

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

FRANCIS HOWELL R-III SCHOOL DISTRICT

June 30, 2011

FRANCIS HOWELL R-III SCHOOL DISTRICT

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Independent Auditors' Report

Board of Education
Francis Howell R-III School District

We have audited the accompanying financial statements of the governmental activities and each major fund of the Francis Howell R-III School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Francis Howell R-III School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011, on our consideration of the Francis Howell R-III School District's internal control over financial reporting and on 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 20, budgetary comparison information on pages 54 through 55 and Schedule of Funding Progress – Other Postemployment Benefit Obligation on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Francis Howell R-III School District's financial statements as a whole. The budgetary comparison information on pages 60 through 61 is presented for purposes of additional analysis and is not a required part of the financial statements. The budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kerker, Eck + Brauchel LLP

St. Louis, Missouri
December 7, 2011

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The discussion and analysis of the Francis Howell R-III School District's (the District) financial performance provides a narrative overview of the District's financial activities for the fiscal year ended June 30, 2011. The management's discussion and analysis should not be taken as a replacement for the financial statements and supplementary information but should be read in conjunction with them to enhance understanding of the District's financial performance.

Guiding Financial Principles

The Board of Education and Administration of the District are committed to proactive management of the financial resources entrusted to it by the Francis Howell community. This trust is strengthened by providing full disclosure to the Board and community regarding the District's financial condition. The Administration utilizes conservative fiscal management practices and a value-driven operating philosophy to maintain the District's strong financial position.

Financial Highlights

The following are key financial highlights on a budgetary (cash) basis for the fiscal year ended June 30, 2011.

- The General Fund had \$73,026,842 in revenues and \$67,225,196 in expenditures. The General Fund did not transfer any funds to the Special Revenue (Teachers') Fund; however, it did transfer \$1,033,100 into the Capital Projects Fund. The General Fund's balance increased \$4,768,546 from 2010 on a cash basis.
- The Special Revenue (Teachers') Fund had \$113,684,944 in revenues and expenditures. The Special Revenue Fund maintained a zero balance for 2011.
- All operating funds combined (General and Special Revenue Funds) had \$186,711,786 in revenues and \$180,910,140 in expenditures. The balances in these school purpose funds combined increased \$4,768,546 over 2010 on a cash basis.
- The Debt Service Fund had \$27,637,040 in revenues and other financing sources and \$17,798,629 in expenditures. The Debt Service Fund balance increased \$9,838,411 over 2010 on a cash basis. The increase in fund balance can be attributed to the crossover refunding of general obligation bonds during the year. The fund continues to have sufficient balances to meet all principal and interest payments, allowing the District to maintain its current debt service levy.

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

- The Capital Projects Fund had \$33,679,737 in revenues and other financing sources and \$29,495,288 in expenditures. The Capital Projects Fund balance increased \$4,184,449 over 2010 on a cash basis. This increase is primarily attributable the sale of \$29.3 million in Build America Bonds this fiscal year and a transfer of \$1,033,100 from the General Fund which was partially offset by expenditures related to the various construction projects in the District which were financed by general obligation bonds sold in the prior fiscal year.

Revenue

- Total revenues and other financing sources for the District were \$246,995,461 for the 2011 fiscal year versus \$208,610,670 for the prior fiscal year, or an increase of \$38,384,791 on a cash basis. Local revenues accounted for \$142,967,624 or 57.88% of all revenues and sources for the 2011 fiscal year versus \$135,677,603 for the prior fiscal year (65.04%).

The \$38 million increase in revenue is primarily attributable to the following items.

1. An increase of \$7 million in Local revenue due to a \$.25 increase in the property tax rate set by the District.
2. An increase of \$20 million in other financing sources which included the sale of \$29 million in Build America Bonds less the \$9.2 million of Qualified School Construction Bonds.
3. An increase of \$11 million due to the refunding of general obligation bond issues.

Expenditures

- The District had \$210,405,426 in expenditures for the 2011 fiscal year versus \$199,297,817 for the prior fiscal year, or an increase of \$11,107,609. These numbers do not include expenditures related to servicing debt.

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The \$11 million increase in expenditures is primarily attributable to the following:

1. Certified salaries and related benefits (including insurances) increased by approximately \$2.5 million over the prior year.
2. There was an increase in energy services of approximately \$500,000.
3. The Capital Projects Fund, which includes the Bond Fund, accounted for the majority of the increase in expenditures due to the construction projects taking place at Francis Howell High School, Francis Howell North High School and Daniel Boone Elementary School. The expenditures for these funds increased \$8 million in FY2011 compared to the prior year.

Using this Annual Report

This annual report consists of four parts: (1) the management's discussion and analysis section; (2) the basic financial statements and notes to the financial statements; (3) required supplementary information; and (4) supplementary information.

The management's discussion and analysis section serves as an introduction to the District's basic financial statements. The basic financial statements include district-wide and fund financial statements, each of which presents the District's financial information from different perspectives.

The district-wide financial statements consist of the Statement of Net Assets and the Statement of Activities, found on pages 21 and 22. These statements provide information about the activities of the Francis Howell R-III School District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 23. For governmental activities, the financial statements tell how these services were financed in the short term as well as what resources remain for future spending. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The District maintains its general ledger on the cash basis of accounting, meaning that revenues are recognized when the District receives the money and the expenses are recognized when checks are issued. To meet GASB Statement Number 34, the District's annual report uses both the modified and full accrual methods of accounting. Because of this difference, budget reports will differ from the annual report.

The District separates the food service, student activity and community service funds from the general fund during the budget process. The Annual Secretary of the Board Report (ASBR) combines all of these funds together when reporting them to the Missouri Department of Elementary and Secondary Education.

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The district-wide financial statements outline functions of the District that are principally supported by property taxes and various governmental activities. In the Statement of Net Assets and the Statement of Activities, the District reports governmental activities including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The District does not have any business-type activities.

The district-wide financial statements look at all the financial transactions of the District and allow the reader to assess how well the District performed financially during fiscal year 2011. The Statement of Net Assets and the Statement of Activities report all assets and liabilities and revenues and expenses using the accrual basis of accounting. This basis is similar to the accounting basis used by most private-sector companies. Statements prepared on the accrual basis take into account all of the current year revenues and expenses regardless of when cash is received or paid out.

The relationship between revenues and expenditures can be viewed as the District's operating results. It is important to note, however, that the District's goal is to educate its students, not to generate profits as commercial entities do. Other non-financial factors, such as the quality of the education services provided, must be considered when assessing the overall health of the District.

The Statement of Net Assets presents the financial position of the District at the end of the fiscal year and reports the District's net assets and changes in those assets and liabilities or claims against those assets. The difference between total assets and total liabilities – net assets – is one indicator of whether the overall financial conditions of the District has improved or deteriorated during the year.

The District's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED June 30, 2011

Table 1 provides a summary of the District's net assets for 2011 and 2010.

Table I
Condensed Statements of Net Assets
(in millions)
June 30,

	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 120.164	\$ 101.853
Capital assets	205.757	180.336
Deferred Charges (net of amortization)	<u>1.368</u>	<u>1.253</u>
Total assets	<u>\$ 327.289</u>	<u>\$ 283.442</u>
Liabilities		
Noncurrent liabilities	\$ 194.007	\$ 165.413
Other liabilities	<u>27.184</u>	<u>22.380</u>
Total liabilities	221.191	187.793
Net assets		
Invested in capital assets, net of related debt	41.405	42.791
Restricted	20.521	16.094
Unrestricted	<u>44.172</u>	<u>36.764</u>
Total net assets	<u>106.098</u>	<u>95.649</u>
Total liabilities and net assets	<u>\$ 327.289</u>	<u>\$ 283.442</u>

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

A significant portion of the District's net assets (39.0%) is invested in capital assets (e.g., land, buildings and improvements, vehicles, and furniture and equipment), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to its students. It is important to note that these assets are not available for future spending. Similarly, the funds to pay the debt related to the acquisition of these assets must be provided from other sources, since the assets themselves cannot be liquidated to satisfy these liabilities.

Total assets of the District's governmental activities amounted to \$327,288,592 with total liabilities of \$221,190,178. Net assets as of June 30, 2011 equaled \$106,098,414, an increase of \$10,449,329 or 10.9% over the 2010 balance.

The results of this year's operations for the District as a whole are reported in the Statement of Activities, found on page 22 of this report. The Statement of Activities explains the sources of resources (revenues, charges for services, grants and contributions) and the uses of resources (instructional and support services expenses) and shows how the District's net assets changed during the most recent fiscal year.

All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Table 2 on the following page shows the changes in net assets for fiscal year 2011 and 2010.

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

Table II
Changes in Net Assets for Government-Wide Activities
(in millions)
Year ended June 30,

	<u>2011</u>	<u>2010</u>
Program revenues		
Charges for services	\$ 12.443	\$ 12.226
Operating grants and contributions	22.147	27.044
General revenue		
Property taxes and other county taxes	117.173	107.778
Sales taxes	13.060	12.939
State aid	39.151	37.664
Investment earnings	0.605	1.774
Other	1.688	0.720
Total revenue	<u>206.267</u>	<u>200.145</u>
Program expenses		
Instruction	117.129	116.592
Pupil services	7.370	7.431
Improvement of instruction	3.638	4.507
Media services	2.447	2.264
Board of Education and executive administration services	1.656	1.602
Building level administration	9.099	8.601
Operation of plant	13.305	12.535
Pupil transportation	10.574	10.264
Food services	4.564	4.801
Business and central services	9.742	7.978
Community services	7.248	7.802
Facility acquisition and construction	1.121	0.557
Debt administration	7.925	8.129
Total expenses	<u>195.818</u>	<u>193.063</u>
 Increase in net assets	 <u>\$ 10.449</u>	 <u>\$ 7.082</u>
 Ending net assets	 <u>\$ 106.098</u>	 <u>\$ 95.649</u>

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The District's total accrual-based revenues for the fiscal year ended June 30, 2011 were \$206.3 million versus \$200.1 million at June 30, 2010. The \$6.2 million increase in revenue is primarily attributable to an increase in property taxes.

The total cost of all programs and services was \$195.8 million for the fiscal year ended June 30, 2011 versus \$193.1 million at June 30, 2010, or an increase of \$2.7 million.

Governmental Activities - Table 3 below shows the cost of each of the District's functions, as well as each function's net cost (i.e., the total cost of the program less revenue generated by program-related activities).

Table III
Total and Net Costs of Governmental Activities
(in millions)
Year ended June 30,

	2011		2010	
	Total cost of services	Net cost of services	Total cost of services	Net cost of services
Instruction	\$ 117.129	\$ 97.159	\$ 116.592	\$ 93.164
Pupil services	7.370	7.371	7.431	7.433
Improvement of instruction	3.638	3.213	4.507	3.382
Media services	2.447	2.447	2.264	2.264
Board of Education and executive administration	1.656	1.656	1.602	1.602
Building level administration	9.099	9.099	8.601	8.601
Operation of plant	13.305	13.305	12.535	12.535
Pupil transportation	10.574	8.591	10.264	7.328
Food services	4.564	(0.624)	4.801	(0.387)
Business and central services	9.742	9.742	7.978	7.978
Community services	7.248	0.224	7.802	1.207
Facility acquisition and construction	1.121	1.121	0.557	0.557
Debt administration	7.925	7.925	8.129	8.129
Total	\$ 195.818	\$ 161.229	\$ 193.063	\$ 153.793

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The dependence upon tax revenues is apparent. General revenue sources, including local property taxes, funded 87.7% of the total cost of program services for fiscal year 2011. The community, as a whole, provides the primary support for the Francis Howell R-III School District through local property taxes.

Following are descriptions of the District's major functional expense categories.

Instruction includes activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupil Services includes attendance, guidance, health, psychological, speech, and audio assistance.

Improvement of Instruction includes the activities involved with assisting staff with the content and process of teaching to pupils.

Media Services includes the activities concerned with the use of all teaching and learning resources, including hardware and content materials.

Board of Education and Executive Administration includes the activities of the elected or appointed body as well as the overall general administration of the local education agency.

Building Level Administration includes expenditures related to the administration of the individual school buildings. These expenditures provide for the building instructional leadership from the school principals and assistant principals. In addition, this includes expenditures for site administrative support to run the day-to-day operations of each building.

Business and Central Services includes expenditures associated with administrative and financial supervision of the District. It also includes expenditures related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public. Finally, it includes the support for the Academic department and Human Resources department of the District.

Operation of Plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Food Services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

Community Services includes expenditures related to student activities provided by the District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement. These services also include our early childhood childcare programs and elementary before and after school care programs.

Facility Acquisition and Construction includes any expenditures relating to the construction of, renovation of, or equipping of any District building.

Debt Administration involves the transactions associated with the payment of interest and other related charges to the debt of the District.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements. The fund financial statements are prepared on the modified accrual basis of accounting. This basis considers revenue earned if it is both measurable and available (within 60 days of the end of the fiscal year). Expenditures are recorded at the time the liability is incurred.

The analysis of the District's major funds begins on page 23. Fund financial reports provide detailed information about the District's major funds. A fund is a grouping of related accounts used to keep track of specific sources of funding and spending on particular programs. The District uses fund accounting to ensure compliance with reporting requirements of the Missouri Department of Elementary and Secondary Education. The District uses different funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General (Incidental) Fund, Special Revenue (Teachers') Fund, Debt Service Fund, and Capital Projects Fund.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

The narrower focus of the fund financial statements makes it useful to compare the information presented therein with that of governmental activities in the district-wide financial statements. This comparison provides readers with a better understanding of the long-term impact of the District's short-term financing decisions. Both the district-wide and fund financial statements include reconciliations to facilitate a comparison between the two statements. These reconciliations are found on pages 24 and 26 of this report, respectively.

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities in that they attempt to recover costs through charges to the user. An example of a proprietary fund would be the Internal Service Fund (Self-Funded Health Insurance Plans).

Operating Funds (General, Special Revenue Funds Combined) - Budgeting Highlights

The District's budget is prepared according to Missouri law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

The District amended its general and special revenue fund budgets in November 2010, based on known changes in revenue and expenditures. However, when comparing the original budget to the final budget, expenditures decreased by \$672,111 (0.4%) and revenues increased by \$3,806,467 (2.1%).

In comparing actual revenues to the ending budget amount in the general and special revenue funds, the actual revenue was \$186,711,786. This was a decrease of \$552,984 or 0.3% under the District's final budget amount. Actual expenditures in the general and special revenue funds were \$180,910,140, or \$9,286,306 under the final budget amount. The District finished the year with a surplus in its general and special revenue funds of \$4,768,546.

Statements showing the original budget and the final budget amounts compared to the District's actual activity for the General Fund and the Special Revenue Fund are provided on page 54 and 55 of this report.

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year 2011, the District had \$205,780,920 invested in land, buildings, furniture, equipment, and vehicles (net of depreciation) versus \$180,336,408 at the end of 2010. The \$25,444,512 increase is primarily attributable to the construction in progress amount which includes expenditures for the Francis Howell High School, Francis Howell North High School and Daniel Boone Elementary construction projects.

Table 4 shows fiscal year 2011 and 2010 capital asset balances.

Table IV
Capital Assets (net of accumulated depreciation)
June 30,

	2011	2010
Land	\$ 6,545,623	\$ 6,545,623
Construction in progress	43,237,143	15,340,147
Land improvements	5,072,958	4,878,072
Buildings	143,421,000	146,068,370
Vehicles and equipment	7,479,982	7,504,196
Totals	<u>\$ 205,756,706</u>	<u>\$ 180,336,408</u>

Debt Administration

At June 30, 2011, the District had \$183,798,987 general obligation bonds outstanding. The general obligation bonds were used to construct, equip, and renovate buildings in the District. During 2011, the District issued \$29,315,000 in Build America Bonds. Proceeds from these bonds will be used for continuing construction on Francis Howell High School, Francis Howell North High School and Daniel Boone Elementary School. The District also issued \$11,575,000 in General Obligation Refunding Bonds. Additional information about the District's general obligations bonds is provided in Note E to the financial statements.

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED June 30, 2011

Table 5 shows outstanding General Obligation Bonds at June 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
General obligation bonds		
Series 2011	\$ 9,940,000	\$ -
Series 2010B	29,315,000	-
Series 2010A	1,635,000	-
Series 2009A	9,185,000	9,185,000
Series 2009	40,000,000	40,000,000
Series 2008	13,805,000	18,540,000
Series 2005	22,735,000	23,200,000
Series 2004	24,385,000	25,960,000
Series 2003A	5,865,000	6,650,000
Series 2002C	2,210,000	2,705,000
Series 2002B	10,935,000	11,035,000
Series 2002A	-	1,635,000
Series 2001	1,583,236	1,583,236
Series 1999A	2,498,340	2,498,340
Series 1998C	9,707,411	9,707,411
Series 1993	-	1,650,000
	<u> </u>	<u> </u>
Total	<u>\$ 183,798,987</u>	<u>\$ 154,348,987</u>

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

Current Financial Issues and Concerns

Francis Howell R-III School District's mission is to be a professional learning community where all students reach their full potential. The District envisions that it will accomplish this mission by becoming an educational leader that builds excellence through a collaborative culture that values students, parents, employees, and the community as partners in learning.

This partnership is evident in the tremendous support the community provides for the operation of District schools, as evidenced by the data contained in this report. General revenue sources, primarily property taxes, provide almost 87% of the District's total revenue. The strong financial support of the Francis Howell community makes it possible for the District to deliver a quality educational program and still maintain sufficient financial resources to cash flow its operations without short-term borrowing. The District is proud of the support its community has shown for the public schools.

The Board and Administration realize, however, that the Francis Howell community shoulders a substantial tax burden in support of its public schools. With only 13.25% of the District's assessed valuation as of December 2010 coming from business and industry, the majority of this burden falls on the local homeowner. Historically, the Board has voluntarily rolled back its operating tax levy by \$0.25 during fiscal years 2004-2009. This translated into a reduction of over \$30 million in local property taxes over the six year period. However, for FY2011 the District chose to assess the \$0.25 rollback. The District also assessed the \$.20 special purpose levy which was approved by voters in August of 2008, but will sunset after 2013. The District continues to experience negative reassessment due to the failing economy.

The 2010-11 fiscal year is the fifth year of the SB287 funding formula. The District has continued to receive additional state aid as a result of the new formula due to the General Assembly using federal stimulus monies to overcome state budget shortfalls. However, the State of Missouri was not able to fully fund the formula in FY2011, resulting in a 2% reduction in the District's basic state aid. Missouri's economy is showing signs of modest recovery, but the loss of federal stimulus monies next fiscal year makes it likely the District will see greater reductions in state aid. Any shortfall in future state revenue will impact the District's ability to completely fund its instructional programs, placing further stress on Francis Howell community members, particularly local homeowners. In addition, the District continues to experience a decline in its student population which subsequently affects the District's average daily attendance and state aid calculation.

FRANCIS HOWELL R-III SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2011

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kevin F. Supple, Chief Financial Officer, at the Francis Howell School District Administration Building, 4545 Central School Road, Saint Charles, Missouri 63304.

FRANCIS HOWELL R-III SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 54,817,150
Property taxes receivable, net of allowance for uncollectibles of \$59,355	2,908,423
Other receivables	
Local	2,679,382
Federal	1,302,958
Prepaid items	983,645
Other assets	1,368,486
Restricted cash and investments	57,471,840
Capital assets	
Land	6,545,623
Construction in progress	43,237,143
Other capital assets, net of accumulated depreciation	155,973,940
	<hr/>
TOTAL ASSETS	\$ 327,288,590
LIABILITIES	
Accounts payable	\$ 4,070,448
Salaries payable	437,388
Medical and dental benefits payable	3,340,488
Interest payable	15,796,441
Other postemployment benefit obligation	3,539,400
Noncurrent liabilities	
Due within one year	10,002,711
Due in more than one year	184,003,302
	<hr/>
Total liabilities	221,190,178
NET ASSETS	
Invested in capital assets, net of related debt	41,404,969
Restricted for:	
Debt service	20,441,934
Capital projects	79,370
Unrestricted	44,172,139
	<hr/>
Total net assets	106,098,412
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 327,288,590

The accompanying notes are an integral part of this statement.

FRANCIS HOWELL R-III SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year ended June 30, 2011

<u>Function/Program</u>	<u>Expenses</u>	<u>Program revenues</u>			<u>Net (expense) revenue and changes in net assets</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Total governmental activities</u>
Governmental activities					
Instruction	\$ 117,129,394	\$ 2,277,602	\$ 17,692,928	\$ -	\$ (97,158,864)
Attendance	568,721	-	-	-	(568,721)
Guidance	4,259,936	-	-	-	(4,259,936)
Health, psych speech and audio	2,541,574	-	-	-	(2,541,574)
Improvement of instruction	3,234,305	-	-	-	(3,234,305)
Professional development	403,819	-	425,553	-	21,734
Media services (library)	2,446,679	-	-	-	(2,446,679)
Board of Education services	214,059	-	-	-	(214,059)
Executive administration	1,442,178	-	-	-	(1,442,178)
Building level administration	9,099,157	-	-	-	(9,099,157)
Business central services	1,496,257	-	-	-	(1,496,257)
Operation of plant	13,304,698	-	-	-	(13,304,698)
Security services	18,410	-	-	-	(18,410)
Pupil transportation	10,574,179	22,622	1,960,244	-	(8,591,313)
Food services	4,563,646	3,542,349	1,645,586	-	624,289
Central office support services	8,227,564	-	-	-	(8,227,564)
Community service	7,248,321	6,600,566	423,556	-	(224,199)
Facilities acquisition and construction	1,121,286	-	-	-	(1,121,286)
Interest and other charges	7,924,720	-	-	-	(7,924,720)
Total governmental activities	\$ 195,818,903	\$ 12,443,139	\$ 22,147,867	\$ -	(161,227,897)
General revenues					
Taxes					
					99,261,251
					15,875,051
					2,036,297
					13,059,894
					39,151,493
					604,883
					1,688,355
					171,677,224
Changes in net assets					
					10,449,327
					95,649,085
					\$ 106,098,412

The accompanying notes are an integral part of this statement.

FRANCIS HOWELL R-III SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS					
Cash and investments	\$ 42,426,983	47,469	\$ 2,657,753	\$ 3,258,376	\$ 48,390,581
Property taxes receivable - net of allowance for uncollectibles of \$59,355	1,223,785	1,259,320	397,678	27,640	2,908,423
Other receivables					
Local	1,236,593	1,376,664	20,550	45,575	2,679,382
Federal	702,994	599,964	-	-	1,302,958
Prepaid items	983,645	-	-	-	983,645
Restricted cash and investments	64,726	-	20,148,569	37,258,545	57,471,840
Total assets	\$ 46,638,726	\$ 3,283,417	\$ 23,224,550	\$ 40,590,136	\$ 113,736,829
LIABILITIES					
Accounts payable	\$ 777,100	\$ 41,127	\$ -	\$ 3,252,221	\$ 4,070,448
Salaries and benefits payable	423,296	14,092	-	-	437,388
Deferred revenue	835,162	859,413	266,440	23,814	1,984,829
Total liabilities	2,035,558	914,632	266,440	3,276,035	6,492,665
FUND BALANCES					
Nonspendable					
Prepaid items	983,645	-	-	-	983,645
Restricted					
Debt service	-	-	22,958,110	-	22,958,110
Capital projects	-	-	-	37,314,101	37,314,101
Teachers' salaries and benefits	-	2,368,785	-	-	2,368,785
Assigned					
Food service	64,726	-	-	-	64,726
Unassigned	43,554,797	-	-	-	43,554,797
Total fund balances	44,603,168	2,368,785	22,958,110	37,314,101	107,244,164
Total liabilities and fund balances	\$ 46,638,726	\$ 3,283,417	\$ 23,224,550	\$ 40,590,136	\$ 113,736,829

The accompanying notes are an integral part of this statement.

FRANCIS HOWELL R-III SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS June 30, 2011

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - governmental funds	\$ 107,244,164
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$264,586,156 and the accumulated depreciation is \$58,829,450	205,756,706
Property tax receivable not available soon enough to pay for current period expenditures are deferred in the funds.	1,984,829
Bond issuance costs are reported as expenditures in the governmental funds. The cost is \$1,971,350 and the accumulated amortization is \$602,864	1,368,486
Interest accrued on bonds has not been reported in the governmental funds but is reported in the statement of net assets. Accrued interest includes accreted interest on "capital appreciation" bonds totaling \$13,013,825	(15,796,441)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statements of net assets	3,086,081
Long-term liabilities, including bonds payable, are not due and not payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
General obligation bonds	(183,798,987)
Capital lease obligations	(1,796,488)
Bond premium, net of accumulated amortization	(4,369,468)
Compensated absences	(3,471,706)
Post employment benefits other than pensions	(3,539,400)
Early Separation Incentive Plan	(569,364)
	<u>(197,545,413)</u>
Total net assets - governmental activitie	\$ <u>106,098,412</u>

The accompanying notes are an integral part of this statement.

FRANCIS HOWELL R-III SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year ended June 30, 2011**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues					
Local	\$ 60,366,872	\$ 61,577,777	\$ 15,676,127	\$ 1,818,066	\$ 139,438,842
County	711,826	1,130,468	238,110	35,370	2,115,774
State	5,831,616	39,275,794	-	281,257	45,388,667
Federal	4,391,233	11,091,989	-	427,473	15,910,695
Interest	168,008	7,744	262,871	166,260	604,883
Student activities	2,150,897	-	-	142,315	2,293,212
Other	22,622	460,200	-	-	482,822
Total revenues	73,643,074	113,543,972	16,177,108	2,870,741	206,234,895
Expenditures					
Current					
Instruction	17,904,586	95,208,333	-	-	113,112,919
Attendance	563,082	5,242	-	-	568,324
Guidance	190,372	4,201,850	-	-	4,392,222
Health, psych speech and audio	1,334,165	1,227,940	-	-	2,562,105
Improvement of instruction	1,050,993	2,187,218	-	-	3,238,211
Professional development	187,681	216,138	-	-	403,819
Media services (library)	615,954	1,862,674	-	-	2,478,628
Board of Education services	214,059	-	-	-	214,059
Executive administration	552,655	230,345	-	-	783,000
Building level administration	1,036,028	7,875,176	-	-	8,911,204
Business central service	1,468,144	5,648	-	-	1,473,792
Operation of plant	13,266,367	-	-	-	13,266,367
Security services	18,410	-	-	-	18,410
Pupil transportation	10,558,195	-	-	-	10,558,195
Food services	4,529,601	-	-	-	4,529,601
Central office support services	8,570,490	280,815	-	-	8,851,305
Community service	6,676,811	438,238	-	-	7,115,049
Capital outlay	-	-	-	31,106,064	31,106,064
Debt service					
Principal	-	-	9,805,000	-	9,805,000
Interest and other charges	-	-	6,358,629	247,831	6,606,460
Total expenditures	68,737,593	113,739,617	16,163,629	31,353,895	229,994,734
Revenues over (under) expenditures	4,905,481	(195,645)	13,479	(28,483,154)	(23,759,839)
Other financing sources (uses)					
Transfers in (out)	(1,033,100)	-	-	1,033,100	-
Proceeds from general obligation bonds	-	-	-	29,315,000	29,315,000
Proceeds from general obligation refunding bonds	-	-	11,575,000	-	11,575,000
Payment to refunded bond escrow agent	-	-	(1,635,000)	-	(1,635,000)
Proceeds from capital lease	693,641	-	-	-	693,641
Total other financing sources (uses)	(339,459)	-	9,940,000	30,348,100	39,948,641
NET CHANGE IN FUND BALANCE	4,566,022	(195,645)	9,953,479	1,864,946	16,188,802
Fund balances at July 1, 2010	40,037,146	2,564,430	13,004,631	35,449,155	91,055,362
Fund balances at June 30, 2011	\$ 44,603,168	\$ 2,368,785	\$ 22,958,110	\$ 37,314,101	\$ 107,244,164

The accompanying notes are an integral part of this statement.

FRANCIS HOWELL R-III SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year ended June 30, 2011

Total net change in fund balances - governmental funds		\$ 16,188,802
<p>Capital outlay to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlay in the period.</p>		
Capital asset purchase	31,638,972	
Depreciation expense	<u>(5,211,391)</u>	26,427,581
<p>Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered as "available" revenues in the governmental funds, and are instead reported as deferred tax revenue. They are, however, reported as revenues in the statement of activities.</p>		
		33,338
<p>The proceeds from the sale of equipment increase financial resources in the governmental funds, whereas in the statement of activities, the gain or loss on disposal of equipment is reported.</p>		
		(1,007,283)
<p>In the statement of activities, certain operating expenses such as compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits totaling \$294,681 were paid. The decrease in the liability for compensated absences totaled \$148,562</p>		
		443,243
<p>The governmental funds report debt (e.g. bond) proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Also governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of debt and related items are as follows:</p>		
Proceeds from general obligation bonds issued	(40,942,769)	
Proceeds from capital lease payable	(693,641)	
Bond issuance costs	225,540	
Repayment of bond principal	11,440,000	
Repayment of capital lease payable	733,809	
Amortization of bond premium	425,801	
Amortization of bond issuance costs	<u>(110,038)</u>	(28,921,298)
<p>The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.</p>		
		(285,862)
<p>Increase in other post employment benefits (OPEB)</p>		
		(622,400)
<p>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 it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of two factors. First, accrued interest on bonds increased by \$678,561. Second, interest accreted on the District's "capital appreciation" bonds increased by \$1,128,233.</p>		
		<u>(1,806,794)</u>
Change in net assets of governmental activities		<u>\$ 10,449,327</u>

The accompanying notes are an integral part of this statement.

FRANCIS HOWELL R-III SCHOOL DISTRICT

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2011

	Governmental Activities - Internal Service Fund
ASSETS	
Cash	\$ 6,426,569
LIABILITIES	
Claims payable	3,340,488
NET ASSETS	
Unrestricted	3,086,081
TOTAL LIABILITIES AND NET ASSETS	\$ 6,426,569

The accompanying notes are an integral part of this statement.

FRANCIS HOWELL R-III SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

Year ended June 30, 2011

	Governmental Activities - Internal Service Fund
	<hr/>
Operating revenues	
Contributions by District, employees and retirees	\$ 16,918,365
Other income	1,465,598
	<hr/>
Total operating revenues	18,383,963
Operating expenses	
Claims	18,451,822
Administration	24,823
Other	232,141
	<hr/>
Total operating expenses	18,708,786
Operating loss	(324,823)
Non-operating revenues	
Interest income	38,961
	<hr/>
CHANGE IN NET ASSETS	(285,862)
Net assets at July 1, 2010	3,371,943
	<hr/>
Net assets at June 30, 2011	<u>\$ 3,086,081</u>

The accompanying notes are an integral part of this statement.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Francis Howell R-III School District (the District), established under the Statutes of the State of Missouri, is governed by an elected seven-member board as described in Chapter 162, Missouri Revised Statutes. The Board of Education is the basic level of government that has financial accountability and control over all activities related to public school education in the District.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

1. Reporting Entity

These financial statements present the District (the primary government) and its component unit, the Francis Howell R-III School District Educational Facilities Authority (the Authority). Generally accepted accounting principles require the financial reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on this criteria, the Authority is considered a component unit.

The Authority was incorporated under Missouri statutes as a not-for-profit organization whose purpose is for acquisition, construction, improvement, extension, repair, remodeling, renovation and financing for the District. Although legally separate, the Authority is blended as a governmental fund into the primary government. The Authority is currently inactive. Separate financial statements for the Authority are not issued.

2. Basis of Presentation

District-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The District has no business-type activities.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Basis of Presentation - Continued

The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function.

The District does not allocate indirect costs. Program revenues include charges paid by the recipients of goods and services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. The emphasis is placed on major funds. Each major fund is presented in a separate column while nonmajor funds, if applicable, are aggregated and presented in a single column.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the District and accounts for expenditures for noncertified employees, pupil transportation costs, operation of plant, fringe benefits, student body activities, community services, the food service program and any expenditures not required to be accounted for in another fund.

Special Revenue Fund

The Special Revenue Fund is used to account for specific revenue sources that are legally restricted for the payment of salaries and certain employee benefits for certified personnel performing in certificate-required positions.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for the payment of principal, interest and fiscal charges on general long-term debt.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Basis of Presentation - Continued

Capital Projects Fund

The Capital Projects Fund is used to account for resources to be used for the acquisition or construction of major capital assets.

Proprietary Fund

Internal Service Fund

This fund accounts for the proceeds from contributions for the payment of claims and the liabilities associated with the District's self-insurance activities (primarily medical and dental benefits). Expenses include claims paid, direct insurance payments and administrative fees. A liability for estimated claims incurred but not reported is recorded in this fund.

3. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

Measurement focus

The district-wide financial statements are prepared using the economic resources measurement focus, as are the proprietary fund financial statements. The accounting objectives of this measurement focus are the determination of changes in net assets, financial position, and cash flows. All assets and liabilities, whether current or noncurrent, are reported.

The governmental fund financial statements are prepared using the current financial resources measurement focus. Only current financial assets and liabilities are generally included in the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of accounting

The district-wide financial statements are prepared using the accrual basis of accounting, as are the proprietary fund financial statements. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic assets used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Measurement Focus and Basis of Accounting - Continued

The governmental fund financial statements are prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Property and sales taxes, interest and certain grants are susceptible to accrual.

Miscellaneous revenue items, which are not susceptible to accrual, are recognized as revenues only as they are received in cash. Expenditures, including capital outlay, are recorded when the related fund liability is incurred, except for principal and interest on general obligation long-term debt which are reported when due.

4. Cash and Investments

Cash resources from all funds, except the debt service fund, are combined to form a pool of cash and temporary investments. Investments of the pooled accounts primarily consist of certificates of deposit and are carried at cost, which approximates fair value. Investments in U.S. agency securities are carried at amortized cost, which approximates fair value. Interest income earned is allocated to the contributing funds based on each funds' proportionate share of funds invested on a monthly basis.

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

5. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

6. Receivables

Major receivables for the governmental activities include property and sales taxes, and state and federal grants. Allowances for uncollectible property taxes are estimated to be two percent of delinquent taxes at year-end.

7. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid expenses.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Capital Assets and Depreciation

In the district-wide financial statements, capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost if actual cost is unavailable. Contributed assets are reported at their fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred. Depreciation on assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	15 years
Buildings and improvements	15-60 years
Vehicles and equipment	5-20 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

9. Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use. The restricted assets consist primarily of funds escrowed under the Missouri School District Direct Deposit Program and unspent bond proceeds invested in the Missouri Securities Investment Program.

10. Long-term Liabilities

All long-term liabilities to be repaid from governmental activities are reported in the district-wide financial statements. Long-term liabilities consist of bonds and capital leases payable, accrued compensated absences, special termination benefits and other postemployment benefits. Long-term liabilities are not due and are not payable in the current period and therefore are not reported as liabilities in the governmental fund financial statements.

11. Compensated Absences

The District's policies regarding compensated absences permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded in the district-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability from expendable available financial resources.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

12. Net Assets

In the district-wide and proprietary fund financial statements, equity is classified as net assets and displayed in three components. Net assets invested in capital assets, net of related debt, consist of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those net assets. Net assets are reported as restricted when there are constraints imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments. All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt are reported as unrestricted. The District first utilizes restricted resources to finance qualifying activities.

13. Fund Balances – Governmental Funds

In the governmental fund financial statements, equity is classified as fund balance. The District adopted GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. Governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources or by constitutional provision or enabling legislations.

Committed – includes amounts that can only be used for specific purposes determined by a resolution of the Board of Education. Commitments may be modified or rescinded only through resolutions approved by the Board.

Assigned – includes amounts that the District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the District's adopted policy, amounts may be assigned by the Chief Financial Officer.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. The policy requires a minimum unassigned fund balance of 15% of total prior year General Fund and Special Revenue Fund expenditures in order to cover unexpected expenditures and revenue shortfalls.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

13. Fund Balances – Governmental Funds - Continued

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions. The details of the fund balances are included in the Governmental Funds Balance Sheet.

14. Revenues

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied annually on November 1 and are due by December 31. The county collects the property tax and remits it to the District. In the district-wide financial statements, property tax revenues are recognized in the fiscal year levied. In the fund financial statements, property taxes are recognized in the fiscal year levied to the extent collected within 60 days of year-end. Revenues not collected within 60 days of year-end are reported as deferred revenue.

Sales tax is collected by the State of Missouri and remitted to districts within the state based on a prior year weighted average attendance. The State receives the sales tax approximately one month after collection by vendors. Sales taxes collected by the State in June and July, which represent sales for May and June, and received by the District in July and August have been accrued and reported as other local receivables.

Entitlements and grants are recognized as revenue in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are reported as deferred revenue. In the fund financial statements, entitlement and grant revenues must be collected within 60 days of year-end before they can be recognized.

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, and investing activities.

15. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE B – CASH AND INVESTMENTS

The District maintains a cash and temporary cash investment pool that is available for use by all funds except the Debt Service Fund (State law requires that all deposits of the Debt Service Fund be kept separate and apart from all other funds of the District). Each fund's portion of this pool is displayed on the balance sheet as “cash and investments” under each fund’s caption.

Deposits

Missouri statutes require that all deposits with financial institutions be collateralized in an amount at least equal to uninsured deposits. At June 30, 2011, the carrying amount of the pooled deposits under District control was \$10,971,746 and the bank balance was \$17,649,759. At June 30, 2011, the District’s bank balance was fully secured by federal depository insurance or fully collateralized with securities held by the District’s safe keeping agent pledged in the name of the District.

Investments

The District may purchase any investments allowed by the State Treasurer. These include U.S. Treasury securities, U.S. agency securities, securities issued by the State of Missouri, repurchase agreements, certificates of deposit, bankers’ acceptances and commercial paper.

The District participates in the Missouri Direct Deposit Program which is a mechanism for public school bond repayments through the MOHEFA Bond Program. It authorizes the direct deposit of a portion of the District’s state aid payment by the State of Missouri to a trustee bank that accumulates these payments and then makes the principal and interest payments to the paying agent on the bonds. The direct deposits occur ten times per year and the balance is withdrawn every six months to pay the debt service requirement of the related bond issues. At June 30, 2011, the District had \$6,143,707 in this program, which has been classified as restricted investments.

The District also participates in the Missouri Securities Investment Program (MoSIP). All funds of MoSIP are invested in accordance with Section 165.051 of the Missouri Revised Statutes. Each school district owns a prorata share of each investment or deposit which is held in the name of the Fund. The District had \$40,704,890 invested through MoSIP at June 30, 2011.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE B – CASH AND INVESTMENTS - Continued

As of June 30, 2011, the District had the following investments and maturities:

Type	Fair Value	Investment Maturities	
		0 to 1 year	1 to 3 years
Repurchase agreements	\$ 17,858,000	\$ 17,858,000	\$ -
U.S. government and agency securities	11,826,645	11,826,645	-
Commercial paper	24,784,002	24,784,002	-
External investment pools			
Missouri Securities Investment Program	40,704,890	40,704,890	-
Missouri Direct Deposit Program	6,143,707	6,143,707	-
	<u>\$ 101,317,244</u>	<u>\$ 101,317,244</u>	<u>\$ -</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District minimizes interest rate risk by structuring its investment portfolio so that securities mature to meet anticipated cash flows for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds in primarily shorter-term securities. The District's investment policy also requires funds invested in bankers' acceptances and commercial paper mature not more than one hundred and eighty days from the dates of purchase and all other investments mature not more than two years from the dates of purchase. Additionally, the policy requires the District to adopt a weighted average maturity limitation that should not exceed one year.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. To protect against credit risk, the District restricts investments to those with a rating of AAA by Standards and Poor's or A1+/P1 by Moody's. These ratings are the highest given by the agencies and indicate a low credit risk.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE B – CASH AND INVESTMENTS - Continued

Concentration of Credit Risk

As a means of limiting its exposure to losses arising from concentration of investments, the District's investment policy mandates that the portfolio not have a concentration of assets in specific maturity, specific issuer or specific class of securities. At a minimum, diversification standards by security type and issuer are established as: (a) U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. Government, 95%; (b) collateralized time and demand deposits, 50%; (c) U.S. Government agencies, and government sponsored enterprises, no more than 70%; (d) collateralized repurchase agreements, no more than 50%; (e) U.S. Government agency callable securities, no more than 15%; (f) commercial paper, no more than 40%; and (g) bankers' acceptances, no more than 40%. Investments in any one issuer representing 5% or more of total investments (excluding investments issued or explicitly guaranteed by the U.S. government and external investment pools) are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage</u>
UMB Bank	Repurchase agreement	18%
Federal Home Loan Banks	Government agency security	6%
Coca-Cola Co	Commercial Paper	5%
Federal National Mortgage Association	Government agency security	6%
General Electric Cap Corp	Commercial Paper	6%
Bank of America Corporation	Commercial Paper	6%

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. To minimize custodial credit risk, it is the District's policy that all securities purchased be perfected in the name of or for the account of the District and be held by a third-party custodian as evidenced by appropriate safekeeping receipts.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE B – CASH AND INVESTMENTS - Continued

Summary

The cash deposits and investments are summarized and presented in the fund financial statements as follows as of June 30, 2011:

Carrying amount of deposits	\$ 10,971,746
Investments	<u>101,317,244</u>
	<u>\$ 112,288,990</u>
Cash and investments - governmental funds	\$ 48,390,581
Restricted cash and investments - governmental funds	57,471,840
Cash - proprietary funds	<u>6,426,569</u>
Total reporting entity	<u>\$ 112,288,990</u>

NOTE C - TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on November 1 and payable by December 31. All unpaid taxes become delinquent January 1 of the following year. The county collects the property taxes and remits them to the District.

The District also receives sales tax collected by the state and remitted based on a prior year weighted average attendance. The District is required to reduce its property tax levy by one-half the amount of sales tax estimated to be received in the subsequent calendar year. On April 4, 1995, the patrons of the Francis Howell R-III School District voted to forego this reduction in property taxes, thus earmarking the entire amount for education. The assessed valuation of the tangible taxable property for the calendar year 2010 and for purposes of local taxation was \$2,299,963,024.

The tax levy per \$100 of the assessed valuation of tangible taxable property for the calendar year 2010 for purposes of local taxation was as follows:

General Fund	\$ 2.1042
Special Revenue Fund	2.1653
Debt Service Fund	0.6713
Capital Projects Fund	<u>0.0600</u>
Total	<u>\$ 5.0008</u>

The receipts of current and delinquent property taxes during the fiscal year ended June 30, 2011 aggregated approximately 99% of the 2010 assessment computed on the basis of the levy as shown above.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE D – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Governmental activities				
Capital assets that are not depreciated				
Land	\$ 6,545,623	\$ -	\$ -	\$ 6,545,623
Construction in progress	15,340,147	27,896,996	-	43,237,143
Capital assets that are depreciated				
Land improvements	14,526,480	679,041	(291,544)	14,913,977
Buildings	172,092,719	861,157	(1,610,961)	171,342,915
Vehicles and equipment	27,076,516	2,201,778	(731,796)	28,546,498
Totals at estimated historical cost	235,581,485	31,638,972	(2,634,301)	264,586,156
Accumulated depreciation				
Land improvements	9,648,407	461,049	(268,437)	9,841,019
Buildings	26,024,349	2,555,230	(657,664)	27,921,915
Vehicles and equipment	19,572,320	2,195,112	(700,916)	21,066,516
Total accumulated depreciation	55,245,076	5,211,391	(1,627,017)	58,829,450
Governmental activities capital assets, net	\$ 180,336,409	\$ 26,427,581	\$ (1,007,284)	\$ 205,756,706

Depreciation was charged to functions of the District as follows:

Instruction	\$ 3,683,836
Improvement of instruction	35,385
Media services	6,711
Executive administration	742,445
Building level administration	19,113
Business services	15,984
Operation of plant	166,082
Transportation	21,398
Food service	44,218
Community services	476,219
	<u>\$ 5,211,391</u>

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE E – LONG-TERM LIABILITIES

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts due within one year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 154,348,987	\$ 40,890,000	\$ (11,440,000)	\$ 183,798,987	\$ 9,035,236
Deferred amounts for issuance premium	4,742,500	52,769	(425,801)	4,369,468	-
Total bonds payable, net	159,091,487	40,942,769	(11,865,801)	188,168,455	9,035,236
Obligations under capital leases	1,836,656	693,641	(733,809)	1,796,488	690,267
Compensated absences	3,620,268	-	(148,562)	3,471,706	-
Early retirement payable	864,045	-	(294,681)	569,364	277,208
Total governmental activity long- term liabilities	<u>\$ 165,412,456</u>	<u>\$ 41,636,410</u>	<u>\$ (13,042,853)</u>	<u>\$ 194,006,013</u>	<u>\$ 10,002,711</u>

Principal and interest on general obligation bonds are liquidated through the Debt Service Fund. Capital leases are liquidated through the General Fund. Other postemployment benefits, compensated absences and early retirement benefits will be liquidated by the fund in which the employee's salary was charged.

Bonds Payable

Repayment of general obligation bond issues is made through the Missouri School District Direct Deposit Program which is a mechanism for public school bond repayments. It authorizes the direct deposit of a portion of the District's state aid payment by the State of Missouri to a trustee bank that accumulates these payments and then makes the principal and interest payments to the paying agent on the bonds.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE E – LONG-TERM LIABILITIES - Continued

Bonds Payable – Continued

General obligation bonds outstanding at June 30, 2011 were as follows:

<u>Date Issued</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Balance</u>
8/27/1998	3/1/2018	4.6% - 5.125%	\$ 35,681,411	\$ 9,707,411
5/6/1999	3/1/2019	4.4% - 5.15%	14,998,340	2,498,340
3/1/2001	3/1/3021	4.15% - 5.17%	9,998,236	1,583,236
7/2/2002	3/1/2022	3.25% - 5.5%	15,000,000	10,935,000
10/30/2002	3/1/2015	3.0% - 4.5%	4,840,000	2,210,000
7/31/2003	3/1/2016	2.75% - 5.0%	11,895,000	5,865,000
8/31/2004	3/1/2018	3.5% - 5.25%	28,870,000	24,385,000
4/7/2005	3/1/2021	3.5% - 5.25%	23,370,000	22,735,000
3/4/2008	3/1/2018	3% - 5%	26,955,000	13,805,000
3/17/2009	3/1/2029	3.625% - 5%	40,000,000	40,000,000
10/19/2009	3/1/2025	1.25%	9,185,000	9,185,000
12/7/2010	3/1/2020	3.10%	1,635,000	1,635,000
12/7/2010	3/1/2030	4.20% - 5.6%	29,315,000	29,315,000
5/26/2011	3/1/2022	3.00% - 5.5%	9,940,000	9,940,000
				<u>\$ 183,798,987</u>

On December 7, 2010 the District issued General Obligation Refunding Bonds in the amount of \$1,635,000. The proceeds of the bond issue along with \$50,463 of other District resources were used to refund the District's General Obligation Bonds dated February 22, 2002. The new bond issue will increase debt service payments by approximately \$418,000 over the next ten years. This results in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$31,375.

On December 7, 2010 the District issued \$29,315,000 in Taxable General Obligation Bonds (Build America Bonds – Direct Pay). The District will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on these taxable bonds. The proceeds will be used to pay a portion of the costs of constructing, renovating, and improving Francis Howell High School, Daniel Boone Elementary School, Francis Howell North High School, and other capital projects.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE E – LONG-TERM LIABILITIES - Continued

On May 26, 2011 the District issued General Obligation Refunding Bonds in the amount of \$9,940,000. The proceeds of the bond issue along with \$131,495 of other District resources were deposited into an irrevocable trust and will be used to advance refund on March 1, 2012 the District's remaining General Obligation bonds dated July 2, 2002. The new bond issue will increase debt service payments by approximately \$101,000 over the next eleven years. This results in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$551,235.

The annual requirements to amortize the general obligation bonds as of June 30, 2011, including interest payments, are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 9,035,236	\$ 8,498,392	\$ 17,533,628
2013	8,793,329	9,789,830	18,583,159
2014	8,757,561	10,014,259	18,771,820
2015	8,846,325	10,096,176	18,942,501
2016	9,081,236	11,948,460	21,029,696
2017-2021	70,065,300	27,719,196	97,784,496
2022-2026	43,960,000	11,733,400	55,693,400
2027-2030	25,260,000	2,033,900	27,293,900
	<u>\$ 183,798,987</u>	<u>\$ 91,833,613</u>	<u>\$ 275,632,600</u>

Article VI, Section 26 (c), Constitution of Missouri, limits the outstanding amount of authorized General Obligation Bonds of a district to 15% of the assessed valuation of a District. The legal debt margin of the District at June 30, 2011 was:

Constitutional debt limit	\$ 344,994,454
General obligation bonds payable	(183,798,987)
Amount available in Debt Service Fund	<u>22,806,322</u>
Legal debt margin	<u>\$ 184,001,789</u>

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE E – LONG-TERM LIABILITIES - Continued

Capital Lease Payable

The District leases certain equipment under agreements classified as capital leases. As of June 30, 2011, the cost for such equipment, which are included in vehicles and equipment, was \$3,069,988 and accumulated depreciation was \$1,138,075.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2011:

Year ending June 30,	
2012	\$ 772,791
2013	648,111
2014	403,259
2015	<u>134,619</u>
Total future minimum lease payments	1,958,780
Less amount representing interest	<u>(162,292)</u>
Present value of future minimum lease payments	<u><u>\$ 1,796,488</u></u>

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE F – RETIREMENT PLANS

The District contributes to the Public School Retirement System of Missouri (PSRS), a cost-sharing multiple-employer defined benefit pension plan. PSRS provides retirement and disability benefits to full-time (and certain part-time) certified employees and death benefits to members and beneficiaries. Positions covered by the Public School Retirement System of Missouri are not covered by Social Security. PSRS benefit provisions are set forth in Section 169.010 - 169.141 of the Missouri Revised Statutes. The statutes assign responsibility for the administration of the system to a seven-member Board of Trustees.

PSRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: Public School Retirement System of Missouri, 701 West Main, P.O. Box 268, Jefferson City, Missouri 65102 or by calling 1-800-392-6848.

PSRS members are required to contribute 14% of their annual covered salary and the District is required to contribute a matching amount. The contribution requirements of members and the District are established and may be amended by the PSRS Board of Trustees. The District's contributions to PSRS for the years ended June 30, 2011, 2010 and 2009 were \$13,423,327, \$12,922,837 and \$12,394,775, respectively, equal to the required contributions.

The District also contributes to the Public Education Employee Retirement System of Missouri (PEERS), a cost-sharing multiple-employer defined benefit pension plan. PEERS provides retirement and disability benefits to employees of the District who work 20 or more hours per week and who do not contribute to PSRS. Positions covered by the Public Education Employee Retirement System are also covered by Social Security. Benefit provisions are set forth in Chapter 169.600 – 169.715 of the Missouri Revised Statutes. The statutes assign responsibility for the administration of the system to the Board of Trustees of the PSRS. PEERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: The Public Education Employee Retirement System, 701 West Main, P.O. Box 268, Jefferson City, Missouri 65102 or by calling 1-800-392-6848.

PEERS members are required to contribute 6.63% of their annual covered salary and the District is required to contribute a matching amount. The contribution requirements of members and the District are established and may be amended by the Board of Trustees. The District's contributions to PEERS for the years ended June 30, 2011, 2010 and 2009 were \$1,626,396, \$1,608,195 and \$1,544,163, respectively, equal to the required contributions.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

In addition to providing the pension benefits described in Note F, the District provides continuation of medical, dental and vision insurance coverage, including prescription drugs to employees who are eligible for normal or early retirement under PSRS or PEERS. Retirees who elect to participate in the plan pay 100% of the blended premium rates effective for both active employees and retirees. The blended rates provide an implicit rate subsidy for retirees because, on an actuarial basis, the current and future claims are expected to result in higher cost to the plan on average than those of active employees. A stand-alone financial report is not available for the plan.

Funding Policy

The District is financing the postemployment health care benefits on a pay-as-you-go basis. During the current year, 531 retirees participated in the District's insurance plans. Retiree contributions totaled \$2,196,800 for the year ended June 30, 2011.

Annual Other Postemployment Benefit Cost

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's OPEB obligation at June 30, 2011 were as follows:

Annual required contribution	\$ 2,781,900
Interest on net OPEB obligation	131,300
Adjustment to annual required contribution	<u>(94,000)</u>
Annual OPEB cost (expense)	2,819,200
Contributions made	<u>2,196,800</u>
Increase in net OPEB obligation	622,400
Net OPEB obligation, July 1, 2010	<u>2,917,000</u>
Net OPEB obligation, June 30, 2011	<u><u>\$ 3,539,400</u></u>

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

Annual Other Postemployment Benefit Cost - Continued

As of June 30, 2011, the annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation were as follows:

<u>Plan Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 2,255,059	\$ 1,235,100	54.77%	\$ 2,175,459
2010	2,759,700	2,018,159	73.13%	2,917,000
2011	2,819,200	2,196,800	77.92%	3,539,400

Funded Status and Funding Progress

As of July 1, 2009, the actuarial accrued liability for benefits was \$32,386,500, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$107,421,000, and the ratio of the unfunded actuarial liability to the covered payroll was 30 percent.

The projection of future benefit payments for an ongoing plan involves 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 healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer 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 following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan 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 benefit costs between the employer and the plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. The initial unfunded actuarial accrued liability is being amortized over 30 years.

In the July 1, 2009 actuarial valuation, the liabilities were computed using the projected unit credit cost method. The actuarial assumptions included an annual healthcare cost trend rate of 8.1% initially, reduced by decrements to an ultimate rate of 4.4% after 52 years. The actuarial assumptions also included a 4.50% discount rate. Because the plan is unfunded, reference to general assets, which are short-term in nature, was considered in the selection of the 4.50% rate.

NOTE H – EARLY SEPARATION INCENTIVE PLANS

The Early Separation Incentive Plan was designated to provide a financial incentive to those who elected early separation from the District and help reduce the number of layoffs during mandatory staff reductions.

The Eligibility Criteria to participate in the Early Separation Incentive Plan were as follows:

1. Employee must have at least fifteen years of creditable service with the last five years being continuous in the Francis Howell R-III School District as of June 30 of the final contract year; and
2. Employee must be eligible for normal retirement under the Public School Retirement System (under either the full benefit formula, early retirement formula or the modified benefit formula).

As payment through the Early Separation Incentive Plan, employees received 80% of base salary of their final contract. An employee could select a five to ten year period over which the Early Separation Incentive would be paid. Installments are paid twice each month which began the July immediately following the employee's separation from the District. Each payment is subject to all deductions required by law, but is not eligible for contributions to the Missouri Public School Retirement System.

The established liability for this plan is approximately \$44,844 as of June 30, 2011.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE H – EARLY SEPARATION INCENTIVE PLANS - Continued

In March 2009, the District announced a retirement incentive program for currently employed teachers who elected to retire after the 2008 – 2009 school year. Employees who took advantage of this incentive will receive the individual Board contribution toward health insurance benefits, equal to that of active District employees for fiscal years through June 30, 2013. In order to receive the benefit, employees must be eligible to retire under the Public School Retirement System (PSRS).

The established liability for this plan is approximately \$524,520 as of June 30, 2011.

NOTE I – DEFERRED COMPENSATION PLAN

Employees of the District may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code (IRC) Section 457. The deferred compensation plan is available to all employees of the District. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. The deferred compensation plan is administered by an unrelated financial institution.

NOTE J – SELF-INSURANCE PLAN

The District maintains a self-funded health insurance program with claims processed by a third party administrator on behalf of the District. A separate Insurance Fund (an internal service fund) was created on October 1, 2003 to account for and finance the health insurance program.

All funds of the District from which employee salaries are paid participate in the health insurance program and make payments to the Internal Service Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for incurred but not reported claims. Total contributions and transfers to the program for the year ended June 30, 2011 were \$16,918,365. The claims liability of \$3,340,488 reported in the Internal Service Fund at June 30, 2011 is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE J – SELF-INSURANCE PLAN - Continued

Changes in the Internal Service Fund's claims liability amount were as follows for the year ended June 30,:

	<u>2011</u>	<u>2010</u>
Unpaid claims, beginning of year	\$ 3,369,872	\$ 3,973,940
Incurred claims (including IBNRs)	18,451,822	19,283,228
Claim payments	<u>(18,481,206)</u>	<u>(19,887,296)</u>
Unpaid claims, end of year	<u>\$ 3,340,488</u>	<u>\$ 3,369,872</u>

NOTE K – COMMITMENTS AND CONTINGENCIES

Litigation

Various claims and lawsuits are pending against the District. In the opinion of District management, the potential loss on all claims and lawsuits will not be material to the District's financial statements taken as a whole.

Grant Audits

The District receives Federal grants and State funding for specific purposes that are subject to review and audit. These reviews and audits could lead to requests for reimbursement or to withholding of future funding for expenditures disallowed under or other noncompliance with the terms of the grants and funding. The District is not aware of any noncompliance with federal or state provisions that might require the District to provide reimbursement.

Protested Taxes

Each year the County remits certain unresolved protested tax payments to the District. The County notifies the District when a taxpayer is successful in their protests, and the District refunds the tax payments to the County. Normal refunds of protested tax payments are not material in relation to the District's financial position and results of operations.

Construction in Progress

The District's remaining commitment for uncompleted work under its construction contracts totaled approximately \$10,500,000 as of June 30, 2011.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. To mitigate these risks, the District is a participant in the Missouri United School Insurance Council (MUSIC) which is a Protected Self-Insurance Program of Missouri Public School Districts with approximately 400 members. The District pays an assessment to MUSIC. Part of the assessment then goes to purchase excess insurance contracts for the group as a whole. Should the contributions received by MUSIC not be sufficient, special assessments can be made to the member districts.

REQUIRED SUPPLEMENTARY INFORMATION

FRANCIS HOWELL R-III SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGETARY BASIS - BUDGET AND ACTUAL -
GENERAL FUND - UNAUDITED
Year ended June 30, 2011**

	Budgeted amounts		Actual	Variances - positive (negative)	
	Original	Final		Original to final	Final to actual
Revenues					
Local	\$ 64,943,434	\$ 66,408,069	\$ 60,553,271	\$ 1,464,635	\$ (5,854,798)
County	878,640	883,623	711,826	4,983	(171,797)
State	6,055,294	5,099,725	5,831,616	(955,569)	731,891
Federal	1,978,139	3,946,109	3,607,714	1,967,970	(338,395)
Interest	269,600	270,193	150,111	593	(120,082)
Other	7,500	7,500	22,622	-	15,122
Student activities	2,000,000	2,000,000	2,149,682	-	149,682
Total revenues	76,132,607	78,615,219	73,026,842	2,482,612	(5,588,377)
Expenditures					
Instruction	21,623,595	16,871,221	17,700,303	4,752,374	(829,082)
Attendance	598,227	600,977	572,038	(2,750)	28,939
Guidance	245,806	248,556	214,146	(2,750)	34,410
Health, psych speech and audio	1,402,863	1,423,363	1,335,336	(20,500)	88,027
Improvement of instruction	1,377,955	1,387,390	990,768	(9,435)	396,622
Professional development	478,538	480,038	76,312	(1,500)	403,726
Media services (library)	790,494	792,994	609,069	(2,500)	183,925
Board of Education services	514,550	520,300	222,027	(5,750)	298,273
Executive administration	785,400	788,183	549,672	(2,783)	238,511
Building level administration	1,221,326	1,241,326	1,032,769	(20,000)	208,557
Business central service	1,392,895	1,400,395	1,460,946	(7,500)	(60,551)
Operation of plant	12,618,536	12,621,036	12,925,613	(2,500)	(304,577)
Security services	53,500	54,000	18,485	(500)	35,515
Pupil transportation	11,322,661	11,324,662	10,425,274	(2,001)	899,388
Food services	4,939,978	4,939,978	4,498,629	-	441,349
Central office support services	9,084,042	14,032,756	7,967,708	(4,948,714)	6,065,048
Community service	7,625,478	7,625,977	6,626,101	(499)	999,876
Total expenditures	76,075,844	76,353,152	67,225,196	(277,308)	9,127,956
Revenues over expenditures	56,763	2,262,067	5,801,646	2,205,304	3,539,579
Other financing uses					
Transfers	(1,000,000)	(1,000,000)	(1,033,100)	-	(33,100)
NET CHANGE IN FUND BALANCE	\$ (943,237)	\$ 1,262,067	4,768,546	\$ 2,205,304	\$ 3,506,479
Fund balance at July 1, 2010			<u>37,736,287</u>		
Fund balance at June 30, 2011			<u>\$ 42,504,833</u>		

The accompanying notes are an integral part of this schedule.

FRANCIS HOWELL R-III SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGETARY BASIS - BUDGET AND ACTUAL -
SPECIAL REVENUE FUND - UNAUDITED
Year ended June 30, 2011**

	Budgeted amounts		Actual	Variances - positive (negative)	
	Original	Final		Original to final	Final to actual
Revenues					
Local	\$ 55,858,995	\$ 55,602,115	\$ 61,729,696	\$ (256,880)	\$ 6,127,581
County	1,468,005	1,464,281	1,130,468	(3,724)	(333,813)
State	37,357,147	41,845,552	39,275,794	4,488,405	(2,569,758)
Federal	12,111,598	9,184,503	11,065,432	(2,927,095)	1,880,929
Interest	108,691	108,248	7,744	(443)	(100,504)
Other	421,260	444,852	475,810	23,592	30,958
Total revenues	107,325,696	108,649,551	113,684,944	1,323,855	5,035,393
Expenditures					
Instruction	96,533,019	95,583,598	95,162,466	949,421	421,132
Attendance	-	-	517	-	(517)
Guidance	4,578,144	4,578,144	4,201,850	-	376,294
Health, psych speech and audio	1,546,046	1,546,046	1,227,940	-	318,106
Improvement of instruction	1,513,762	1,513,762	2,187,218	-	(673,456)
Professional development	267,368	267,368	215,530	-	51,838
Media services (library)	1,660,830	1,660,830	1,862,674	-	(201,844)
Executive administration	372,887	372,887	230,345	-	142,542
Building level administration	7,493,857	7,493,857	7,875,176	-	(381,319)
Business central service	-	-	5,648	-	(5,648)
Central office support services	342,510	342,512	280,815	(2)	61,697
Community service	484,290	484,290	434,765	-	49,525
Total expenditures	114,792,713	113,843,294	113,684,944	949,419	158,350
NET CHANGE IN FUND BALANCE	\$ (7,467,017)	\$ (5,193,743)	-	\$ 2,273,274	\$ 5,193,743
Fund balance at July 1, 2010			-		
Fund balance at June 30, 2011			\$ -		

The accompanying notes are an integral part of this schedule.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

NOTE A – BUDGETS AND BUDGETARY INFORMATION

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- In accordance with Chapter 67, RSMo, the District adopts a budget for each fund.
- Prior to July, the Superintendent, who serves as the budget officer, submits to the Board of Education a proposed budget for the fiscal year beginning on the following July 1. The proposed budget includes estimated revenues and proposed expenditures for all District funds. Budgeted expenditures cannot exceed beginning available monies plus estimated revenues for the year.
- A public hearing is conducted to obtain taxpayer comments. Prior to its approval by the Board of Education, the budget document is available for public inspection.
- Prior to July 1, the budget is legally enacted by a vote of the Board of Education.
- Subsequent to its formal approval of the budget, the Board of Education has the authority to make necessary adjustments to the budget by formal vote of the Board. Adjustments made during the year are reflected in the budget information included in the financial statements.

NOTE B – ADJUSTMENTS TO CONVERT BUDGETARY BASIS TO MODIFIED ACCRUAL BASIS

The District creates its budget and Annual Secretary of the Board Report using the cash basis of accounting. The cash basis is used because it enables the District to better budget revenue and expenditures as the resources are expended or received. As noted in the Summary of Significant Accounting Policies, the District used the modified accrual basis to report fund financial statements.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

NOTE B – ADJUSTMENTS TO CONVERT BUDGETARY BASIS TO MODIFIED ACCRUAL BASIS - Continued

The following is a summary of the differences between the ending fund balance cash basis and the ending fund balance modified accrual basis.

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total All Funds
Cash basis fund balance June 30, 2011	\$ 42,504,833	\$ -	\$ 22,806,331	\$ 40,551,266	\$ 105,862,430
Add receivables	3,163,372	3,235,948	418,228	73,215	6,890,763
Add prepaid expenses	983,645	-	-	-	983,645
Less accounts payable	(2,035,558)	(914,632)	(266,440)	(3,276,035)	(6,492,665)
Other modified accrual adjustments	<u>(13,124)</u>	<u>47,469</u>	<u>(9)</u>	<u>(34,345)</u>	<u>(9)</u>
Modified accrual fund balance June 30, 2011	<u>\$ 44,603,168</u>	<u>\$ 2,368,785</u>	<u>\$ 22,958,110</u>	<u>\$ 37,314,101</u>	<u>\$ 107,244,164</u>

FRANCIS HOWELL R-III SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS

OTHER POSTEMPLOYMENT BENEFIT OBLIGATION - UNAUDITED

Year ended June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	\$ -	\$ 21,654,700	\$ 21,654,700	0%	\$ 105,565,000	21%
July 1, 2009	\$ -	\$ 32,386,500	\$ 32,386,500	0%	\$ 107,421,000	30%

The District implemented GASB Statement No. 45 for the year ended June 30, 2008, therefore, information for prior years is not available.

SUPPLEMENTARY INFORMATION

FRANCIS HOWELL R-III SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGETARY BASIS - BUDGET AND ACTUAL -
DEBT SERVICE FUND
Year ended June 30, 2011**

	Budgeted amounts		Actual	Variances - positive (negative)	
	Original	Final		Original to final	Final to actual
Revenues					
Local	\$ 15,343,667	\$ 15,247,911	\$ 15,551,071	\$ (95,756)	\$ 303,160
County	283,902	281,901	238,110	(2,001)	(43,791)
Interest	212,926	33,560	272,859	(179,366)	239,299
Total revenues	15,840,495	15,563,372	16,062,040	(277,123)	498,668
Expenditures					
Debt service					
Principal	11,020,000	22,490,000	11,440,000	11,470,000	11,050,000
Interest and other charges	6,290,000	6,622,376	4,723,629	332,376	1,898,747
Total expenditures	17,310,000	29,112,376	16,163,629	11,802,376	12,948,747
Revenues over (under) expenditures	(1,469,505)	(13,549,004)	(101,589)	(12,079,499)	13,447,415
Other financing sources (uses)					
Proceeds from general obligation refunding bonds	-	23,175,000	11,575,000	23,175,000	(11,600,000)
Payment to refunded bond escrow agent	-	-	(1,635,000)	-	(1,635,000)
	-	23,175,000	9,940,000	23,175,000	(13,235,000)
NET CHANGE IN FUND BALANCES	\$ (1,469,505)	\$ 9,625,996	9,838,411	\$ 11,095,501	\$ 212,415
Fund balance at July 1, 2010			12,967,920		
Fund balance at June 30, 2011			<u>\$ 22,806,331</u>		

FRANCIS HOWELL R-III SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGETARY BASIS - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND
Year ended June 30, 2011**

	Budgeted amounts		Actual	Variances - positive (negative)	
	Original	Final		Original to final	Final to actual
Revenues					
Local	\$ 1,868,423	\$ 1,862,840	\$ 1,978,401	\$ (5,583)	\$ 115,561
County	25,299	25,196	35,370	(103)	10,174
State	300,000	507,598	281,257	207,598	(226,341)
Federal	-	500,000	461,818	500,000	(38,182)
Interest	3,012	503,000	432,476	499,988	(70,524)
Student activities	-	-	142,315	-	142,315
Total revenues	2,196,734	3,398,634	3,331,637	1,201,900	(66,997)
Expenditures					
Capital outlay	18,949,959	41,667,526	29,247,457	(22,717,567)	12,420,069
Other	-	-	247,831	-	(247,831)
Total expenditures	18,949,959	41,667,526	29,495,288	(22,717,567)	12,172,238
Revenues over (under) expenditures	(16,753,225)	(38,268,892)	(26,163,651)	(21,515,667)	12,105,241
Other financing sources					
Proceeds from issuance of general obligation bonds	-	29,300,000	29,315,000	29,300,000	15,000
Proceeds from issuance of general obligation refunding bonds	-	11,600,000	-	11,600,000	(11,600,000)
Transfers	1,000,000	1,000,000	1,033,100	-	33,100
Total other financing sources	1,000,000	41,900,000	30,348,100	40,900,000	(11,551,900)
NET CHANGE IN FUND BALANCE	\$ (15,753,225)	\$ 3,631,108	4,184,449	\$ 19,384,333	\$ 553,341
Fund balance at July 1, 2010			36,366,817		
Fund balance at June 30, 2011			<u>\$ 40,551,266</u>		

**INFORMATION REQUIRED FOR
STATE AND FEDERAL PROGRAM REPORTING**

FRANCIS HOWELL R-III SCHOOL DISTRICT

June 30, 2011

FRANCIS HOWELL R-III SCHOOL DISTRICT

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STATE COMPLIANCE



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Independent Accountants' Report on Compliance with Specified Requirements of Missouri Laws and Regulations

Board of Education
Francis Howell R-III School District

We have examined Francis Howell R-III School District's ("the District") compliance with the requirements of Missouri laws and regulations regarding budgetary and disbursement procedures, accurate disclosure by the District's records of average daily attendance and average daily pupil transportation, and other statutory requirements as listed in the schedule of selected statistics for the year ended June 30, 2011. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was made in accordance with the attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our opinion does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the Francis Howell R-III School District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2011.

This report is intended solely for the information and use of the Board of Education, District management, the Missouri Department of Elementary and Secondary Education and other audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Kerber, Eck + Braeckel LLP

St. Louis, Missouri
December 7, 2011

Other Locations

Belleville, IL • Carbondale, IL • Springfield, IL • Jacksonville, IL • Cape Girardeau, MO • Milwaukee, WI

FRANCIS HOWELL R-III SCHOOL DISTRICT

SCHEDULE OF SELECTED STATISTICS – UNAUDITED Year ended June 30, 2011

Type of audit performed: Yellow Book: X Single Audit: X

1. Calendar (Sections 160.041 and 171.031, RSMo)

A. The number of hours and days classes were in session and pupils were under the direction of the teachers during this school year were as follows:

	<u>Hours</u>	<u>Days</u>
Grades K through 5	1,090.72	174
Grades 6 through 12	1,075.30	174

2. Average Daily Attendance (ADA)

Regular term average daily attendance

	<u>Full-Time & Part-Time</u>	<u>Remedial</u>	<u>Total</u>
Grades K through 5	7,254.71	-	7,254.71
Grades 6 through 12	8,919.71	-	8,919.71
Subtotal - Regular attendance	<u><u>16,174.42</u></u>	<u><u>-</u></u>	<u><u>16,174.42</u></u>

Summer school - Average daily attendance

67.91

Total average daily attendance

16,242.33

FRANCIS HOWELL R-III SCHOOL DISTRICT

SCHEDULE OF SELECTED STATISTICS – UNAUDITED Year ended June 30, 2011

3. September Membership

	<u>Full-Time & Part-Time</u>	<u>Deseg In</u>	<u>Federal Lands</u>	<u>Total</u>	<u>Deseg Out</u>
September resident membership	<u>17,005.75</u>	<u>-</u>	<u>-</u>	<u>17,005.75</u>	<u>-</u>

4. Free and Reduced Priced Lunch FTE Count

		<u>Full-Time & Part-Time</u>	<u>Deseg In</u>	<u>Total</u>
State FTE Total	Free	2,367.35	-	2,367.35
	Reduced	<u>546.88</u>	<u>-</u>	<u>546.88</u>
		<u>2,914.23</u>	<u>-</u>	<u>2,914.23</u>

5. Finance

- A. As required by Section 162.401, RSMo, a bond was purchased for the district's treasurer in the total amount of: \$ 25,000
- B. The district's deposits were secured during the year as required by Sections 110.010 and 110.020, RSMo. True
- C. The district maintained a separate bank account for the Debt Service Fund in accordance with Section 165.011, RSMo. True
- D. Salaries reported for educators in the October Core Data cycle are supported by payroll/contract records. True
- E. If a \$162,326 or 7% x SAT x WADA transfer was made in excess of adjusted expenditures, the board approve a resolution to make the transfer, which identified the specific projects to be funded by the transfer and an expected expenditure date for the projects to be undertaken. N/A
- F. The district published a summary of the prior year's audit report within thirty days of the receipt of the audit pursuant to Section 165.121, RSMo. True
- G. All above "false" answers must be supported by a finding or management letter comment.

Finding #: N/A

Management Letter Comment #: N/A

FRANCIS HOWELL R-III SCHOOL DISTRICT

SCHEDULE OF SELECTED STATISTICS – UNAUDITED Year ended June 30, 2011

6. Transportation

- A. The school transportation allowable costs substantially conform to 5 CSR 30-261.040, Allowable Costs for State Transportation Aid. True
- B. The district's school transportation ridership records are so maintained as to accurately disclose in all material respects the average number of regular riders transported. True
- C. Based on the ridership records, the average number of students (non-disabled K-12, K-12 students with disabilities and career education) transported on a regular basis (ADT) was:
- | | |
|------------------|----------------|
| ▪ Eligible ADT | <u>10,689</u> |
| ▪ Ineligible ADT | <u>1,445.5</u> |
- D. The district's transportation odometer mileage records are so maintained as to accurately disclose in all material respects the eligible and ineligible mileage for the year. True
- E. Actual odometer records show the total district-operated and contracted mileage for the year was: 2,347,561

Of this total, the eligible non-disabled and students with disabilities route miles and the ineligible non-route and disapproved miles (combined) was:

- | | |
|--|------------------|
| ▪ Eligible Miles | <u>2,218,785</u> |
| ▪ Ineligible Miles (Non-Route/Disapproved) | <u>128,776</u> |
- F. Number of days the district operated the school transportation system during the regular school year: 192

- G. All above "False" answers must be supported by a finding or management letter comment.

Finding #: N/A

Management Letter Comment #: N/A

FEDERAL COMPLIANCE



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**Independent Auditors' 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**

Board of Education
Francis Howell R-III School District

We have audited the financial statements of the governmental activities and each major fund of Francis Howell R-III School District (the "District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the 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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a 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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was made for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated December 7, 2011.

This report is intended solely for the information and use of the Board of Education, District management, the Missouri Department of Elementary and Secondary Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kerker, Eck + Brueckel LLP

St. Louis, Missouri
December 7, 2011



CPAs and
Management Consultants

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**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in Accordance
with OMB Circular A-133**

Board of Education
Francis Howell R-III School District

Compliance

We have audited the compliance of Francis Howell R-III School District (the "District") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 11-1.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies which are described in the accompanying schedule of findings and questioned costs as item 11-1.

The District's responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of governmental activities and each major fund of Francis Howell R-III School District as of and for the year ended June 30, 2011, and have issued our report thereon dated December 7, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Board of Education, District management, the Missouri Department of Elementary and Secondary Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kerker, Eck + Brueckel LLP

St. Louis, Missouri
December 7, 2011

FRANCIS HOWELL R-III SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2011

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture			
Passed-through Missouri Department of Elementary and Secondary Education:			
School Breakfast Program	10.553	092-088	\$ 105,022
National School Lunch Program	10.555	092-088	1,222,771
Food donation	10.550	092-088	287,660
Total U.S. Department of Agriculture			<u>1,615,453</u>
U.S. Department of Education			
Passed-through Missouri Department of Elementary and Secondary Education:			
Title I Grants to Local Education Agencies	84.010	092-088	611,501
Improving Teacher Quality State Grants	84.367	092-088	425,553
Safe and Drug-Free Schools and Communities -State Grants	84.186	092-088	10,922
English Language Acquisition Grants	84.365	092-088	30,773
Education Jobs Fund	84.410	092-088	2,658,086
State Fiscal Stabilization Funds (SFSF) - Government Services, Recovery Act	84.397	092-088	972,860
State Fiscal Stabilization Funds (SFSF) - Education State Grants, Recovery Act	84.394	092-088	1,591,244
Special Education - Grants to States	84.027	092-088	4,381,767
Special Education - Grants to States, Recovery Act	84.391	092-088	2,668,946
Special Education Early Childhood, Recovery Act	84.392	092-088	47,361
Total U.S. Department of Education			<u>13,399,013</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 15,014,466</u></u>

The accompanying notes are an integral part of this schedule.

FRANCIS HOWELL R-III SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS **Year ended June 30, 2011**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is prepared on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

FRANCIS HOWELL R-III SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2011

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on financial statements: Unqualified opinion.

Internal control over financial reporting

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unqualified opinion.

Internal control over major programs:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes

The programs tested as major programs include:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.391, 84.392	Special Education Cluster
84.394, 84.397	State Fiscal Stabilization Fund Cluster
84.410	Education Jobs Fund

Dollar threshold used to distinguish between type A and type B programs: \$450,434.

Francis Howell R-III School District qualified as low risk auditee? No

FRANCIS HOWELL R-III SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2011

II. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding 11-1

Federal Programs: Special Education Cluster

Federal Agencies: U.S. Department of Education

Pass-through Agency: Missouri Department of Elementary and Secondary Education

Condition:

The District has not performed a physical inventory of property and equipment purchased with Federal funds.

Criteria:

In accordance with A-102 Common Rule, the District is required to perform physical inventories of all property and equipment purchased with Federal funds at least once every two years.

Cause:

The District does not have internal controls to ensure physical inventories of property and equipment purchased with Federal funds are performed at least every two years.

FRANCIS HOWELL R-III SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2011

III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT - Continued

Finding 11-1 - Continued

Effect:

The District was not in compliance with the equipment and real property management requirements of the federal program.

Recommendation:

Physical inventories of property and equipment purchased with Federal funds should be performed at least every two years.

Questioned Costs:

None noted.

Views of Responsible Official and Planned Corrective Action:

The District received a large influx of federal monies as a result of the American Recovery and Reinvestment Act (ARRA) during FY2009-10. A portion of these funds were used to purchase equipment. Typically, the District allocates its federal dollars to offset personnel costs, not to purchase equipment. A physical inventory of District property will be conducted in 2012.

FRANCIS HOWELL R-III SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2011

IV. SCHEDULE OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 10-2

The District's property and equipment records do not separately identify property and equipment purchased with Federal funds. In addition, the District has not performed a physical inventory of property and equipment purchased with Federal funds.

Status: This finding has been partially corrected. The District now separately identifies property and equipment purchased with federal funds. The District has not yet performed a physical inventory. This finding has been repeated as finding 11-1.

Finding 10-3

The District does not have internal controls in place to ensure its vendors are not suspended or debarred.

Status: This finding has been corrected.