbursements. We could not locate the supporting documentation for one \$599 credit card payment.

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.

District Response: The detailed receipt for this purchase was misplaced.

Conclusion: Response accepted.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget: Disbursements for the year ended June 30, 2005 did not exceed the amounts budgeted.

05-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.

05-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.

05-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	Playground mulch	2,340

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.

05-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.

05-II-G Board Minutes: We noted that Internal Service Fund expenditures were not on the lists of bills approved by the board of directors.

Recommendation: 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. This 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.

District Response: We will have the board approve all Internal Service Fund disbursements.

Conclusion: Response accepted.

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

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

05-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.

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

05-II-K Financial Condition: The Student Activity Fund has several accounts with deficit balances at June 30, 2005.

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

District Response: We are working on ways to eliminated the deficits in the Students Activity Fund.

Conclusion: Response accepted.

05-II-L Board Minutes: We noted that the minutes for one board meeting in October 2004 and two board meetings in May 2005 were not published as required by the Code of Iowa.

Recommendation: Minutes should be published within two weeks of the meeting as required by the Code of Iowa.

District Response: This was an oversight.

Conclusion: Response accepted.

05-II-M Public Hearing: The Code of Iowa requires that schools hold a public hearing for all capital improvements with a cost exceeding \$25,000. We noted that the Board approved a \$110,200 roof repair project without holding a public hearing

Recommendation: The District should hold public hearings for all capital projects with cost in excess of \$25,000.

District Response: We will do this in the future.

Conclusion: Response accepted.