

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

June 30, 2011

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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, 2011, which collectively comprise the District's basic financial statements 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, 2011, 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 January 17, 2012, on our consideration of Fremont-Mills Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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, Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 seven years ended June 30, 2010, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, 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

January 17, 2012

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,516,305 in fiscal 2010 to \$4,872,849 in fiscal 2011, while General Fund expenditures increased from \$3,992,315 in fiscal 2010 to \$4,022,724 in fiscal 2011. The District's General Fund balance shows an increase of 76.42% from \$1,112,444 in fiscal 2010 to \$1,962,569 in fiscal 2011.
- The increase in General Fund revenues was attributable to an increase in property tax and state grant revenue in fiscal 2011. The slight increase in expenditures was due to annual salary adjustments and inflation.

### 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 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 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 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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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.

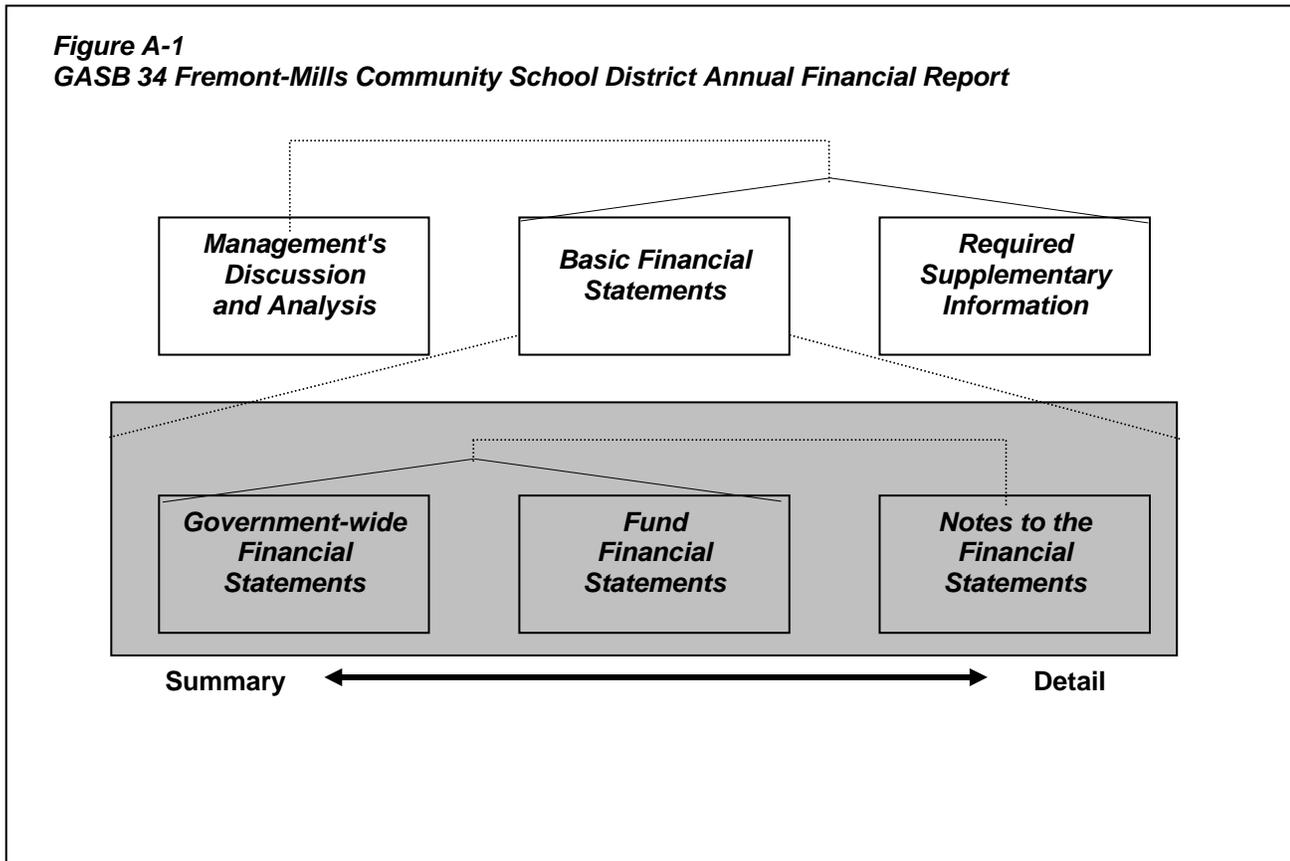


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	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, such as 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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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, 2011 compared to June 30, 2010.

	Condensed Statement of Net Assets						Percentage Change
	Governmental Activities		Business-type Activities		Total School District		
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$	
Current and other assets	6,459,153	5,099,370	27,840	36,086	6,486,993	5,135,456	26.32%
Capital assets	7,901,295	6,952,817	10,651	14,132	7,911,946	6,966,949	13.56%
<b>Total assets</b>	<b>14,360,448</b>	<b>12,052,187</b>	<b>38,491</b>	<b>50,218</b>	<b>14,398,939</b>	<b>12,102,405</b>	<b>18.98%</b>
Long-term liabilities	4,614,557	3,503,147			4,614,557	3,503,147	31.73%
Other liabilities	2,399,831	2,834,808	1,723	2,819	2,401,554	2,837,627	-15.37%
<b>Total liabilities</b>	<b>7,014,388</b>	<b>6,337,955</b>	<b>1,723</b>	<b>2,819</b>	<b>7,016,111</b>	<b>6,340,774</b>	<b>10.65%</b>
Net assets:							
Invested in capital assets net of related debt	4,621,295	3,881,189	10,651	14,132	4,631,946	3,895,321	18.91%
Restricted	1,025,997	850,636			1,025,997	850,636	20.62%
Unrestricted	1,698,768	982,407	26,117	33,267	1,724,885	1,015,674	69.83%
<b>TOTAL NET ASSETS</b>	<b>7,346,060</b>	<b>5,714,232</b>	<b>36,768</b>	<b>47,399</b>	<b>7,382,828</b>	<b>5,761,631</b>	<b>28.14%</b>

The District's combined net assets increased by 28.1% or approximately \$1,621,197, 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 \$175,361 over the prior year. The increase was primarily a result of an increase in amounts restricted for state categorical aid and amounts restricted for the physical plant and equipment property tax levy.

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 – increased approximately \$709,211 or 69.83%. This increase in unrestricted net assets was a result of the District's increased revenue and by decreasing expenses by reducing staff.

Figure A-4 shows the change in net assets for the years ended June 30, 2011 and 2010.

**Figure A-4  
Fremont-Mills Community  
School  
Changes in Net Assets**

	June 30, 2011						Percentage Change
	Governmental Activities		Business-type Activities		Total School District		
	2011	2010	2011	2010	2011	2010	
	\$	\$	\$	\$	\$	\$	
<b>Revenues</b>							
<b>Program Revenues:</b>							
Charges for services	427,223	340,628	105,057	109,066	532,280	449,694	
Operating grants & contributions	1,019,786	955,485	106,461	105,995	1,126,247	1,061,480	
Capital grants & contributions	564,821	1,332,355	0	0	564,821	1,332,355	
<b>General Revenues</b>							
Property taxes	2,021,525	1,837,967			2,021,525	1,837,967	
Income Surtax	311,055	273,055			311,055	273,055	
Local option sales tax	262,055	309,850			262,055	309,850	
Unrestricted state grants	1,750,859	1,607,472			1,750,859	1,607,472	
Unrestricted investment earnings	7,135	18,870	141	184	7,276	19,054	
Other revenue	7,352	4,097			7,352	4,097	
<b>Total Revenues</b>	<b>\$6,371,811</b>	<b>\$6,679,779</b>	<b>\$211,659</b>	<b>\$215,245</b>	<b>\$6,583,470</b>	<b>\$6,895,024</b>	<b>-5%</b>
<b>Expenses:</b>							
Instruction	2,791,735	2,656,044			2,791,735	2,656,044	
Support services	1,298,350	1,374,706			1,298,350	1,374,706	
Non-instructional programs	0	0	222,290	215,568	222,290	215,568	
Other expenditures	649,898	506,046			649,898	506,046	
<b>Total Expenses</b>	<b>\$4,739,983</b>	<b>\$4,536,796</b>	<b>\$222,290</b>	<b>\$215,568</b>	<b>\$4,962,273</b>	<b>\$4,752,364</b>	<b>4%</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$1,631,828</b>	<b>\$2,142,983</b>	<b>-\$10,631</b>	<b>-\$323</b>	<b>\$1,621,197</b>	<b>\$2,142,660</b>	<b>-24%</b>
Net assets beginning of year	5,714,232	3,571,249	47,399	47,722	5,761,631	3,618,971	59%
Net assets end of year	<b>\$7,346,060</b>	<b>\$5,714,232</b>	<b>\$36,768</b>	<b>\$47,399</b>	<b>\$7,382,828</b>	<b>\$5,761,631</b>	<b>28%</b>

Property tax, income surtax, local option sales taxes and unrestricted state grants account for nearly 66.12% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 82.42% of the total expenses.

## Governmental Activities

Revenues for governmental activities were \$6,371,811 and expenses were \$4,739,983. 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**

	<b>Total Cost of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>	<b>Net Cost of Services</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Instruction	2,791,735	2,656,044	1,535,950	1,548,345
Support Services	1,298,350	1,374,706	1,295,874	1,373,783
Other Expenses	649,898	506,046	-103,671	-1,013,800
<b>TOTAL</b>	<b>4,739,983</b>	<b>4,536,796</b>	<b>2,728,153</b>	<b>1,908,328</b>

- The cost financed by users of the District's programs was \$427,223.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,019,786.
- The net cost of governmental activities was financed with \$2,594,635 in property and other taxes and in \$1,750,859 unrestricted state grants.

## Business Type Activities

Revenues for business type activities were \$211,659 and expenses were \$222,290. 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 decrease of \$10,631 in the School Nutrition Fund is attributed increased expenditures. The increased meal prices from the previous year was not enough to offset increased expenditures. Meal prices will need to be adjusted in the 2012 fiscal year.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Fremont-Mills Community School 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 \$3,746,635, or 82.08% above last year's ending fund balances of \$2,057,742. The primary reason for the increase in combined fund balances is due to sale of refunding bonds, the 2003 issue will be called in 2012.

## **Governmental Fund Highlights**

- The General Fund balance increased from \$1,112,444 to \$1,962,569. The District's improving General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues, and reduced expenditures contributed to the increase. Staff reductions allowed the District to keep expenditure growth to less than 1%.
- The Capital Project Fund includes revenues from sales tax and from the physical plant and equipment property tax levy. It also includes amounts donated for construction projects. These revenue streams and the related expenditures are tracked separately in the District's accounting records, but are combined into one Capital Projects Fund for financial reporting. The Physical Plant and Equipment Levy account balance increased from \$69,136 in fiscal 2010 to \$112,907 in fiscal 2011. Revenues increased slightly while expenditures decreased
  - The Statewide Sales Tax account and construction account balances decreased from \$765,654 to \$414,896 due to the completion of construction of an elementary gymnasium/wellness center and payments on sales tax revenue bonds.
- The Debt Service Fund balance increased from \$3,586 at the end of fiscal year 2010 to \$1,254,851 at June 30, 2011. During fiscal year 2011 the District issued \$1,295,000 of crossover refunding bonds. The proceeds from these bonds are being held in the District's name until the old bonds can be called and repaid in fiscal year 2012.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$47,399 at June 30, 2010 to \$36,768 at June 30, 2011, representing a decrease of approximately 22%. For fiscal 2011, the increased meal prices from the previous year was not enough to offset increased expenditures. Prices for meals will be adjusted in the 2012 fiscal year.

The Internal Service Fund balance of \$2,905 at June 30, 2011 is a decrease in the balance of \$4,850 at June 30, 2010 – attributable to normal annual fluctuations.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Fremont-Mills Community School District amended its annual budget once. Budgeted expenditures in the non-instructional programs function were increased \$265,000 to correct an error in the original budget and budgeted expenditures in the other expenditures function were increased \$927,488 for construction costs. Despite the amendment expenditures in the other expenditures function exceeded the amounts budgeted due to the timing of expenditures at year-end.

The District's receipts were \$782,920 more than budgeted receipts, a variance of 13.76%. Most of the variance is the result of more revenues being collected from local sources than anticipated.

Total expenditures were \$1,423,956 less than budgeted, a variance of 18.95%. It is the District's practice to budget expenditures at the maximum authorized spending authority for the all funds. The District then manages or controls 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, 2011, the District had invested \$7,911,946, 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 13.56% 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 \$264,244.

The original cost of the District's capital assets was \$10,638,457. Governmental funds account for \$10,542,222, with the remainder of \$96,235 accounted for in the Proprietary, School Nutrition Fund.

During fiscal year 2011 construction of a \$4 million gymnasium/wellness center was completed.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change
	2011	2010	2011	2010	2011	2010	
Land	40,000	40,000			40,000	40,000	0.00%
Construction in progress	0	2,952,065			0	2,952,065	-100.00%
Buildings	7,191,255	3,328,006			7,191,255	3,328,006	116.08%
Improvements	420,469	431,226			420,469	431,226	-2.49%
Equipment & Furniture	249,571	201,520	10,651	14,132	260,222	215,652	20.67%
	7,901,295	6,952,817	10,651	14,132	7,911,946	6,966,949	13.56%

### Long-Term Debt

At June 30, 2011, the District had \$4,614,557 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 31.73% 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.

During fiscal year 2011 the District issued \$1,295,000 of crossover refunding bonds. The refunding bond proceeds will be used in fiscal year 2012 to call and repay the bonds issued in May 2002. The refunding will reduce the debt service payments over the next eleven years by \$118,631.

The District's bonds have not been rated.

The constitution of the State of Iowa limits the amount of debt school districts can issue to 5% of the assessed value of all taxable property within the district. The District's outstanding bonded and note indebtedness is significantly below its constitutional debt limit of approximately \$6 million.

Figure A-7

**Fremont-Mills Community  
School**  
**Outstanding Long-Term Liabilities**

	Total School District		Percentage Change
	2011	2010	
General Obligation Bonds	4,505,000	3,330,000	35.29%
Capital Loan Notes	70,000	140,000	-50.00%
Termination Benefits	5,382	16,147	-66.67%
Net OPEB Liability	34,175	17,000	101.03%
	<u>4,614,557</u>	<u>3,503,147</u>	<u>31.73%</u>

### **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 October 2011 enrollment increased by 4 resident students. This increase in enrollment students will slightly increase the District's funding for fiscal year 2012-13.

The completion of the Lied Gymnasium and Sports Complex will reduce expenditures for the fiscal year 2011-12 Capital Projects Fund.

### **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, Fremont-Mills Community School, 1114 US Hwy 275, Tabor, Iowa

## BASIC FINANCIAL STATEMENTS

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2011

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents:	4,051,072	27,002	4,078,074
Receivables:			
Property tax:			
Delinquent	27,236	-	27,236
Succeeding year	1,852,732	-	1,852,732
Accounts	69,412	-	69,412
Due from other governments	458,701	-	458,701
Inventories	-	838	838
Capital assets, net of accumulated depreciation	7,901,295	10,651	7,911,946
<b>Total assets</b>	<b>14,360,448</b>	<b>38,491</b>	<b>14,398,939</b>
<b>Liabilities</b>			
Accounts payable	180,667	4	180,671
Salaries and benefits payable	310,804	-	310,804
Accrued interest payable	31,516	-	31,516
Deferred revenue:			
Succeeding year property tax	1,852,732	-	1,852,732
Other	24,112	1,719	25,831
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	1,350,000	-	1,350,000
Capital loan notes	70,000	-	70,000
Termination benefits	5,382	-	5,382
Portion due after one year:			
General obligation bonds payable	3,155,000	-	3,155,000
Net OPEB liability	34,175	-	34,175
<b>Total liabilities</b>	<b>7,014,388</b>	<b>1,723</b>	<b>7,016,111</b>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2011

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Net assets</b>			
Invested in capital assets, net of related debt	4,621,295	10,651	4,631,946
Restricted for:			
Categorical funding	399,166	-	399,166
Management levy	87,430	-	87,430
Physical plant and equipment levy	215,905	-	215,905
Student activities	21,507	-	21,507
School infrastructure	301,989	-	301,989
Unrestricted	<u>1,698,768</u>	<u>26,117</u>	<u>1,724,885</u>
<b>Total net assets</b>	<u><u>7,346,060</u></u>	<u><u>36,768</u></u>	<u><u>7,382,828</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

<b>Functions/Programs</b>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
	\$	\$	\$	\$
<b>Governmental activities:</b>				
<b>Instruction:</b>				
Regular	1,705,388	293,610	678,818	-
Special	407,907	31,826	48,242	-
Other	678,440	100,667	102,622	-
	<u>2,791,735</u>	<u>426,103</u>	<u>829,682</u>	<u>-</u>
<b>Support services:</b>				
Student	71,171	-	-	-
Instructional staff	84,382	-	-	-
Administration	576,503	-	-	-
Operation and maintenance of plant	270,641	1,120	1,013	-
Transportation	295,653	-	343	-
	<u>1,298,350</u>	<u>1,120</u>	<u>1,356</u>	<u>-</u>
<b>Other expenditures:</b>				
Facilities acquisition	37,388	-	-	564,821
Long-term debt interest	218,348	-	2,086	-
AEA flowthrough	186,662	-	186,662	-
Depreciation (unallocated)*	207,500	-	-	-
	<u>649,898</u>	<u>-</u>	<u>188,748</u>	<u>564,821</u>
<b>Total governmental activities</b>	<b>4,739,983</b>	<b>427,223</b>	<b>1,019,786</b>	<b>564,821</b>
<b>Business type activities:</b>				
<b>Non-instructional programs:</b>				
Food service operations	222,290	105,057	106,461	-
<b>Total</b>	<b>4,962,273</b>	<b>532,280</b>	<b>1,126,247</b>	<b>564,821</b>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Statewide sales, services and use tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
<b>Total general revenues</b>				

**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
\$	\$	\$
(732,960)	-	(732,960)
(327,839)	-	(327,839)
(475,151)	-	(475,151)
<u>(1,535,950)</u>	<u>-</u>	<u>(1,535,950)</u>
(71,171)	-	(71,171)
(84,382)	-	(84,382)
(576,503)	-	(576,503)
(268,508)	-	(268,508)
(295,310)	-	(295,310)
<u>(1,295,874)</u>	<u>-</u>	<u>(1,295,874)</u>
527,433	-	527,433
(216,262)	-	(216,262)
-	-	-
(207,500)	-	(207,500)
<u>103,671</u>	<u>-</u>	<u>103,671</u>
(2,728,153)	-	(2,728,153)
<u>-</u>	<u>(10,772)</u>	<u>(10,772)</u>
<u>(2,728,153)</u>	<u>(10,772)</u>	<u>(2,738,925)</u>
1,735,504	-	1,735,504
188,166	-	188,166
97,855	-	97,855
311,055	-	311,055
262,055	-	262,055
1,750,859	-	1,750,859
7,135	141	7,276
7,352	-	7,352
<u>4,359,981</u>	<u>141</u>	<u>4,360,122</u>
1,631,828	(10,631)	1,621,197
<u>5,714,232</u>	<u>47,399</u>	<u>5,761,631</u>
<u>7,346,060</u>	<u>36,768</u>	<u>7,382,828</u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2011

	General	Capital Projects	Debt Service	Nonmajor Governmental	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	2,305,721	364,920	1,252,316	123,465	4,046,422
Receivables:					
Property tax:					
Delinquent	22,376	1,319	2,535	1,006	27,236
Succeeding year	1,467,027	122,403	188,302	75,000	1,852,732
Accounts	68,860	30	-	255	69,145
Due from other governments	281,473	177,228	-	-	458,701
<b>Total assets</b>	<b>4,145,457</b>	<b>665,900</b>	<b>1,443,153</b>	<b>199,726</b>	<b>6,454,236</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	142,645	25,603	-	10,407	178,655
Salaries and benefits payable	310,804	-	-	-	310,804
Deferred revenue:					
Succeeding year property tax	1,467,027	122,403	188,302	75,000	1,852,732
Income surtax	171,663	102,998	-	-	274,661
Other	90,749	-	-	-	90,749
Total liabilities	<b>2,182,888</b>	<b>251,004</b>	<b>188,302</b>	<b>85,407</b>	<b>2,707,601</b>
Fund balances:					
Restricted for:					
Categorical funding	399,166	-	-	-	399,166
Debt service	-	-	1,254,851	-	1,254,851
Management levy	-	-	-	92,812	92,812
Student activities	-	-	-	21,507	21,507
School infrastructure	-	301,989	-	-	301,989
Physical plant and equipment	-	112,907	-	-	112,907
Unassigned	1,563,403	-	-	-	1,563,403
Total fund balances	<b>1,962,569</b>	<b>414,896</b>	<b>1,254,851</b>	<b>114,319</b>	<b>3,746,635</b>
<b>Total liabilities and fund balances</b>	<b>4,145,457</b>	<b>665,900</b>	<b>1,443,153</b>	<b>199,726</b>	<b>6,454,236</b>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

June 30, 2011

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	3,746,635
<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.	7,901,295
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	341,298
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.	(31,516)
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.	2,905
Long-term liabilities, including bonds payable, capital loan notes payable, termination benefits, and other postemployment benefits are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(4,614,557)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>7,346,060</u></u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	General	Capital Projects	Debt Service	Nonmajor Governmental	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,838,582	448,753	188,166	74,607	2,550,108
Tuition	232,964	-	-	-	232,964
Other	52,321	567,497	2,086	106,461	728,365
State sources	2,369,969	62	119	47	2,370,197
Federal sources	379,013	-	-	-	379,013
Total revenues	<u>4,872,849</u>	<u>1,016,312</u>	<u>190,371</u>	<u>181,115</u>	<u>6,260,647</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,670,392	-	-	33,400	1,703,792
Special	406,650	-	-	-	406,650
Other	556,539	-	-	106,330	662,869
	<u>2,633,581</u>	<u>-</u>	<u>-</u>	<u>139,730</u>	<u>2,773,311</u>
Support services:					
Student	70,752	-	-	-	70,752
Instructional staff	84,382	-	-	-	84,382
Administration	555,014	8,122	-	3,874	567,010
Plant operation and maintenance	232,031	5,382	-	18,226	255,639
Transportation	260,302	-	-	11,888	272,190
	<u>1,202,481</u>	<u>13,504</u>	<u>-</u>	<u>33,988</u>	<u>1,249,973</u>
Other expenditures:					
Facilities acquisition	-	1,251,812	-	-	1,251,812
Long-term debt:					
Principal	-	-	190,000	-	190,000
Interest and fiscal charges	-	-	214,996	-	214,996
AEA flowthrough	186,662	-	-	-	186,662
	<u>186,662</u>	<u>1,251,812</u>	<u>404,996</u>	<u>-</u>	<u>1,843,470</u>
Total expenditures	<u>4,022,724</u>	<u>1,265,316</u>	<u>404,996</u>	<u>173,718</u>	<u>5,866,754</u>
Excess (deficiency) of revenues over (under) expenditures	<u>850,125</u>	<u>(249,004)</u>	<u>(214,625)</u>	<u>7,397</u>	<u>393,893</u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	General	Capital Projects	Debt Service	Nonmajor Governmental	Total
	\$	\$	\$	\$	\$
Other financing sources (uses):					
Refunding bonds issued	-	-	1,295,000	-	1,295,000
Operating transfers in	-	-	170,890	-	170,890
Operating transfers out	-	(170,890)	-	-	(170,890)
Total other financing sources (uses)	-	(170,890)	1,465,890	-	1,295,000
Net change in fund balances	850,125	(419,894)	1,251,265	7,397	1,688,893
Fund balances beginning of year, as restated	1,112,444	834,790	3,586	106,922	2,057,742
Fund balances end of year	<u>1,962,569</u>	<u>414,896</u>	<u>1,254,851</u>	<u>114,319</u>	<u>3,746,635</u>

## 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, 2011

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		1,688,893
<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 Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense and loss on disposal of capital assets in the current year, as follows:		
Expenditures for capital assets	1,214,424	
Loss on disposal of capital assets	(5,183)	
Depreciation expense	<u>(260,763)</u>	948,478
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.		111,164
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.		190,000
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.		(3,352)
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	10,765	
Other postemployment benefits	<u>(17,175)</u>	(6,410)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		(1,295,000)
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>(1,945)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>1,631,828</u></u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2011

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
<b>Assets</b>		
Cash and cash equivalents	27,002	4,650
Accounts receivable	-	267
Inventories	838	-
Capital assets, net of accumulated depreciation	<u>10,651</u>	<u>-</u>
<b>Total assets</b>	<u>38,491</u>	<u>4,917</u>
<b>Liabilities</b>		
Accounts payable	4	2,012
Deferred revenue	<u>1,719</u>	<u>-</u>
<b>Total Liabilities</b>	<u>1,723</u>	<u>2,012</u>
<b>Net assets</b>		
Invested in capital assets	10,651	-
Unrestricted	<u>26,117</u>	<u>2,905</u>
<b>Total net assets</b>	<u><u>36,768</u></u>	<u><u>2,905</u></u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
Operating revenue:		
Local sources:		
Charges for service	<u>105,057</u>	<u>11,275</u>
Operating expenses:		
Non-instructional programs:		
Salaries	74,564	-
Benefits	10,648	13,220
Purchased services	7,938	-
Supplies	124,448	-
Depreciation	3,481	-
Other	1,211	-
Total operating expenses	<u>222,290</u>	<u>13,220</u>
Operating income (loss)	<u>(117,233)</u>	<u>(1,945)</u>
Non-operating revenues:		
State sources	2,045	-
Federal sources	104,416	-
Interest income	141	-
Total non-operating revenues	<u>106,602</u>	<u>-</u>
Change in net assets	(10,631)	(1,945)
Net assets beginning of year	<u>47,399</u>	<u>4,850</u>
Net assets end of year	<u><u>36,768</u></u>	<u><u>2,905</u></u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2011

	Enterprise Fund Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	105,279	-
Cash received from services provided to other funds	-	11,275
Cash payments to employees for services	(85,211)	(11,208)
Cash payments to suppliers for goods or services	(128,193)	-
Net cash (used) provided by operating activities	<u>(108,125)</u>	<u>67</u>
Cash flows from non-capital financing activities:		
State grants received	2,045	-
Federal grants received	98,009	-
Net cash provided by non-capital financing activities	<u>100,054</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	141	-
Net increase (decrease) in cash and cash equivalents	(7,930)	67
Cash and cash equivalents at beginning of year	<u>34,932</u>	<u>4,583</u>
Cash and cash equivalents at end of year	<u><u>27,002</u></u>	<u><u>4,650</u></u>
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>		
Operating income (loss)	(117,233)	(1,945)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Commodities used	6,407	-
Depreciation	3,481	-
Decrease (increase) in inventories	310	-
Decrease (increase) in accounts receivable	6	-
(Decrease) increase in accounts payable	(1,312)	2,012
(Decrease) increase in deferred revenue	216	-
Net cash (used) provided by operating activities	<u>(108,125)</u>	<u>67</u>

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

During the year ended June 30, 2011, the District received \$6,407 of federal commodities.

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2011

	Private Purpose Trust Scholarship	Agency
	\$	\$
<b>Assets</b>		
Cash and pooled investments	37,600	11,497
Accrued interest receivable	18	-
	<u>37,618</u>	<u>11,497</u>
<b>Total Assets</b>	<u>37,618</u>	<u>11,497</u>
<b>Liabilities</b>		
Accounts payable	-	499
Other payables	-	10,998
	<u>-</u>	<u>11,497</u>
<b>Total liabilities</b>	<u>-</u>	<u>11,497</u>
<b>Net Assets</b>		
Reserved for scholarships	<u>37,618</u>	<u>-</u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2011

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	609
Interest	354
Total additions	<u>963</u>
Deductions	
Support services:	
Scholarships awarded	<u>1,990</u>
Change in net assets	(1,027)
Net assets beginning of year	<u>38,645</u>
Net assets end of year	<u><u>37,618</u></u>

# FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2011

### 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 attributable 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 not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which 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. Combining schedules are also included for the Capital Project Fund accounts.

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 not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the district's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

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 non-operating 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 non-operating 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 financial statements:

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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 and intangibles, 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
Intangibles	25,000
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
Intangibles	3-10 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 fund balances are classified as follows:

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

Unassigned – All amounts not included in other classifications.

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 are 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. Expenditures exceeded the amount budgeted in the other expenditures function during the year ended June 30, 2011.

**2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2011 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, 2011, the District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
	\$	
US Treasury Note	12,841	November 2011
US Treasury Note	1,237,865	May 2012

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust. Which are valued at an amortized cost of \$1,152,006 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk: The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

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, 2011 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
		\$
Debt Service Fund	Capital Projects Fund	170,890

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, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	40,000	-	-	40,000
Construction in progress	2,952,065	1,064,103	4,016,168	-
Total capital assets not being deprec.	<u>2,992,065</u>	<u>1,064,103</u>	<u>4,016,168</u>	<u>40,000</u>
Capital assets being depreciated:				
Buildings	4,923,190	4,045,007	-	8,968,197
Improvements other than buildings	530,999	14,985	-	545,984
Furniture and equipment	894,303	106,497	12,759	988,041
Total capital assets being deprec.	<u>6,348,492</u>	<u>4,166,489</u>	<u>12,759</u>	<u>10,502,222</u>
Less accumulated depreciation for:				
Buildings	1,595,184	181,758	-	1,776,942
Improvements other than buildings	99,773	25,742	-	125,515
Furniture and equipment	692,783	53,263	7,576	738,470
Total accumulated depreciation	<u>2,387,740</u>	<u>260,763</u>	<u>7,576</u>	<u>2,640,927</u>
Total capital assets being depreciated, net	<u>3,960,752</u>	<u>3,905,726</u>	<u>5,183</u>	<u>7,861,295</u>
Governmental activities capital assets, net	<u>6,952,817</u>	<u>4,969,829</u>	<u>4,021,351</u>	<u>7,901,295</u>
<b>Business type activities:</b>				
Furniture and equipment	97,299	-	1,064	96,235
Less accumulated depreciation	<u>83,167</u>	<u>3,481</u>	<u>1,064</u>	<u>85,584</u>
Business type activities capital assets, net	<u>14,132</u>	<u>(3,481)</u>	<u>-</u>	<u>10,651</u>
Depreciation expense was charged to the following functions:				
				\$
Governmental activities:				
Instruction:				
Regular				364
Other				13,476
Support services:				
Administration services				7,398
Operation and maintenance of plant services				8,981
Transportation				23,044
				<u>53,263</u>
Unallocated depreciation				<u>207,500</u>
Total depreciation expense – governmental activities				<u>260,763</u>
Business type activities:				
Food services				<u>3,481</u>

## 5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
General obligation bonds	3,330,000	1,295,000	120,000	4,505,000	1,350,000
Capital loan notes	140,000	-	70,000	70,000	70,000
Termination benefits	16,147	-	10,765	5,382	5,382
Net OPEB liability	17,000	17,175	-	34,175	-
<b>Total</b>	<b>3,503,147</b>	<b>1,312,175</b>	<b>200,765</b>	<b>4,614,557</b>	<b>1,425,382</b>
Business type activities:					
Net OPEB liability	-	-	-	-	-

### Termination Benefits

The District offered a voluntary early retirement plan to its employees during 2009. Eligible employees must have completed at least fifteen 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.

At June 30, 2011, the District has obligations to one participant with a total liability of \$5,382. Actual early retirement expenditures for the year ended June 30, 2011 totaled \$10,765.

### General Obligation Bonds Payable

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May, 2002			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2012	4.70-5.35	1,320,000	67,330	1,387,330

The May, 2002 bonds will be called and paid on May 1, 2012.

Year Ending June 30,	Bond Issue of August 2008			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2012	5.25	30,000	89,972	119,972
2013	5.00	30,000	88,398	118,398
2014	5.00	30,000	86,898	116,898
2015	5.00	40,000	85,398	125,398
2016	5.00	40,000	83,398	123,398
2017-2021	5.00	220,000	385,990	605,990
2022-2026	4-55-4.70	975,000	280,016	1,255,016
2027-2028	4.75-4.80	525,000	38,032	563,032
		<b>1,890,000</b>	<b>1,138,102</b>	<b>3,028,102</b>

Refunding Bond Issue of November 2010

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2012		-	28,703	28,703
2013	1.15	120,000	28,702	148,702
2014	1.30	125,000	27,323	152,323
2015	1.50	120,000	25,697	145,697
2016	1.90	120,000	23,898	143,898
2017-2021	2.15-3.00	670,000	77,205	747,205
2022	3.15	140,000	4,410	144,410
		<u>1,295,000</u>	<u>215,938</u>	<u>1,510,938</u>

Crossover Bond Refunding

On November 1, 2010, the District issued \$1,295,000 of general obligation refunding bonds with interest rates ranging between 1.15% and 3.15%. The District issued the bonds to refund \$1,225,000 of the outstanding May, 2002 general obligation refunding bonds with interest rates of 4.80% to 5.35%. The District will call and pay the balance of the 2002 bond issue on May 1, 2012.

The refunding reduced total debt service payments over the next eleven years by \$118,631. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$101,409.

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 Capital Projects, Physical Plant and Equipment Levy. 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	
	%	\$	\$	%	\$	\$	\$
2012	4.70	<u>30,000</u>	<u>1,410</u>	4.00	<u>40,000</u>	<u>1,600</u>	<u>73,010</u>

During the year ended June 30, 2011 the District made principal and interest payments totaling \$75,890 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 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were, \$150,992, \$150,944 and, \$144,340 respectively, equal to the required contributions for each year.

## 7. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 53 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	\$
Annual required contribution	40,000
Interest on net OPEB obligation	765
Adjustment to annual required contribution	<u>(590)</u>
Annual OPEB cost	40,175
Contributions made	<u>23,000</u>
Increase in net OPEB obligation	17,175
Net OPEB obligation beginning of year	<u>17,000</u>
Net OPEB obligation end of year	<u>34,175</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$23,000 to the medical plan. Plan members eligible for benefits contributed \$23,000, or 50% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost \$	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation \$
2010	40,000	58%	17,000
2011	40,175	57%	34,175

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$346,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$346,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,390,000, and the ratio of the UAAL to covered payroll was 24.9%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the alternative measurement method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$1,130 per month for retirees less than age 65. The salary increase rate was assumed to be 2.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

## **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 \$186,662 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## 10. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

Program	Amount
	\$
Iowa early intervention block grant	12,252
Returning dropout and dropout prevention program	150,130
Teacher salary supplement	31,426
Educator quality, professional development	16,164
At risk	34,008
Gifted and talented	6,109
Mentoring	1,155
State decategorization grant	1,579
Innovative at risk	6,286
Empowerment	27,410
Preschool	16,269
Core curriculum	5,000
Professional development model core curriculum	14,054
Market factor	9
Carl Trust donation	77,315
	399,166

## 11. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund type Definitions, was implemented during the year ended 2011. The effect of fund type reclassifications is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
	\$	\$
Balances June 30, 2010, as previously reported	765,654	69,136
Change in fund type classification per implementation of GASB Statement No. 54	69,136	(69,136)
Balances July 1, 2010, as restated	834,790	-

REQUIRED SUPPLEMENTARY INFORMATION

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,511,437	105,198	3,616,635	3,000,189	3,000,189	616,446
State sources	2,370,197	2,045	2,372,242	2,495,197	2,495,197	(122,955)
Federal sources	379,013	104,416	483,429	194,000	194,000	289,429
Total revenues	<u>6,260,647</u>	<u>211,659</u>	<u>6,472,306</u>	<u>5,689,386</u>	<u>5,689,386</u>	<u>782,920</u>
Expenditures/Expenses						
Instruction	2,773,311	-	2,773,311	3,633,000	3,633,000	859,689
Support services	1,249,973	-	1,249,973	1,895,000	1,895,000	645,027
Non-instructional programs	-	222,290	222,290	20,000	285,000	62,710
Other expenditures	1,843,470	-	1,843,470	772,512	1,700,000	(143,470)
Total expenditures/expenses	<u>5,866,754</u>	<u>222,290</u>	<u>6,089,044</u>	<u>6,320,512</u>	<u>7,513,000</u>	<u>1,423,956</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	393,893	(10,631)	383,262	(631,126)	(1,823,614)	2,206,876
Other financing sources (uses) net	<u>1,295,000</u>	<u>-</u>	<u>1,295,000</u>	<u>500</u>	<u>500</u>	<u>1,294,500</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures/ expenses and other financing uses	1,688,893	(10,631)	1,678,262	(630,626)	(1,823,114)	3,501,376
Balance beginning of year	<u>2,057,742</u>	<u>47,399</u>	<u>2,105,141</u>	<u>700,478</u>	<u>700,478</u>	<u>1,404,663</u>
Balance end of year	<u><u>3,746,635</u></u>	<u><u>36,768</u></u>	<u><u>3,783,403</u></u>	<u><u>69,852</u></u>	<u><u>(1,122,636)</u></u>	<u><u>4,906,039</u></u>

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2011

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 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 function level, not by fund. The Code of Iowa also provides 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 expenditures by \$1,192,488.

During the year ended June 30, 2011, expenditures in the other expenditures function exceeded the amount budgeted.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT  
Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets ( a ) \$	Actuarial Accrued Liability (AAL) ( b ) \$	Unfunded AAL (UAAL) ( b-a ) \$	Funded Ratio ( a/b ) %	Covered Payroll ( c ) \$	UAAL as a Percentage of Covered Payroll ( (b-a)/c ) %
2010	July 1, 2009	-	346,000	346,000	0.0%	1,326,000	26.1%
2011	July 1, 2009	-	346,000	346,000	0.0%	1,390,000	24.9%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2011

<b>Assets</b>	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Cash and pooled investments	91,806	31,659	123,465
Receivables:			
Property tax:			
Delinquent	1,006	-	1,006
Succeeding year	75,000	-	75,000
Accounts	-	255	255
<b>Total assets</b>	<u>167,812</u>	<u>31,914</u>	<u>199,726</u>
<b>Liabilities &amp; Fund Balances</b>			
Liabilities:			
Accounts payable	-	10,407	10,407
Deferred revenue:			
Succeeding year property tax	75,000	-	75,000
Total liabilities	<u>75,000</u>	<u>10,407</u>	<u>85,407</u>
Fund balances:			
Restricted for:			
Management levy	92,812	-	92,812
Student activities	-	21,507	21,507
Total fund balances	<u>92,812</u>	<u>21,507</u>	<u>114,319</u>
<b>Total liabilities and fund balances</b>	<u>167,812</u>	<u>31,914</u>	<u>199,726</u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	Special Revenue Funds		Total
	Management Levy	Student Activity	
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	74,607	-	74,607
Other	5,714	100,747	106,461
State sources	47	-	47
Total revenues	<u>80,368</u>	<u>100,747</u>	<u>181,115</u>
Expenditures:			
Current:			
Instruction:			
Regular	33,400	-	33,400
Other	-	106,330	106,330
Support services:			
Administration	3,874	-	3,874
Operation and maintenance of plant	18,226	-	18,226
Transportation	11,888	-	11,888
Total expenditures	<u>67,388</u>	<u>106,330</u>	<u>173,718</u>
Net change in fund balance	12,980	(5,583)	7,397
Fund balances beginning of year, as restated	<u>79,832</u>	<u>27,090</u>	<u>106,922</u>
Fund balances end of year	<u><u>92,812</u></u>	<u><u>21,507</u></u>	<u><u>114,319</u></u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Capital Project Accounts

June 30, 2011

Assets	Capital Projects			Total
	Construction	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
	\$	\$	\$	\$
Cash and pooled investments	-	246,614	118,306	364,920
Receivables:				
Property tax:				
Delinquent	-	-	1,319	1,319
Succeeding year	-	-	122,403	122,403
Accounts	30	-	-	30
Due from other governments	-	74,230	102,998	177,228
<b>Total assets</b>	<b>30</b>	<b>320,844</b>	<b>345,026</b>	<b>665,900</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	5,030	13,855	6,718	25,603
Deferred revenue:				
Succeeding year property tax	-	-	122,403	122,403
Income surtax	-	-	102,998	102,998
Total liabilities	5,030	13,855	232,119	251,004
Fund balances:				
Restricted for:				
School infrastructure	(5,000)	306,989	-	301,989
Physical plant and equipment	-	-	112,907	112,907
Total fund balances	(5,000)	306,989	112,907	414,896
<b>Total liabilities and fund balances</b>	<b>30</b>	<b>320,844</b>	<b>345,026</b>	<b>665,900</b>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	Capital Projects			Total
	Construction	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	-	262,055	186,698	448,753
Other	325,025	242,261	211	567,497
State sources	-	-	62	62
Total revenues	<u>325,025</u>	<u>504,316</u>	<u>186,971</u>	<u>1,016,312</u>
Expenditures:				
Current:				
Support services:				
Administration services	-	-	8,122	8,122
Operation and maintenance of plant	-	-	5,382	5,382
Other expenditures:				
Facilities acquisition	1,189,141	13,865	48,806	1,251,812
Total expenditures	<u>1,189,141</u>	<u>13,865</u>	<u>62,310</u>	<u>1,265,316</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(864,116)</u>	<u>490,451</u>	<u>124,661</u>	<u>(249,004)</u>
Other financing sources (uses):				
Intrafund transfers	460,744	(455,744)	(5,000)	-
Operating transfers out	-	(95,000)	(75,890)	(170,890)
Total other financing sources (uses)	<u>460,744</u>	<u>(550,744)</u>	<u>(80,890)</u>	<u>(170,890)</u>
Net change in fund balance	(403,372)	(60,293)	43,771	(419,894)
Fund balances beginning of year, as restated	<u>398,372</u>	<u>367,282</u>	<u>69,136</u>	<u>834,790</u>
Fund balance end of year	<u>(5,000)</u>	<u>306,989</u>	<u>112,907</u>	<u>414,896</u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Band fundraiser	366	77	5,854	(5,411)
Drill/dance team	-	1,273	810	463
Academic achievement	734	-	-	734
Annual	3,134	2,508	5,051	591
Art club	870	1,102	1,638	334
Athletics	-	51,353	49,914	1,439
Cheerleaders	1,436	11,416	10,948	1,904
Class of 2010	247	-	-	247
Class of 2011	1,619	-	1,562	57
Class of 2012	639	9,059	7,668	2,030
Class of 2013	10	6,766	3,572	3,204
Class of 2014	6	79	-	85
FFA	1,539	6,290	4,840	2,989
FHA	1,001	-	710	291
Spanish club	1,384	2,427	3,638	173
High school student council	2,063	2,830	3,024	1,869
Knight club	-	321	248	73
Middle school athletics	1,152	1,329	2,560	(79)
Middle school student council	2,883	-	-	2,883
National Honor Society	500	-	209	291
Speech and drama	5,310	1,735	2,496	4,549
Thespians	156	-	65	91
Audio visual club	14	17	-	31
Interest on investments	1,517	145	-	1,662
Girls BB club	130	-	-	130
SPLASH club	380	460	-	840
Little Knights FB	-	596	903	(307)
Basketball club	-	964	620	344
Total	<u>27,090</u>	<u>100,747</u>	<u>106,330</u>	<u>21,507</u>

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

Year ended June 30, 2011

	Employee Vending \$	Booster Club \$	Total \$
Balance beginning of year	5,205	6,216	11,421
Additions:			
Collections	2,893	5,538	8,431
Deductions:			
Miscellaneous	2,934	5,920	8,854
Balance end of year	<u>5,164</u>	<u>5,834</u>	<u>10,998</u>

## FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

For the Last Eight Years

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:								
Local sources:								
Local tax	2,550,108	2,387,966	2,223,934	2,006,636	1,856,979	1,833,037	1,716,453	1,661,648
Tuition	232,964	219,851	188,907	188,041	164,042	122,109	116,356	110,342
Other	728,365	1,488,194	543,588	199,344	107,618	112,525	158,443	135,652
State sources	2,370,197	2,115,636	2,427,980	2,324,693	2,074,964	2,045,949	1,816,451	1,664,295
Federal sources	379,013	447,318	161,352	150,546	158,499	161,535	204,699	156,975
Total revenues	<u>6,260,647</u>	<u>6,658,965</u>	<u>5,545,761</u>	<u>4,869,260</u>	<u>4,362,102</u>	<u>4,275,155</u>	<u>4,012,402</u>	<u>3,728,912</u>
Expenditures:								
Instruction:								
Regular	1,703,792	1,660,170	1,785,802	1,824,325	1,820,059	1,737,068	1,794,649	1,692,240
Special	406,650	476,852	517,949	477,563	410,197	475,025	462,817	355,366
Other	662,869	515,936	528,882	444,284	446,314	413,821	333,128	295,634
Support services:								
Student	70,752	71,116	47,179	39,456	31,771	40,270	52,710	50,733
Instructional staff	84,382	118,237	95,906	57,898	73,725	66,614	39,275	69,075
Administration	567,010	543,797	586,257	564,204	561,353	507,897	431,773	456,536
Operation and maintenance	255,639	295,224	323,812	301,516	307,586	339,895	430,292	315,387
Transportation	272,190	296,985	245,711	230,001	301,912	237,813	282,241	192,308
Non-instructional programs	-	-	4,370	1,788	9,322	-	2,449	7,850
Other expenditures:								
Facilities acquisition	1,251,812	2,564,572	1,038,386	39,002	109,520	164,994	125,328	1,744,213
Long-term debt:								
Principal	190,000	180,000	160,000	135,000	135,000	125,000	120,000	115,000
Interest and other charges	214,996	178,633	162,719	97,865	103,890	109,220	115,510	118,457
AEA flowthrough	186,662	187,488	168,022	153,365	139,070	135,941	124,327	126,078
Total expenditures	<u>5,866,754</u>	<u>7,089,010</u>	<u>5,664,995</u>	<u>4,366,267</u>	<u>4,449,719</u>	<u>4,353,558</u>	<u>4,314,499</u>	<u>5,538,877</u>

See accompanying independent auditor's report.

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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 17, 2012. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fremont-Mills Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fremont-Mills Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items 11-II-A, 11-II-B and 11-II-C to be 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 and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 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.

Fremont-Mills Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Fremont-Mills Community School District's responses and, accordingly, we express no opinion on them.

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, and 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

January 17, 2012

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2011

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

11-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, payroll processing, preparing and posting general journal entries, 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: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

11-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

11-I-C Supporting Documentation: We tested two credit card payments totaling \$2,908. Of the \$2,908 total payment \$238 was not supported by detailed invoices or receipts.

Recommendation: The District should receive detailed receipts for all credit card charges. The detailed receipts should be reconciled to the credit card statement each month.

District Response: We will require that employees using the District's credit card turn in receipts for all transactions.

Conclusion: Response accepted.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2011

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

Instances of Noncompliance:

No matters were reported.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

11-II-A Certified Budget: Expenditures for the year ended June 30, 2011, exceeded the certified budget amount 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: We did amend our budget but year-end expenditures were more than anticipated.

Conclusion: Response accepted.

11-II-B Questionable Expenditures: No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

11-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.

11-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>
		\$
Keith Barber, Board Member, Sales Manager at A & M Green Power	Parts, repairs and equipment	4,968
Susan Shepherd, Board Secretary, Spouse owns Shepherd Construction	repairs	1,362

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.

Recommendation: Business with district officials is not a conflict of interest if bids are taken or total amount is less than \$2,500. The District should consult legal council regarding the transactions with board member Keith Barber.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

11-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.

11-II-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted. We did note that the minutes were not published in a timely manner 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.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting (continued):

District Response: We will get the minutes to the publisher sooner.

Conclusion: Response accepted.

11-II-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on the Certified Enrollment Certification Form for October 2010, was overstated by six students.

Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

District Response: We have contacted these departments.

Conclusion: Response accepted.

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

11-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

11-II-J Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.

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

11-II-L Statewide Sales, Services and Use Tax: No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting (continued):

Beginning balance	\$	\$
		367,282
Revenues/transfers in:		
Statewide sales, services and use tax revenue	262,055	
Interest	2,465	
Donations	<u>239,796</u>	504,316
Expenditures/transfers out:		
School infrastructure construction	13,865	
Transfer to construction capital projects account	455,744	
Transfers to debt service fund	<u>95,000</u>	<u>564,609</u>
Ending balance		<u><u>306,989</u></u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E of 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
	<u>\$</u>	<u>\$</u>
Debt Service Levy	.78839	95,000

11-II-M Deficit Balances: The Student Activity Fund has several accounts with deficit balances at June 30, 2011.

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

District Response: The band account has a deficit because a deposit was incorrectly placed in the General Fund. This will be corrected in fiscal year 2012.

Conclusion: Response accepted.