



**Thomas A. Schweich**  
Missouri State Auditor

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# Lake Lotawana Community Improvement District



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October 2012  
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<http://auditor.mo.gov>



**Thomas A. Schweich**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Lake Lotawana Community Improvement District

### Background

The Lake Lotawana Community Improvement District (CID), located in Jackson County, was formally established in 2005 for the purpose of constructing sanitary sewer facilities and providing, maintaining, and operating streets, sidewalks, surface water control and open space within the district. The district issued bond anticipation bonds (BAB) of \$7 million in 2006 and \$1.85 million in 2007. As of August 2010, approximately 25 homes had been built on 352 lots, and the Lone Summit Bank and Gibson General Store were the only commercial developments. Land within the district owned by Lightfoot Development, LLC, was foreclosed on in December 2010.

### Financial Condition

The district is in poor financial condition and filed for Chapter 9 bankruptcy in August 2010. The district received \$8.85 million from two BAB issues, which it used, in part, to pay for the construction of the wastewater treatment plant, pay interest to bond holders, repay a "bridge" loan, and repay a loan obtained from Lightfoot Development, LLC. The district was unable to obtain financing for refunding revenue bonds when the BABs came due, and the approved bankruptcy court plan extended the maturity date of the bonds to July 1, 2016. Adequate special assessments were not collected to make interest payments on the BABs, and the district made loans of \$100,000 to Lone Summit Development Group and \$60,000 to Lightfoot Development, LLC, which have not been repaid.

### Minutes and Meetings

The district does not maintain minutes for closed meetings, as required by state law, and open minutes do not always document the specific section of law which allows for the closed meeting, the specific reason for closing the meeting, and the roll call vote for holding a closed meeting. In addition, the Board went nearly 7 months without meeting between September 19, 2011, and April 12, 2012.

### Budgets and Financial Reporting

The district's annual budgets do not contain all elements required by state law, and the district has not submitted annual financial reports to the State Auditor's office. Moreover, the district submitted inaccurate reports to the City of Lake Lotawana and the Missouri Department of Economic Development, which overstated revenues and failed to reflect a loan made by the district.

### Conflicts of Interest

Former District Board members Klonda Holt and Pat Holt, representing Lightfoot Development, LLC, voted to approve a \$60,000 loan to Lightfoot in January 2010, creating at least the appearance of a conflict of interest. Moreover, these two directors continued to serve on the Board after Lightfoot no longer owned property and they no longer met the requirements to serve on the Board. The district claimed to be leasing the use of office space from Lightfoot, but the payments were made to former Board President Klonda Holt personally instead of to the company, and the district continued to pay Ms. Holt after Lightfoot no longer owned the office space. Ms. Holt was paid \$1,650 in 2011 and \$1,800 in 2010. The district

paid another former Board Director, Larry Lightfoot, \$952 for snow removal but did not obtain bids for these services. These payments were contrary to state law, which places restrictions on when directors can receive additional consideration from the governing body.

In the areas audited, the overall performance of this entity was **Poor**.\*

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American Recovery and  
Reinvestment Act  
(Federal Stimulus)

The Lake Lotawana Community Improvement District did not receive any federal stimulus monies during the audited time period.

\*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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# Lake Lotawana Community Improvement District

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# THOMAS A. SCHWEICH

## Missouri State Auditor

To the Board of Directors  
Lake Lotawana Community Improvement District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Lake Lotawana Community Improvement District. We have audited certain operations of the district in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2011. The objectives of our audit were to:

1. Evaluate the district's internal controls over significant management and financial functions.
2. Evaluate the district's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the district, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the district's management and was not subjected to the procedures applied in our audit of the district.

For the areas audited, we identified (1) no significant deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Lake Lotawana Community Improvement District.



Thomas A. Schweich  
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor: Harry J. Otto, CPA  
Director of Audits: Alice M. Fast, CPA, CIA  
Audit Manager: Randall Gordon, M.Acct., CPA, CGAP  
In-Charge Auditor: Lori Bryant

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# Lake Lotawana Community Improvement District

## Management Advisory Report

### State Auditor's Findings

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#### **1. Financial Condition**

The Lake Lotawana Community Improvement District is in poor financial condition and filed for Chapter 9 bankruptcy in August 2010. The district has not been able to meet required covenants related to bond anticipation bonds (BAB) totaling \$8.85 million issued to pay for the construction of the wastewater treatment plant. In addition, while significant special assessments were calculated, only small amounts were actually billed, and loans totaling \$160,000 were made to the development companies. One loan was made just 2 months before the district defaulted on the BABs. The district continues to operate and maintain the wastewater treatment plant. From its creation in September 2005 through December 2011, the district received approximately \$10,177,000 and spent approximately \$10,149,000. The cash balance of all district accounts at December 31, 2011, was approximately \$23,000, with the bond trustee holding an additional \$5,000.

#### Bond issues

The district received \$8.85 million from two BAB issues. The first issue in 2006 totaled \$7 million and the second issue in 2007 totaled \$1.85 million. These bonds matured on July 1, 2011, at which time the entire \$8.85 million principal amount plus all accrued interest became due. The district intended to issue refunding revenue bonds to pay off the BABs, and these bonds were expected to have a maturity of 20 years. However, the district was unable to obtain financing for the refunding revenue bonds. The approved bankruptcy court plan extended the maturity date of the bonds by 5 years to July 1, 2016, and significantly lowered the interest rate paid to bondholders. Some of the bond proceeds were used as follows:

- Approximately \$4.7 million paid for the construction of the wastewater treatment plant and necessary gathering and transmission lines for the plant.
- Interest of approximately \$2.7 million paid to bond holders. BAB proceeds of almost \$2 million were deposited in capitalized interest accounts held by the bond trustee, and these monies were used to make the interest payments until these monies ran out in March 2010. The bond trustee then used monies from the debt service reserve accounts to make required payments. The district defaulted on the BABs when it was unable to replenish the debt service reserve accounts held by the bond trustee.
- Repayment of a \$600,000 "bridge" loan obtained in May 2006.
- Repayment of a \$125,000 loan obtained in February 2007 from Lightfoot Development, LLC.

The remaining funds were used as shown on Appendix B.



Lake Lotawana Community Improvement District  
Management Advisory Report - State Auditor's Findings

Special assessments

Special assessments collected were not adequate to make interest payments on the BABs in 2010 after the capitalized interest accounts were depleted. Special assessments collected were substantially less than calculated assessments.

- Bond proceeds were used to establish the capitalized interest accounts and these accounts were set up to make future interest payments. The special assessments on the lands owned by the development companies were the majority of the special assessments calculated; however, only small amounts were provided to the Jackson County Collector to be billed to the development companies along with property taxes. For example, the total special assessment calculated for 2009, 2008, and 2007 was \$2,047,836 for the development companies, but the amounts actually billed only totaled \$25,216. Monies in the capitalized interest accounts were used as credits against special assessments of the development companies. In addition, the total special assessment calculated for the convenience store/restaurant located in the district was \$15,627 and the special assessment actually billed was \$2,502, and monies in the capitalized interest accounts were used as credits against special assessments of the convenience store/restaurant. For 2010, the special assessments calculated and billed for all property owners totaled \$741,885; however, only approximately \$23,000 was collected on these assessments as the development companies did not pay their assessments. Subsequently, during the bankruptcy proceedings, the special assessments calculated were revised down to approximately \$194,000, and a similar amount of assessments were calculated and billed for 2011. Special assessments collected were deposited into the Special Assessment and Sales Tax Fund. The interest on the bonds was paid from the capitalized interest accounts. It appears this arrangement was primarily to the benefit of the developers rather than the community improvement district (CID).
- Agricultural lots were determined not to have benefited from the construction of the sanitary sewerage system, and no special assessments were levied on agricultural lots.
- Development within the district has been much slower than projected. As of the bankruptcy filing, approximately 25 houses had been built on the 352 lots in the residential development, and the only commercial developments are a bank and convenience store/restaurant. Therefore, there were significantly fewer homes built than anticipated and no additional commercial development occurred on which special assessments would be assessed for collection.

Loans to development  
companies

The district made loans of \$100,000 to Lone Summit Development Group in June 2007 and \$60,000 to Lightfoot Development, LLC, in January 2010,





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Lake Lotawana Community Improvement District  
Management Advisory Report - State Auditor's Findings

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which have not been repaid as of June 29, 2012. The resolutions passed by the district in June 2007 and January 2010 approving these loans indicated the monies were to be used to pay expenses incurred to obtain water facilities and service to their properties within the district and the loans would be repaid through special assessments and with sales tax revenues generated within the district. The loans do not indicate when repayments are due. Section 67.1461.13, RSMo, does allow for the district to loan monies; however, the lack of a timely repayment requirement does not seem reasonable. Lightfoot Development, LLC, has since filed for bankruptcy and its property was foreclosed on by a bank in December 2010. In addition, the district defaulted on the BABs in March 2010, just 2 months after making the \$60,000 loan.

Overall conclusion

The failure to collect sufficient special assessments, along with loaning monies for which there has been no repayment, has contributed to the district not having sufficient monies to make required bond payments and defaulting on the bonds, and filing for bankruptcy.

Recommendation

The Board of Directors continue to work with the bankruptcy court and develop a long range plan to pay off its bonds and fund future operations and maintenance costs of the wastewater treatment plant. In addition, the Board of Directors should consult with legal counsel regarding the legality of the loans and credits granted.

Auditee's Response

*The Board of Directors provided the following written response:*

*The Auditor's recommendations are accepted without reservation.*

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**2. Minutes and Meetings**

Minutes for closed meetings are not maintained as required. In addition, the minutes for open meetings do not document the specific section of law that allows for the closed meeting and do not always document the specific reason for closing the meeting, and the roll call vote for holding a closed meeting was not always taken and/or recorded in the open minutes. In addition, no Board meetings were held between September 19, 2011, and April 12, 2012.

Section 610.020.7, RSMo, requires minutes be kept for all closed meetings and Section 610.022, RSMo, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting, including reference to a specific section of the law, shall be voted on during an open meeting. These reasons and the corresponding votes to close the meeting should be documented in the open minutes to demonstrate compliance with statutory provisions. District bylaws require board meetings be held no less often than quarterly.



Lake Lotawana Community Improvement District  
Management Advisory Report - State Auditor's Findings

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## Recommendation

The Board of Directors ensure minutes are prepared and retained for all closed meetings, roll call votes to close meetings are taken during open meetings, and the specific statute and subsection allowing closure is noted in the open meeting minutes. In addition, meetings should be held as required.

## Auditee's Response

*The Board of Directors provided the following written response:*

*The Auditor's recommendation is accepted without reservation.*

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## 3. Budgets and Financial Reporting

The district does not properly prepare budgets, or prepare and submit accurate required financial reports.

### 3.1 Budgets

Annual budgets do not contain all elements required by state law. District budgets did not include the beginning and projected ending fund balances. By not including the fund balance, there is no assurance the budget was balanced. In addition, the budgets lacked required information including a budget message, budget summary, actual receipts and disbursements from the 2 preceding years, and district indebtedness information.

Section 67.010, RSMo, requires each political subdivision to prepare an annual budget that presents a complete financial plan for the ensuing budget year and outlines the various information to be included in the budget. A complete and well planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of district operations. It also assists in informing the public about district operations and current finances.

### 3.2 Financial reporting

The district has not submitted annual financial reports to the State Auditor's office. In addition, reports submitted to the City of Lake Lotawana and the Missouri Department of Economic Development (DED) were not accurate. The district included approximately \$176,000 in "operating income reserve" as income on its 2010 year-end financial reports which overstates revenues collected for the year, and a \$60,000 loan made by the district was not reported.

Section 105.145, RSMo, requires each political subdivision to file an annual report of its financial transactions with the State Auditor's office. In addition, Section 67.1471.4, RSMo, indicates the district shall submit a report to the city and the DED stating the services provided, revenues collected, and expenditures made by the district during such fiscal year.



Lake Lotawana Community Improvement District  
Management Advisory Report - State Auditor's Findings

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## Recommendations

The Board of Directors:

- 3.1 Ensure district budgets include all elements required by law.
- 3.2 Submit accurate and timely financial reports to the city and state agencies as required by law.

## Auditee's Response

*The Board of Directors provided the following written responses:*

- 3.1 *The Board has already asked its Certified Public Accountant to assist in preparing the budget to include all elements required by law. He has responded that the task will be priority with his office and the Board expects full compliance with the timing required by law for the necessary reports.*
- 3.2 *The Auditor's recommendation is accepted without reservation.*

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## 4. Conflicts of Interest

Two directors voted to approve a loan to the development company they represented and remained on the Board after no longer meeting the Board requirements. In addition, two directors were paid for additional services provided to the district.

### 4.1 Board of Directors

Klonda Holt and Pat Holt, two former district Directors representing Lightfoot Development, LLC, voted to approve a \$60,000 loan to Lightfoot Development, LLC, in January 2010. In addition, after the property owned by the development company was foreclosed on in December 2010, these two Directors remained on the district's Board until September 15, 2011, even though they no longer met the requirements to serve on the Board since the land was no longer owned by their development company.

Personal interests in business matters of the district create actual or the appearance of conflicts of interest. In addition, Section 67.1451.2, RSMo, and district bylaws require directors to be either an owner or legally authorized representative of real property in the district or of a business operating within the district, or a registered voter within the district.

### 4.2 Additional services provided

Former Board President Klonda Holt requested compensation for work she performed for the district including depositing monthly sewer fees and various administrative services. The Board determined it was not appropriate to pay a director a salary; however, decided it would be appropriate to pay \$150 per month to lease the non-exclusive use of office furniture and office equipment. The lease was between Lightfoot Development, LLC, and the district, and the Board President signed the lease agreement as managing member of the development company. However, the invoices submitted for the monthly \$150 payment described various services performed with no mention of the lease and the checks



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Lake Lotawana Community Improvement District  
Management Advisory Report - State Auditor's Findings

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were made payable to Klonda Holt personally rather than to the development company. In addition, the payments continued after the office space being leased was foreclosed on by the bank in December 2010. Klonda Holt was paid \$1,650 in 2011 and \$1,800 in 2010. Another former Board Director, Larry Lightfoot, was paid \$952 in January 2010 for snow removal without any bids being obtained.

Section 105.458, RSMo, prohibits a member of a governing body from performing any service for that political subdivision for any consideration other than the compensation provided for the performance of his or her official duties which involve more than \$500 per transaction or \$5,000 per year unless the transaction is made pursuant to an award on a contract let after public notice and competitive bidding, provided that the bid or offer accepted is the lowest received.

## Recommendations

The Board of Directors:

- 4.1 Ensure directors abstain from voting on related party transactions. The Board should require directors meet the requirements for being a director and, if circumstances change, request their resignation from the Board.
- 4.2 Comply with state law relating to the compensation of district officials.

## Auditee's Response

*The Board of Directors provided the following written response:*

- 4.1 *No Director has ever voted on a related party transaction. The minutes were prepared in error.*
- 4.2 *The Auditor's recommendation is accepted without reservation.*

*Kent Reese, a member of the Board of Directors, provided the following separate written response:*

- 4.1 *I disagree wholeheartedly that just in these instances the minutes of meeting are incorrect, and that the following review and vote to validate the previous minutes of meeting are incorrect. I do not think the CID board has the luxury or flexibility to claim certain minutes of meeting are incorrect and the rest or infallible without further investigation and due process. An example is that often, when I have attended the board meetings, my very detailed notes show matters that were discussed or conclusions that are not entered into the minutes of meeting or do not reflect what was concluded.*



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Lake Lotawana Community Improvement District  
Management Advisory Report - State Auditor's Findings

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*And whether or not they voted for themselves in the matter of loans I think is immaterial. I believe it's a clear conflict of interest given their joint business ventures that they had the flexibility to vote and lend each other money out of the CID funds - at which lending was never time bound, carried interest, nor ever repaid according to all records researched. In fact, the minutes of meeting stated that they would be repaid when the person "sold property". I don't think the conflict of interest issue is only that they may have voted for loans for themselves, but that they actually gave each other loans given their apparent tight relationships with each other.*

**Auditor's Comment**

- 4.1 The Board of Trustees attested to the accuracy of the January 2010 meeting minutes by reviewing and approving them at a subsequent meeting.

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# Lake Lotawana Community Improvement District Organization and Statistical Information

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The Lake Lotawana Community Improvement District is located in Jackson County. The purpose of the district is to construct sanitary sewer facilities and to provide, maintain, and operate streets, sidewalks, surface water control, and open space within the district. The district was established under the Community Improvement District Act, Sections 67.1401 through 67.1571, RSMo. In 2005, 100 percent of the real property owners submitted a petition to the City of Lake Lotawana to establish a Community Improvement District. The property owners were the Gibson Family Limited Partnership; Lightfoot Development, LLC; Lone Summit Development Group; and Lone Summit Bank. City of Lake Lotawana Ordinance No. 765, adopted September 28, 2005, formally established the district. The district issued bond anticipation bonds of \$7 million in 2006 and bond anticipation bonds of \$1.85 million in 2007. As of August 2010, approximately 25 homes had been built on 352 lots in the residential development and the only commercial developments were the Lone Summit Bank and the Gibson General Store. The land owned by Lightfoot Development, LLC, was foreclosed on in December 2010.

## Board of Directors

The district government consists of a five-member board of directors. The board members serve 4-year terms without compensation. The petition submitted to the city requesting the district be established included a request for specific people to be appointed to the initial board of directors, all of which were owners of the real property in the district. Section 67.1451.2, RSMo, and district bylaws require directors to be at least 18 years old and either an owner of real property in the district or of a business operating within the district, or a registered voter within the district. The original board members were :

Klonda Holt, President	property owner
Dennis Tenney, Vice President	property owner
Charles Gibson, Secretary	property owner
Judy Gibson, Treasurer	property owner
Joe Holt	property owner
Larry Lightfoot	property owner

The Board approved Resolution No. 2011-01 in January 2011, to reduce the number of directors from six to five. Members of the Board (one vacancy) at December 31, 2011, were:

Dennis Tenney, President	property owner
Charles Gibson, Secretary	property owner
Judy Gibson, Treasurer	property owner
Kent Reese	resident



Lake Lotawan Community Improvement District  
Organization and Statistical Information

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American Recovery and  
Reinvestment Act 2009  
(Federal Stimulus)

The Lake Lotawana Community Improvement District did not receive any federal stimulus monies during the year ended December 31, 2011.

Financial Activity

A summary of the district's financial activity follows:

Appendix A

Lake Lotawana Community Improvement District  
 Statement of Receipts, Disbursements, and Changes in Cash - District Accounts  
 Year Ended December 31, 2011

	Operations Fund	Special Assessment and Sales Tax Fund	Money Market Fund	Sewer Operations Fund	Sewer Tap Fees Fund	Total
<b>RECEIPTS</b>						
Sales and use tax	\$ 0	23,164	0	0	0	23,164
Special assessments	0	15,636	0	0	0	15,636
Sewer connection fees	0	0	0	24,870	0	24,870
Interest	26	355	484	433	0	1,298
Transfers in	90,000	66,375	0	0	0	156,375
<b>Total Receipts</b>	<b>90,026</b>	<b>105,530</b>	<b>484</b>	<b>25,303</b>	<b>0</b>	<b>221,343</b>
<b>DISBURSEMENTS</b>						
Legal fees	69,962	0	0	0	0	69,962
Operation and maintenance	45,779	55	0	4,271	(7)	50,098
Guarantee bond expense	7,774	0	0	0	0	7,774
Accounting fees	1,931	0	0	0	0	1,931
Debt service - interest	0	193,993	0	14,000	0	207,993
Transfers out	0	6,000	90,000	60,375	0	156,375
<b>Total Disbursements</b>	<b>125,446</b>	<b>200,048</b>	<b>90,000</b>	<b>78,646</b>	<b>(7)</b>	<b>494,133</b>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<b>(35,420)</b>	<b>(94,518)</b>	<b>(89,516)</b>	<b>(53,343)</b>	<b>7</b>	<b>(272,790)</b>
<b>CASH, JANUARY 1, 2011</b>	<b>41,362</b>	<b>98,783</b>	<b>100,097</b>	<b>55,507</b>	<b>(7)</b>	<b>295,742</b>
<b>CASH, DECEMBER 31, 2011</b>	<b>\$ 5,942</b>	<b>4,265</b>	<b>10,581</b>	<b>2,164</b>	<b>0</b>	<b>22,952</b>



Appendix B

Lake Lotawana Community Improvement District  
 Combined Summary of Financial Activity of District and Bond Trustee Accounts  
 From September 28, 2005 to December 31, 2011

RECEIPTS

Bond proceeds	\$ 8,850,000
Bridge loan	600,000
Interest	284,940
Loan from developer	125,000
Sales and use tax	105,600
Sewer connection fees	79,933
Sewer tap fees	73,000
Special assessments	58,537

Total Receipts	<u>10,177,010</u>
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DISBURSEMENTS

Construction	4,717,218
Debt service - interest	3,030,595
Legal fees	666,031
Repayment of Bridge loan - principal and interest	606,125
Operation and maintenance	443,948
Trustee fees	269,518
Loans to developers	160,000
Repayment of Loan from developer - principal and interest	126,232
Bond origination fees	88,500
Guarantee bond expense	30,990
Accounting fees	9,512

Total Disbursements	<u>10,148,669</u>
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RECEIPTS OVER (UNDER)

DISBURSEMENTS	28,341
CASH, SEPTEMBER 28, 2005	0
CASH, DECEMBER 31, 2011	<u>\$ 28,341</u>

Note: Includes activity in the accounts held by the bond trustee for the district. The December 31, 2011, cash balance includes monies held by the district of \$22,952 and the bond trustee of \$5,389.