

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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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, 2006, 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 at June 30, 2006, 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 17, 2006, 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 39 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, 2005, (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, 2006

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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,447,680 in fiscal 2005 to \$3,706,899 in fiscal 2006, while General Fund expenditures increased from \$3,736,047 in fiscal 2005 to \$3,779,610 in fiscal 2006. The District's General Fund balance shows a decrease of -82% from \$105,988 in fiscal 2005 to \$19,471 in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in property tax and state revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures, and additional costs for special education for students not on the prior year's special education count. 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.

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

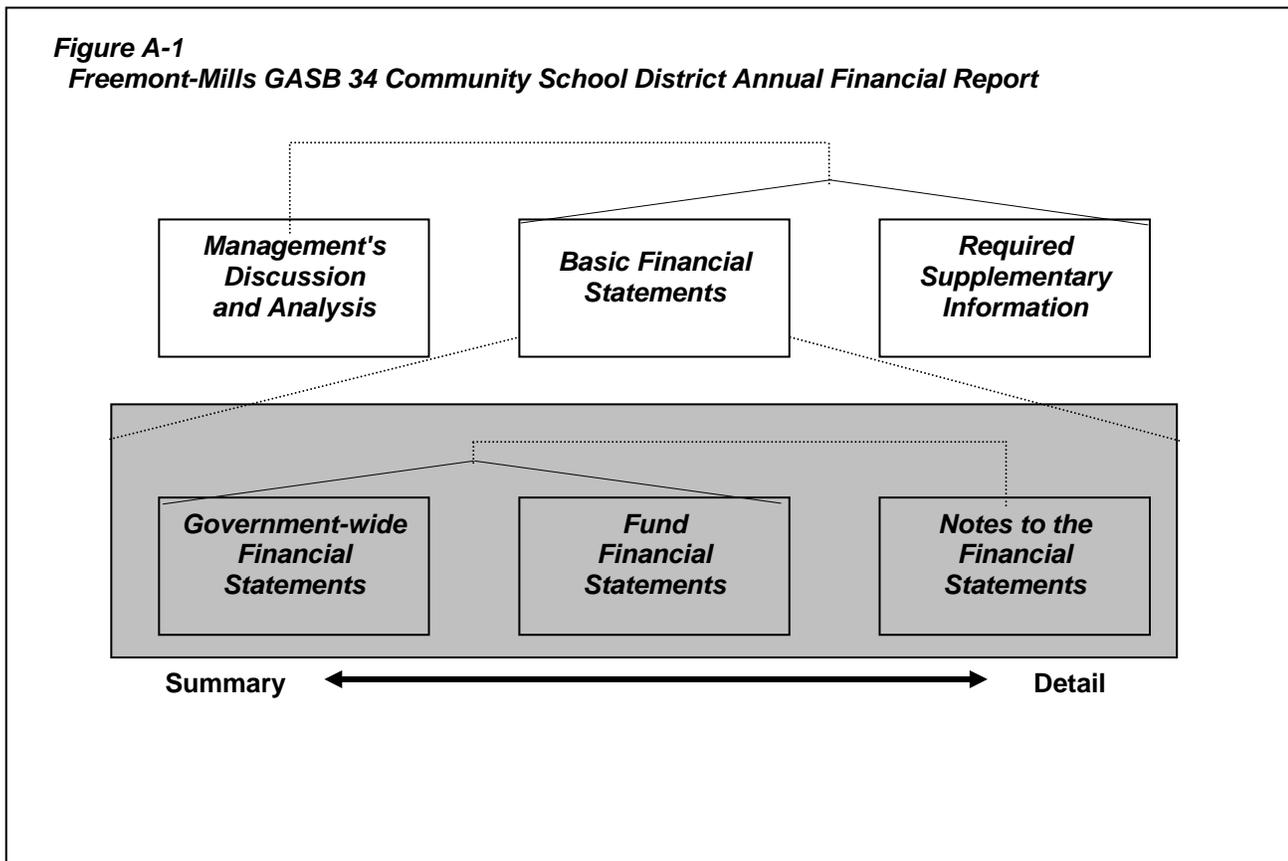


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 net assets, 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, 2006 compared to June 30, 2005.

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	
Current and other assets	2,205,066	2,295,383	48,713	41,582	2,253,779	2,336,965	-3.56%
Capital assets	3,933,648	3,925,577	26,907	23,451	3,960,555	3,949,028	0.29%
Total assets	6,138,714	6,220,960	75,620	65,033	6,214,334	6,285,993	-1.14%
Long-term liabilities	2,140,140	2,258,198			2,140,140	2,258,198	-5.23%
Other liabilities	1,852,885	1,865,541	1,382	1,296	1,854,267	1,866,837	-0.67%
Total liabilities	3,993,025	4,123,739	1,382	1,296	3,994,407	4,125,035	-3.17%
Net assets:							
Invested in capital assets net of related debt	1,823,648	1,690,577	26,907	23,451	1,850,555	1,714,028	7.97%
Restricted	322,262	293,816			322,262	293,816	9.68%
Unrestricted	-221	112,828	47,331	40,286	47,110	153,114	-69.23%
TOTAL NET ASSETS	2,145,689	2,097,221	74,238	63,737	2,219,927	2,160,958	2.73%

The District's combined net assets increased by 2.73% or approximately \$58,969, 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 increased by \$28,449 (9.68%) over the prior year. The increase was primarily a result of PPEL property tax monies being accumulated for future capital improvements and equipment acquisitions.

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 -\$106,004 or -69.2%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Fremont Mills Community
School
Changes in Net Assets - June 30, 2006

	Governmental Activities		Business-type Activities		Total School District		Percentage Change 2005-2006
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	230,522	222,976	89,895	91,003	320,417	313,979	
Operating grants & contributions	469,376	475,319	87,764	79,881	557,140	555,200	
Capital grants & contributions	0	3,275	0	0	0	3,275	
General Revenues							
Property taxes	1,418,216	1,321,975			1,418,216	1,321,975	
Income Surtax	184,674	159,941			184,674	159,941	
Local option sales tax	245,804	224,874			245,804	224,874	
Unrestricted state grants	1,723,030	1,545,831			1,723,030	1,545,831	
Unrestricted investment income	4,082	5,803	566		4,648	5,803	
Other revenue	590	144,344			590	144,344	
Total Revenues	\$4,276,294	\$4,104,338	\$178,225	\$170,884	\$4,454,519	\$4,275,222	4%
Expenses:							
Instruction	2,640,881	2,602,319			2,640,881	2,602,319	
Support services	1,223,587	1,140,301			1,223,587	1,140,301	
Non-instructional programs	0	2,449	167,724	165,408	167,724	167,857	
Other expenditures	363,358	336,977			363,358	336,977	
Total Expenses	\$4,227,826	\$4,082,046	\$167,724	\$165,408	\$4,395,550	\$4,247,454	3%
CHANGE IN NET ASSETS	\$48,468	\$22,292	\$10,501	\$5,476	\$58,969	\$27,768	112%
Net assets beginning of year	2,097,221	2,074,929	63,737	58,261	2,160,958	2,133,190	1%
Net assets end of year	\$2,145,689	\$2,097,221	\$74,238	\$63,737	\$2,219,927	\$2,160,958	3%

Property tax, income surtax, local option sales taxes and unrestricted state grants account for nearly 80.28% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87.92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,276,294 and expenses were \$4,227,826. 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	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2006	2005	2006	2005
	\$	\$	\$	\$
Instruction	2,640,881	2,602,319	2,094,957	2,035,728
Support Services	1,223,587	1,140,301	1,205,554	1,129,649
Non-instructional Programs	0	2,449	0	2,449
Other Expenses	363,358	336,977	227,417	212,650
TOTAL	4,227,826	4,082,046	3,527,928	3,380,476

- The cost financed by users of the District's programs was \$230,522.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$469,376.
- The net cost of governmental activities was financed with \$\$1,848,694 in property and other taxes and \$1,723,030 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$178,255 and expenses were \$167,724. 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 \$10,501 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 \$215,047 below last year's ending fund balances of \$293,302. 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 \$105,988 to \$19,471, due in part to the negotiated salary and benefits settlement.
- The Physical Plant and Equipment Fund balance increased by \$39,752. The monies in this fund must be used for building and land construction or improvements and for equipment acquisitions.
- The Nonmajor Governmental Funds decreased from \$130,889 to \$99,399 due slight decreases in the Management Fund and the Capital Projects Funds.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$63,737 at June 30, 2005 to \$74,238 at June 30, 2006, representing an increase of approximately 16%. For fiscal 2006 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 \$693 at June 30, 2006 is a \$1,487 decrease in the balance of \$2,180 at June 30, 2005 – attributable to normal annual fluctuations.

BUDGETARY HIGHLIGHTS

Over the course of the year, Fremont-Mills Community School District did not amend its annual budget.

The District's receipts were \$34,113 less than budgeted receipts, a variance of 0.77%

Total expenditures were \$579,492 less than budgeted, a variance of 11.36%, 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$3,960,555, 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 0.2919% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$166,523.

The original cost of the District's capital assets was \$5,797,219. Governmental funds account for \$5,702,853, with the remainder of \$94,366 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2005-2006
	Activities		Activities		School District		
	2006	2005	2006	2005	2006	2005	
Land	40,000	40,000			40,000	40,000	0.00%
Construction in progress	0	0			0	0	
Buildings	3,500,803	3,489,099			3,500,803	3,489,099	0.34%
Improvements	86,713	88,703			86,713	88,703	-2.24%
Equipment & Furniture	306,132	307,775	26,907	23,451	333,039	331,226	0.55%
	3,933,648	3,925,577	26,907	23,451	3,960,555	3,949,028	0.29%

Long-Term Debt

At June 30, 2006, the District had in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

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

	Total School District		Percentage Change 2005-2006
	2006	2005	
General Obligation Bonds	1,725,000	1,795,000	-3.90%
Capital Loan Notes	385,000	440,000	-12.50%
Early Retirement	30,140	23,198	29.92%
	2,140,140	2,258,198	-5.23%

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 2006 enrollment increased by 10 students. This increase in enrollment will improve the District's funding for fiscal year 2008.

- An application to the SBRC for additional allowable growth in the amount of \$69,000, due to the 2004 storm damage that was not covered by insurance, was approved. Those funds may be re-couped by an additional levy on the 2008 budget.

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, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	291,715	37,389	329,104
Receivables:			
Property tax:			
Delinquent	25,039	-	25,039
Succeeding year	1,413,325	-	1,413,325
Accounts	1,707	95	1,802
Due from other governments	473,280	8,117	481,397
Inventories	-	3,112	3,112
Capital assets, net of accumulated depreciation	3,933,648	26,907	3,960,555
Total assets	6,138,714	75,620	6,214,334
Liabilities			
Accounts payable	78,947	-	78,947
Salaries and benefits payable	343,499	-	343,499
Accrued interest payable	17,114	-	17,114
Deferred revenue:			
Succeeding year property tax	1,413,325	-	1,413,325
Other	-	1,382	1,382
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	75,000	-	75,000
Capital loan notes	60,000	-	60,000
Termination benefits	30,140	-	30,140
Portion due after one year:			
General obligation bonds payable	1,650,000	-	1,650,000
Capital loan notes	325,000	-	325,000
Total liabilities	3,993,025	1,382	3,994,407

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	1,823,648	26,907	1,850,555
Restricted for:			
Gifted and talented program	57,619	-	57,619
Iowa early intervention block grant	12,639	-	12,639
Management levy	-	-	-
Physical plant and equipment levy	147,362	-	147,362
Other special revenue purposes	23,316	-	23,316
Local option sales tax capital projects	81,326	-	81,326
Unrestricted	(221)	47,331	47,110
Total net assets	<u>2,145,689</u>	<u>74,238</u>	<u>2,219,927</u>

FREEMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

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	1,750,660	137,495	227,796	-
Special instruction	475,025	12,591	38,589	-
Other instruction	415,196	63,091	66,362	-
	<u>2,640,881</u>	<u>213,177</u>	<u>332,747</u>	<u>-</u>
Support services:				
Student services	40,483	-	-	-
Instructional staff services	73,906	-	-	-
Administration services	508,005	-	-	-
Operation and maintenance of plant services	344,358	-	-	-
Transportation services	256,835	17,345	688	-
	<u>1,223,587</u>	<u>17,345</u>	<u>688</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	15,411	-	-	-
Long-term debt interest	108,130	-	-	-
AEA flowthrough	135,941	-	135,941	-
Depreciation (unallocated)*	103,876	-	-	-
	<u>363,358</u>	<u>-</u>	<u>135,941</u>	<u>-</u>
Total governmental activities	4,227,826	230,522	469,376	-
Business type activities:				
Non-instructional programs:				
Food service operations	167,724	89,895	87,764	-
Total	<u>4,395,550</u>	<u>320,417</u>	<u>557,140</u>	<u>-</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.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
(1,385,369)	-	(1,385,369)
(423,845)	-	(423,845)
(285,743)	-	(285,743)
<u>(2,094,957)</u>	<u>-</u>	<u>(2,094,957)</u>
(40,483)	-	(40,483)
(73,906)	-	(73,906)
(508,005)	-	(508,005)
(344,358)	-	(344,358)
(238,802)	-	(238,802)
<u>(1,205,554)</u>	<u>-</u>	<u>(1,205,554)</u>
(15,411)	-	(15,411)
(108,130)	-	(108,130)
-	-	-
(103,876)	-	(103,876)
<u>(227,417)</u>	<u>-</u>	<u>(227,417)</u>
(3,527,928)	-	(3,527,928)
<u>-</u>	<u>9,935</u>	<u>9,935</u>
<u>(3,527,928)</u>	<u>9,935</u>	<u>(3,517,993)</u>
1,310,955	-	1,310,955
107,261	-	107,261
184,674	-	184,674
245,804	-	245,804
1,723,030	-	1,723,030
4,082	566	4,648
590	-	590
<u>3,576,396</u>	<u>566</u>	<u>3,576,962</u>
48,468	10,501	58,969
<u>2,097,221</u>	<u>63,737</u>	<u>2,160,958</u>
<u>2,145,689</u>	<u>74,238</u>	<u>2,219,927</u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	142,753	94,283	53,098	290,134
Receivables:				
Property tax:				
Delinquent	21,597	1,894	1,548	25,039
Succeeding year	1,202,256	113,069	98,000	1,413,325
Accounts	1,512	-	195	1,707
Interfund receivable	6,791	-	-	6,791
Due from other governments	370,522	51,185	51,573	473,280
Total assets	<u>1,745,431</u>	<u>260,431</u>	<u>204,414</u>	<u>2,210,276</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	77,835	-	224	78,059
Salaries and benefits payable	343,499	-	-	343,499
Interfund payable	-	-	6,791	6,791
Deferred revenue:				
Succeeding year property tax	1,202,256	113,069	98,000	1,413,325
Other	102,370	51,185	-	153,555
Total liabilities	<u>1,725,960</u>	<u>164,254</u>	<u>105,015</u>	<u>1,995,229</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	(50,787)	-	-	(50,787)
Special revenue funds	-	96,177	18,073	114,250
Capital projects funds	-	-	81,326	81,326
Total fund balances	<u>19,471</u>	<u>96,177</u>	<u>99,399</u>	<u>215,047</u>
Total liabilities and fund balances	<u>1,745,431</u>	<u>260,431</u>	<u>204,414</u>	<u>2,210,276</u>

FREMONT-MILLS Community SCHOOL DISTRICT

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

June 30, 2006

	\$
Total fund balances of governmental funds (Exhibit C)	215,047
<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.	3,933,648
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	153,555
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	(17,114)
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.	693
Long-term liabilities, including bonds payable, capital loan notes payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(2,140,140)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,145,689</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,344,878	169,744	318,415	1,833,037
Tuition	122,109	-	-	122,109
Other	47,686	478	64,361	112,525
State sources	2,030,691	99	15,159	2,045,949
Federal sources	161,535	-	-	161,535
Total revenues	<u>3,706,899</u>	<u>170,321</u>	<u>397,935</u>	<u>4,275,155</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,691,262	-	45,806	1,737,068
Special instruction	475,025	-	-	475,025
Other instruction	351,863	-	61,958	413,821
	<u>2,518,150</u>	<u>-</u>	<u>107,764</u>	<u>2,625,914</u>
Support services:				
Student services	40,270	-	-	40,270
Instructional staff services	66,614	-	-	66,614
Administration services	499,061	-	8,836	507,897
Plant operation and maintenance	286,291	-	53,604	339,895
Transportation services	233,283	3,875	655	237,813
	<u>1,125,519</u>	<u>3,875</u>	<u>63,095</u>	<u>1,192,489</u>
Non-instructional programs	-	-	-	-
Other expenditures:				
Facilities acquisition	-	54,794	110,200	164,994
Long-term debt:				
Principal	-	-	125,000	125,000
Interest and fiscal charges	-	-	109,220	109,220
AEA flowthrough	135,941	-	-	135,941
	<u>135,941</u>	<u>54,794</u>	<u>344,420</u>	<u>535,155</u>
Total expenditures	<u>3,779,610</u>	<u>58,669</u>	<u>515,279</u>	<u>4,353,558</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(72,711)</u>	<u>111,652</u>	<u>(117,344)</u>	<u>(78,403)</u>
Other financing sources (uses):				
Sales of materials and equipment	148	-	-	148
Operating transfers in	-	-	249,374	249,374
Operating transfers out	(13,954)	(71,900)	(163,520)	(249,374)
Total other financing sources (uses)	<u>(13,806)</u>	<u>(71,900)</u>	<u>85,854</u>	<u>148</u>
Net change in fund balances	(86,517)	39,752	(31,490)	(78,255)
Fund balances beginning of year	<u>105,988</u>	<u>56,425</u>	<u>130,889</u>	<u>293,302</u>
Fund balances end of year	<u>19,471</u>	<u>96,177</u>	<u>99,399</u>	<u>215,047</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, 2006

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(78,255)
<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	170,560	
Depreciation expense	<u>(162,489)</u>	8,071
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.		
		991
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.		
		125,000
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.		
		1,090
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:		
Termination benefits		(6,942)
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>(1,487)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>48,468</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Enterprise Fund Nonmajor School Nutrition	Governmental Activities - Internal Service Fund
	\$	\$
Assets		
Cash and cash equivalents	37,389	1,581
Accounts receivable	95	-
Due from other governments	8,117	-
Inventories	3,112	-
Capital assets, net of accumulated depreciation	26,907	-
	<hr/>	<hr/>
Total assets	75,620	1,581
Liabilities		
Accounts payable	-	888
Deferred revenue	1,382	-
	<hr/>	<hr/>
Total Liabilities	1,382	888
Net assets		
Invested in capital assets, net of related debt	26,907	-
Unrestricted	47,331	693
	<hr/>	<hr/>
Total net assets	<u>74,238</u>	<u>693</u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u> </u> \$
Operating revenue:		
Local sources:		
Charges for service	89,895	15,705
	<u> </u>	<u> </u>
Operating expenses:		
Non-instructional programs:		
Salaries	51,282	17,192
Benefits	7,301	-
Purchased services	3,032	-
Supplies	102,075	-
Depreciation	4,034	-
Other	-	-
	<u>167,724</u>	<u>17,192</u>
Operating gain (loss)	<u>(77,829)</u>	<u>(1,487)</u>
Non-operating revenue:		
State sources	2,868	-
Federal sources	84,896	-
Interest income	566	-
Total non-operating revenue	<u>88,330</u>	<u>-</u>
Change in net assets	10,501	(1,487)
Net assets beginning of year	<u>63,737</u>	<u>2,180</u>
Net assets end of year	<u><u>74,238</u></u>	<u><u>693</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	89,985	-
Cash received from services provided to other funds	-	15,705
Cash payments to employees for services	(58,583)	(16,304)
Cash payments to suppliers for goods or services	(98,601)	-
Net cash used by operating activities	<u>(67,199)</u>	<u>(599)</u>
Cash flows from non-capital financing activities:		
State grants received	2,868	-
Federal grants received	70,755	-
Net cash provided by non-capital financing activities	<u>73,623</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(7,490)</u>	<u>-</u>
Cash flows from investing activities		
Interest on investments	<u>566</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(500)	(599)
Cash and cash equivalents at beginning of year	<u>37,889</u>	<u>2,180</u>
Cash and cash equivalents at end of year	<u><u>37,389</u></u>	<u><u>1,581</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(77,829)	(1,487)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	6,024	-
Depreciation	4,034	-
Decrease (increase) in inventories	482	-
Decrease (increase) in accounts receivable	4	-
(Decrease) increase in accounts payable	-	888
(Decrease) increase in deferred revenue	86	-
Net cash used in operating activities	<u>(67,199)</u>	<u>(599)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$6,024 of federal commodities.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship <u> </u> \$	<u> </u> Agency <u> </u> \$
Assets		
Cash and pooled investments	18,706	4,088
Accrued interest receivable	18	-
Due from other governments	<u> </u> -	<u> </u> 47
Total Assets	18,724	4,135
Liabilities		
Other payables	<u> </u> -	<u> </u> 4,135
Net Assets		
Reserved for scholarships	<u> </u> <u> </u> 18,724	<u> </u> <u> </u> -

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Scholarship <u> </u> \$
Additions:	
Local sources:	
Interest	282
Deductions:	
Support services:	
Scholarships awarded	<u>300</u>
Change in net assets	(18)
Net assets beginning of year	<u>18,742</u>
Net assets end of year	<u><u>18,724</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

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 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 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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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. During the year ended June 30, 2006, expenditures in the other expenditures functional area exceeded the amount budgeted.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 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, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	745

The investment is 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 Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
General Fund	Nonmajor – Management Fund	6,791

The General Fund loaned the Management Fund money for cash flow.

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
		\$
Nonmajor – Student Activity Fund	General Fund	13,954
Nonmajor - Debt Service Fund	Nonmajor - Capital Projects Fund	163,520
Nonmajor - Debt Service Fund	Physical Plant and Equipment Levy Fund	71,900

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

5. Capital Assets

Capital assets activity for the year ended June 30, 2006 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:				
Land	40,000	-	-	40,000
Capital assets being depreciated:				
Buildings	4,606,420	110,200	10	4,716,610
Improvements other than buildings	121,150	3,390	-	124,540

Furniture and equipment	764,733	56,970	-	821,703
Total capital assets being deprec.	<u>5,492,303</u>	<u>170,560</u>	<u>10</u>	<u>5,662,853</u>
Less accumulated depreciation for:				
Buildings	1,117,321	98,496	10	1,215,807
Improvements other than buildings	32,447	5,380	-	37,827
Furniture and equipment	456,958	58,613	-	515,571
Total accumulated depreciation	<u>1,606,726</u>	<u>162,489</u>	<u>10</u>	<u>1,769,205</u>
Total capital assets being depreciated, net	<u>3,885,577</u>	<u>8,071</u>	<u>-</u>	<u>3,893,648</u>
Governmental activities capital assets, net	<u>3,925,577</u>	<u>8,071</u>	<u>-</u>	<u>3,933,648</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	95,068	7,490	8,192	94,366
Less accumulated depreciation	<u>71,617</u>	<u>4,034</u>	<u>8,192</u>	<u>67,459</u>
Business type activities capital assets, net	<u>23,451</u>	<u>3,456</u>	<u>-</u>	<u>26,907</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	5,163
Other	5,428
Support Services:	
Student services	213
Instructional staff services	7,292
Administration services	108
Operation and maintenance of plant services	4,463
Transportation	<u>35,946</u>
	58,613
Unallocated depreciation	<u>103,876</u>
Total depreciation expense – governmental activities	<u>162,489</u>
Business type activities:	
Food services	<u>4,034</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,795,000	-	70,000	1,725,000	75,000
Capital loan notes	440,000	-	55,000	385,000	60,000
Termination benefits	23,198	60,280	53,338	30,140	30,140
Total	<u>2,258,198</u>	<u>60,280</u>	<u>178,338</u>	<u>2,140,140</u>	<u>165,140</u>

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least twenty years of continuous service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits are based on the difference between the contract salary at the time of retirement and the Iowa minimum base salary. The benefit shall not exceed \$14,000 per retiree.

Early retirement benefits will be paid in one installment on June 15 of the year of retirement or in two installments, the first on June 15 of the year of separation and the second on the next January 15.

At June 30, 2006, the District has obligations to four participants with a total liability of \$30,140. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$53,338.

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May, 2002			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
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	4.60	90,000	71,470	161,470
2012-2016	4.70-5.05	515,000	288,850	803,850
2017-2021	5.10-30	655,000	146,175	801,175
2022	5.35	<u>150,000</u>	<u>8,025</u>	<u>158,025</u>
		<u>1,725,000</u>	<u>841,275</u>	<u>2,566,275</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	
	%	\$	\$	%	\$	\$	
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	4.60	30,000	2,790	3.75	40,000	3,100	75,890
2012	4.70	30,000	1,410	4.00	40,000	1,600	73,010
		<u>170,000</u>	<u>27,800</u>		<u>215,000</u>	<u>27,899</u>	<u>440,699</u>

During the year ended June 30, 2006 the District made principal and interest payments totaling \$71,901 under the note agreements.

7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits 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, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were, \$128,022, \$124,008 and, \$121,339 respectively, equal to the required contributions for each year.

8. Risk Management

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.

9. 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 \$135,941 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Deficit Fund Balances

At June 30, 2006 the District had a \$5,243 deficit fund balance in the Management Fund.

REQUIRED SUPPLEMENTARY INFORMATION

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Revenues:						
Local sources	2,067,671	90,461	2,158,132	2,092,703	2,092,703	65,429
State sources	2,045,949	2,868	2,048,817	2,051,564	2,051,564	(2,747)
Federal sources	161,535	84,896	246,431	275,000	275,000	(28,569)
Total revenues	<u>4,275,155</u>	<u>178,225</u>	<u>4,453,380</u>	<u>4,419,267</u>	<u>4,419,267</u>	<u>34,113</u>
Expenditures						
Instruction	2,625,914	-	2,625,914	2,871,809	2,871,809	245,895
Support services	1,192,489	-	1,192,489	1,578,000	1,578,000	385,511
Non-instructional programs	-	167,724	167,724	242,789	242,789	75,065
Other expenditures	535,155	-	535,155	408,176	408,176	(126,979)
Total expenditures	<u>4,353,558</u>	<u>167,724</u>	<u>4,521,282</u>	<u>5,100,774</u>	<u>5,100,774</u>	<u>579,492</u>
Excess (deficiency) of revenues over (under) expenditures	(78,403)	10,501	(67,902)	(681,507)	(681,507)	613,605
Other financing sources (uses) net	<u>148</u>	<u>-</u>	<u>148</u>	<u>-</u>	<u>-</u>	<u>148</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	(78,255)	10,501	(67,754)	(681,507)	(681,507)	613,753
Balance beginning of year	<u>293,302</u>	<u>63,737</u>	<u>357,039</u>	<u>736,945</u>	<u>736,945</u>	<u>(379,906)</u>
Balance end of year	<u><u>215,047</u></u>	<u><u>74,238</u></u>	<u><u>289,285</u></u>	<u><u>55,438</u></u>	<u><u>55,438</u></u>	<u><u>233,847</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. 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. The District did not amend its budget during the year..

During the year ended June 30, 2006, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Capital Projects	
	\$	\$	\$	
Cash and pooled investments	-	23,345	29,753	53,098
Receivables:				
Property tax:				
Delinquent	1,548	-	-	1,548
Succeeding year	98,000	-	-	98,000
Accounts	-	195		195
Due from other governments	-	-	51,573	51,573
Total assets	99,548	23,540	81,326	204,414
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	-	224	-	224
Interfund payables	6,791	-	-	6,791
Deferred revenue:				
Succeeding year property tax	98,000	-	-	98,000
Other				-
Total liabilities	104,791	224	-	105,015
Fund balances:				
Unreserved reported in:				
Special revenue funds	(5,243)	23,316	-	18,073
Capital projects fund	-	-	81,326	81,326
Total fund balances	(5,243)	23,316	81,326	99,399
Total liabilities and fund balances	99,548	23,540	81,326	204,414

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds				Total
	Management Levy	Student Activity Fund	Capital Projects	Debt Service	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	87,689	-	230,726	-	318,415
Other	77	63,227	1,057	-	64,361
State sources	81	-	15,078	-	15,159
Total revenues	<u>87,847</u>	<u>63,227</u>	<u>246,861</u>	<u>-</u>	<u>397,935</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	45,806	-	-	-	45,806
Other instruction	-	61,958	-	-	61,958
Support services:					
Administration services	7,636	-	-	1,200	8,836
Operation and maintenance of plant services	53,604	-	-	-	53,604
Transportation services	655	-	-	-	655
Other expenditures:					
Facilities acquisition	-	-	110,200	-	110,200
Long-term debt:					
Principal	-	-	-	125,000	125,000
Interest and fiscal charges	-	-	-	109,220	109,220
Total expenditures	<u>107,701</u>	<u>61,958</u>	<u>110,200</u>	<u>235,420</u>	<u>515,279</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(19,854)</u>	<u>1,269</u>	<u>136,661</u>	<u>(235,420)</u>	<u>(117,344)</u>
Other financing sources (uses):					
Operating transfers in	-	13,954	-	235,420	249,374
Operating transfers out	-	-	(163,520)	-	(163,520)
Total other financing sources (uses)	<u>-</u>	<u>13,954</u>	<u>(163,520)</u>	<u>235,420</u>	<u>85,854</u>
Net change in fund balance	(19,854)	15,223	(26,859)	-	(31,490)
Fund balances beginning of year	<u>14,611</u>	<u>8,093</u>	<u>108,185</u>	<u>-</u>	<u>130,889</u>
Fund balances end of year	<u>(5,243)</u>	<u>23,316</u>	<u>81,326</u>	<u>-</u>	<u>99,399</u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Academic achievement	(333)	1	350	1217	535
Annual	(13,027)	22486	8573	-	886
Art club	986	1697	1932	-	751
Athletics	(3,907)	19177	20632	4454	(908)
Cheerleaders	1,323	1872	1116	-	2,079
Class of 2004	1,010	-	-	-1010	-
Class of 2005	646	-	396	-250	-
Class of 2006	25	492	561	44	-
Class of 2007	835	8396	8683	-	548
Class of 2008	28	2668	1686	-	1,010
Class of 2009	-	38	-	-	38
Class of 2010	-	2	-	-	2
FFA	(751)	7093	5439	-	903
FHA	656	822	922	-	556
Spanish club	(26)	962	966	-	(30)
High school student council	2,148	3073	2656	-	2,565
Knight club	(37)	1425	953	-	435
Middle school athletics	(344)	-	2199	2543	-
Middle school student council	4,928	3235	2162	-2543	3,458
National Honor Society	907	683	933	-	657
Play activities	5,392	1308	789	-	5,911
Science club	(14)	-	-	14	-
Thespians	450	186	220	-	416
Interest on investments	8,112	136	-	-6069	2,179
PeeWee sports	130	-	-	-	130
Powerlifters Club	(1,600)	-	-	1600	-
Basketball club	556	1429	790	-	1,195
Total	8,093	77,181	61,958	-	23,316

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Fiduciary Assets and Liabilities
 Agency Fund

Year ended June 30, 2006

	<u>Employee Vending</u>	<u>Booster Club</u>	<u>Total</u>
	\$	\$	\$
Balance beginning of year	3,298	(412)	2,886
Additions:			
Collections	1,059	5,033	6,092
Deductions:			
Miscellaneous	<u>269</u>	<u>4,621</u>	<u>4,890</u>
Balance end of year	<u><u>4,088</u></u>	<u><u>-</u></u>	<u><u>4,088</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			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,833,037	1,716,453	1,661,648	1,667,927
Tuition	122,109	116,356	110,342	126,829
Other	112,525	158,443	135,652	183,186
State sources	2,045,949	1,816,451	1,664,295	1,624,248
Federal sources	161,535	204,699	156,975	125,702
Total revenues	<u>4,275,155</u>	<u>4,012,402</u>	<u>3,728,912</u>	<u>3,727,892</u>
Expenditures:				
Instruction:				
Regular instruction	1,737,068	1,794,649	1,692,240	1,608,557
Special instruction	475,025	462,817	355,366	364,290
Other instruction	413,821	333,128	295,634	303,264
Support services:				
Student services	40,270	52,710	50,733	44,530
Instructional staff services	66,614	39,275	69,075	48,748
Administration services	507,897	431,773	456,536	384,111
Operation and maintenance of plant services	339,895	430,292	315,387	233,277
Transportation services	240,813	282,241	192,308	218,406
Non-instructional programs	-	2,449	7,850	6,510
Other expenditures:				
Facilities acquisition	110,200	125,328	1,744,213	925,086
Long-term debt:				
Principal	125,000	120,000	115,000	83,285
Interest and other charges	109,220	115,510	118,457	118,838
AEA flowthrough	190,735	124,327	126,078	133,083
Total expenditures	<u>4,356,558</u>	<u>4,314,499</u>	<u>5,538,877</u>	<u>4,471,985</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, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 17, 2006. 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 item 06-I-A is a material weakness.

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, 2006 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 17, 2006

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

06-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.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, exceeded the amounts budgeted in the other expenditures function.

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

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

Conclusion: Response accepted.

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

06-II-C 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.

06-II-D 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	Backhoe work	338

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.

06-II-E 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.

06-II-F 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 expenditures.

Conclusion: Response accepted.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

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

06-II-H 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.

06-II-I Certified Annual Report (CAR): The CAR was not due yet, at the completion of the audit.

06-II-J Financial Condition: The Management Fund has a \$5,243 deficit fund balance and the Student Activity Fund has two accounts with deficit balances at June 30, 2006.

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

District Response: The Management Fund deficit will be covered by property taxes in the upcoming year and we will be using interest income in the Student Activity Fund to cover any accounts with deficits.

Conclusion: Response accepted.

06-II-K Interest Rate on Certificates of Deposit: We noted one trust fund certificate of deposit that had an interest rate below the minimum rate set by the State of Iowa.

Recommendation: The District should contact the bank to get the rate adjusted.

District Response: We have already done this.

Conclusion: Response accepted.