

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	15
Statement of Activities	B	16-17
Governmental Fund Financial Statements:		
Balance Sheet	C	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	21
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	22
Statement of Revenues, Expenses, and Changes in Net Assets	H	23
Statement of Cash Flows	I	24
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	25
Statement of Changes in Fiduciary Net Assets	K	26
Notes to Financial Statements		27-35
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and proprietary Fund		37
Budget to GAAP Reconciliation		38
Notes to Required Supplementary Information - Budgetary Reporting		39
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	44
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		45-46
Schedule of Findings		47-49

Independent Auditor's Report

To the Board of Education of
Hubbard-Radcliffe Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Hubbard-Radcliffe Community School District, Hubbard, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Hubbard-Radcliffe Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Hubbard-Radcliffe Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 27, 2004, on our consideration of Hubbard-Radcliffe Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hubbard-Radcliffe Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

September 27, 2004

Hubbard -Radcliffe Community Schools
Management Discussion & Analysis
FY 2003-2004

Management of the Hubbard-Radcliffe Community School District provides this Management's Discussion and Analysis of the Hubbard-Radcliffe Community School District. This narrative overview analysis of the financial activities of the Hubbard-Radcliffe Community School District is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Since this is the first year that requires all activities to be reported on a full accrual basis, a comprehensive comparison to the prior year is not possible. Efforts have been made to provide comparison to prior year data when such data is available. In subsequent years comparison to prior year data will be provided for all key financial information.

Financial Highlights

- General Fund revenues decreased from \$3,645,386 in fiscal year 2003 to \$3,594,78 in fiscal year 2004, while General Fund expenditures increased from \$3,746,043 in FY 2003 to \$3,821,619 in FY 2004. This indicates that a negative balance (more expenditures than revenues) increased from \$100,657 in FY 2003 to a negative balance of \$226,837 in FY 2004.
- The decrease in General Fund revenues can be attributed to a decrease state and federal funds. The increase in expenditures is due primarily to the increased cost of the negotiated salary and benefits package for employees (instructional and support services) above and beyond any new money generated through the state funding formula. In addition, FY 2004 was the first year of the planned ten-year scale back of the budget guarantee, which also negatively impacted the district revenue total.
- During the year ended June 30, 2004, the State of Iowa imposed a 2.25% reduction in State Foundation aid, which reduced the General Fund revenues by \$39,727. Since the reduction occurred mid-year, the District had already obligated the resources to fund fiscal 2004 salaries and programs. The District responded to the reduction by using a portion of the District's unreserved, undesignated fund balance
- Because of this reduction, the District's General Fund balance decreased by \$221,495 in fiscal 2004, compared to a decrease of \$100,636 in fiscal year 2003.
- A decline in interest rates during the past two fiscal years combined with less cash available for investing resulted in interest earnings in the General Fund

alone to drop from \$42,469 in fiscal year 2003 to \$31,075 in fiscal year 2004, a decrease of \$11,394.

The district renewed its Instructional Support Levy for a five-year period of time, beginning July 1, 2004, not to exceed ten (10) percent.

The district's patrons voted in February 2004 to approve a local option sales tax for school infrastructure. This will result in generating approximately \$233,000 in SILO revenues per year for a ten-year period of time. These proceeds are available for a variety of uses as well as property tax relief.

The district's solvency ratio decreased to 29.36% in FY 2004, down from 35.43% the previous year.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Government-wide Statements

The **Government**-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

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

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the [Government](#)-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, school nutrition.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as a scholarship fund. The district accounts for outside donations for scholarships for individual students in this fund.

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

Financial Analysis of the District as a Whole

The following table represents a condensed statement of net assets for the FY 2003 and FY 2004.

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2003	2004	2003	2004	2003	2004	2003-04
Current and other assets	\$3,964,294	\$3,494,103	\$13,518	\$9,092	\$3,977,812	\$3,503,195	-11.93
Capital assets	\$747,689	\$733,763	\$4,816	\$4,108	\$752,505	\$737,871	-1.94
Total Assets	\$4,711,983	\$4,227,866	\$18,334	\$13,200	\$4,730,317	\$4,241,066	-10.34
Long-term debt outstanding	\$115,426	\$40,181	\$0	\$0	\$115,426	\$40,181	-65.19
Other liabilities	\$2,397,563	\$2,055,989	\$93	\$1,398	\$2,397,656	\$2,057,387	-14.19
Total liabilities	\$2,512,989	\$2,096,170	\$93	\$1,398	\$2,513,082	\$2,097,568	-16.53
Net Assets							
Invested in capital assets,							
Net of related debt	\$636,796	\$678,505	\$4,816	\$4,108	\$641,612	\$682,613	6.39
Restricted	\$368,293	\$434,499			\$368,293	\$434,499	17.98
Unrestricted	\$1,193,905	\$1,018,692	\$13,425	\$7,694	\$1,207,330	\$1,026,386	-14.99
TOTAL NET ASSETS	\$2,198,994	\$2,131,696	\$18,241	\$11,802	\$2,217,235	\$2,143,498	-3.32

The District's financial position reflects a downward trend over time. This is the product of many factors. Reductions in enrollment drive a reduction in district revenues. A decrease in taxes and reduction in the cash balance and the unspent balance in order to meet increased expenditures are evidence of this decline.

Changes in net assets. The FY 2004 data will serve as a baseline for future comparisons as we do not have any comparative data for this year.

Changes in Net Assets from Operating Results

	Governmental Activities 2004	Business-Type Activities 2004	Total School District 2004
Revenues			
Program Revenues			
Charges for services	\$ 209,215	\$ 107,105	\$ 316,320
Operating Grants & Contribution	\$ 414,101	\$ 73,182	\$ 487,283
Capital Grants & Contributions	\$ 87,213	\$ -	\$ 87,213
General Revenues			
Property taxes & other taxes	\$ 2,156,433	\$ -	\$ 2,156,433
Unrestricted state aid	\$ 1,216,757	\$ -	\$ 1,216,757
Other	\$ 39,328	\$ 13	\$ 39,341
Total Revenues	\$ 4,123,047	\$ 180,300	\$ 4,303,347
Expenses			
Instruction	\$ 2,650,899	\$ -	\$ 2,650,899
Support Services	\$ 1,254,309	\$ -	\$ 1,254,309
Non-instructional programs	\$ 20,565	\$ 186,739	\$ 207,304
Other	\$ 264,572	\$ -	\$ 264,572
Total Expenses	\$ 4,190,345	\$ 186,739	\$ 4,377,084
Excess (deficiency) before Special item	\$ (67,298)	\$ (6,439)	\$ (73,737)
Special item description	\$ -	\$ -	\$ -
Increase (decrease) in net assets	\$ (67,298)	\$ (6,439)	\$ (73,737)

Governmental Activities

The strength of the local economy was evident as the District experienced an increase in the overall property tax base. Taxable valuation increased .3% percent, from \$184,854,684 to \$185,577,246 compared to the prior fiscal year.

Revenues for governmental activities were \$4,123,047 while expenses totaled \$4,190,345. In a difficult budget year, the District used its unspent balance to meet increased expenditures in lieu of reducing expenditures or seeking additional revenue sources.

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

Net Cost of Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction	\$2,650,899	\$2,156,046
Support Services	\$1,254,309	\$1,234,054
Non-instructional Programs	\$20,565	\$20,565
Other	\$264,572	\$69,151
TOTAL	\$ 4,190,345	\$ 3,479,816

- The cost of all governmental activities this year was \$4,190,345.
- The portion of the cost financed by users of the District’s programs was \$209,215, which represents tuition from other schools, proceeds from employee sharing agreements, revenues from student activities and student registration fees for textbook sales and rentals.
- The federal and state government (and private contributors) subsidized certain programs with grants and contributions totaling \$501,314.
- The net cost portion of governmental activities was financed with \$2,156,433 in property tax, \$1,216,757 in unrestricted state aid and \$39,328 in interest and miscellaneous income.

Business-Type Activities

Revenues of the District’s business-type activities totaled \$180,300 while expenses totaled \$186,739. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

Deficits in the School Nutrition Fund are noted. The increased cost of food was not offset by an increase in student participation that was realized during the year. Meal prices charged remained the same as 2002-03. The district will be monitoring revenues and expenditures and making adjustments as necessary to increase revenues or reduce expenditures.

Financial Analysis of the District’s Funds

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,513,581, lower than last year's ending fund balances of \$1,703,885.

Governmental Fund Highlights

- The General Fund balance decreased from \$1,368,145 in FY03 to \$1,146,650 in FY04. A balance of increased expenditures and decreased revenue accounts for this balance reduction.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased \$69,249 during the year due to increased revenues. A major contributor to this increase was the district's receipt of a \$50,000 fire and life safety grant from the state.

Business-Type Fund Highlights

- The School Nutrition Fund balance decreased \$6,439. The reasons for this decrease were previously stated.

The district's financial health is mixed. The district maintains a strong cash balance and excellent solvency ratio, However, the pattern of increased expenditures and decreased revenues will have a negative impact on the district's spending authority over time. Student enrollment has dropped and is projected to continue to decrease in the next 3-4 years. The school nutrition fund is operating at a deficit and is being closely monitored.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the cash basis. Over the course of the year, it was necessary for the District to amend its certified budget one time to adjust for one-time expenditures for a personnel contract settlement and related fees and increased costs to maintain the nutrition fund.

Actual other expenditures exceeded the amount budgeted due to the expenditure of funds for the lease/purchase of National School Fitness Foundation program equipment that was required to be paid from debt service, but was not budgeted for within that fund. Those expenditures were originally budgeted for within the PPEL fund and then transferred to debt service for payment. In addition, the reimbursements that were being received through the Foundation for this program to offset the costs were discontinued halfway through the year, thus reducing revenues that would have balanced out the expenditure side.

School districts have two levels of budgetary control. One form of budgetary control exists through the “certified budget”, which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the “unspent (maximum) authorized budget” and pertains only to the General Fund of the District. The maximum authorized budget is the total “spending authority” in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the “actual General Fund cash”. It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

Capital Asset and Debt Administration

Capital Assets

By the end of fiscal 2004, the District had invested \$737,871, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers and audio-visual equipment, transportation equipment, and administrative offices. This amount represents a net decrease of .01 percent from last year. (See attached chart). Depreciation expense for the year was approximately \$115,432. No significant changes in capital assets occurred during the fiscal year.

Capital Assets (net of depreciation)

	Governmental Activities		Business Type Activities		Total School District		Total Percentage Change 2003-04
	2003	2004	2003	2004	2003	2004	
	\$	\$	\$	\$	\$	\$	
Land	8,000	8,000	-	-	8,000	8,000	0.00
Buildings	263,277	321,925	-	-	263,277	321,925	22.28
Other improvements	-	-	-	-	-	-	0.00
Equipment & Furniture	476,412	403,838	4,816	4,108	481,228	407,946	-15.23

TOTAL	747,689	733,763	4,816	4,108	752,505	737,871	-1.94
-------	---------	---------	-------	-------	---------	---------	-------

Long-Term Debt

At year-end, the district had \$115,426 in general obligation debt and other long-term debt outstanding. This represents a decrease of 54.2 percent from FY 2003. This reduction was due to a reduction in the debt for the National School Fitness program and a reduction in early retirement benefits.

Debt service expenditures are related to lease agreements on copy machines and National School Fitness program equipment.

Factors Bearing on the District’s Future

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

- Anticipated enrollment reductions in the next 3-4 years are a concern to the district as it is likely to result in fewer revenues through the state funding formula. The district will need to consider ways to reduce its expenditures in future years.
- The board also anticipates accessing local option sales tax funds for school infrastructure, beginning with the 2004-05 school year.
- The board has engaged in conversation with a neighboring district about future sharing possibilities, including the sharing of more teachers and administration as well as potential sharing of some classes for students between the two districts.

Contacting the District’s Financial Management

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

Marcia Granzow, Board Secretary or John Kinley, Superintendent
Hubbard-Radcliffe Community Schools
200 Chestnut
Hubbard, IA 50122

BASIC FINANCIAL STATEMENTS

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	1,434,446	-	1,434,446
Receivables:			
Property tax:			
Delinquent	25,264	-	25,264
Succeeding year	1,957,947	-	1,957,947
Accounts	128	50	178
Accrued interest	2,757	-	2,757
Due from other governments	44,436	-	44,436
Prepaid expenses	29,125	-	29,125
Inventories	-	9,042	9,042
Capital assets, net of accumulated depreciation	733,763	4,108	737,871
Total assets	4,227,866	13,200	4,241,066
Liabilities			
Accounts payable	22,575	1,398	23,973
Deferred revenue:			
Succeeding year property tax	1,957,947	-	1,957,947
Accrued interest payable	222	-	222
Long-term liabilities			
Portion due within one year:			
Capital leases	55,258	-	55,258
Early retirement	13,187	-	13,187
Special termination benefits	-	-	-
Compensated absences	6,800	-	6,800
Portion due after one year:			
Early retirement	10,316	-	10,316
Compensated absences	29,865	-	29,865
Total Liabilities	2,096,170	1,398	2,097,568
Net assets			
Invested in capital assets, net of related debt	678,505	4,108	682,613
Restricted for:			
Phase III	3,335	-	3,335
Gifted and talented program	76,056	-	76,056
Iowa early intervention block grant	11,680	-	11,680
Management levy	47,945	-	47,945
Physical plant and equipment levy	235,089	-	235,089
Other special revenue purposes	60,394	-	60,394
Unrestricted	1,018,692	7,694	1,026,386
Total net assets	2,131,696	11,802	2,143,498

See notes to financial statements.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,965,940	75,923	195,254	37,213
Special instruction	383,177	408	68,168	-
Other instruction	301,782	113,387	4,500	-
	<u>2,650,899</u>	<u>189,718</u>	<u>267,922</u>	<u>37,213</u>
Support services:				
Student services	111,425	-	-	-
Instructional staff services	104,988	19,041	-	-
Administration services	408,046	-	-	-
Operation and maintenance of plant services	415,214	-	-	-
Transportation services	214,636	456	758	-
	<u>1,254,309</u>	<u>19,497</u>	<u>758</u>	<u>-</u>
Non-instructional programs	<u>20,565</u>	-	-	-
Other expenditures:				
Facilities acquisition	79,777	-	-	50,000
Long-term debt interest	2,560	-	-	-
AEA flowthrough	145,421	-	145,421	-
Depreciation (unallocated)*	36,814	-	-	-
	<u>264,572</u>	<u>-</u>	<u>145,421</u>	<u>50,000</u>
Total governmental activities	<u>4,190,345</u>	<u>209,215</u>	<u>414,101</u>	<u>87,213</u>
Business type activities				
Non-instructional programs:				
Food service operations	<u>186,739</u>	<u>107,105</u>	<u>73,182</u>	<u>-</u>
Total	<u>4,377,084</u>	<u>316,320</u>	<u>487,283</u>	<u>87,213</u>

General Revenues:

Property taxes levied for:
 General purposes
 Capital outlay
 Unrestricted state grants
 Unrestricted investment earnings
 Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

*This amount excludes the depreciation that is included in the direct expense of the various programs.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
(1,657,550)	-	(1,657,550)
(314,601)	-	(314,601)
(183,895)	-	(183,895)
<u>(2,156,046)</u>	<u>-</u>	<u>(2,156,046)</u>
(111,425)	-	(111,425)
(85,947)	-	(85,947)
(408,046)	-	(408,046)
(415,214)	-	(415,214)
(213,422)	-	(213,422)
<u>(1,234,054)</u>	<u>-</u>	<u>(1,234,054)</u>
<u>(20,565)</u>	<u>-</u>	<u>(20,565)</u>
(29,777)	-	(29,777)
(2,560)	-	(2,560)
-	-	-
(36,814)	-	(36,814)
<u>(69,151)</u>	<u>-</u>	<u>(69,151)</u>
(3,479,816)	-	(3,479,816)
<u>-</u>	<u>(6,452)</u>	<u>(6,452)</u>
<u>(3,479,816)</u>	<u>(6,452)</u>	<u>(3,486,268)</u>
1,944,839	-	1,944,839
211,594	-	211,594
1,216,757	-	1,216,757
36,319	13	36,332
3,009	-	3,009
<u>3,412,518</u>	<u>13</u>	<u>3,412,531</u>
(67,298)	(6,439)	(73,737)
<u>2,198,994</u>	<u>18,241</u>	<u>2,217,235</u>
<u>2,131,696</u>	<u>11,802</u>	<u>2,143,498</u>

See notes to financial statements.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	1,098,205	203,482	132,759	1,434,446
Receivables:				
Property tax:				
Delinquent	21,540	2,482	1,242	25,264
Succeeding year	1,695,839	172,108	90,000	1,957,947
Accounts	128	-	-	128
Accrued interest	2,757	-	-	2,757
Due from other governments	44,436	-	-	44,436
Prepaid expenses	-	29,125	-	29,125
Total assets	<u>2,862,905</u>	<u>407,197</u>	<u>224,001</u>	<u>3,494,103</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	20,416	-	2,159	22,575
Deferred revenue:				
Succeeding year property tax	1,695,839	172,108	90,000	1,957,947
Total liabilities	<u>1,716,255</u>	<u>172,108</u>	<u>92,159</u>	<u>1,980,522</u>
Fund balances:				
Reserved for:				
Phase III	3,335	-	-	3,335
Gifted and talented program	76,056	-	-	76,056
lowa early intervention block grant	11,680	-	-	11,680
Unreserved	1,055,579	235,089	131,842	1,422,510
Total fund balances	<u>1,146,650</u>	<u>235,089</u>	<u>131,842</u>	<u>1,513,581</u>
Total liabilities and fund balances	<u>2,862,905</u>	<u>407,197</u>	<u>224,001</u>	<u>3,494,103</u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	1,513,581
--	-----------

***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	733,763
--	---------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(222)
---	-------

Long-term liabilities, including capital leases, compensated absences and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(115,426)</u>
--	------------------

Net assets of governmental activities (Exhibit A)	<u><u>2,131,696</u></u>
--	-------------------------

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,838,653	211,594	106,186	2,156,433
Tuition	39,597	-	-	39,597
Other	85,911	41,158	116,081	243,150
State sources	1,508,186	158	79	1,508,423
Federal sources	122,435	50,000	-	172,435
Total revenues	<u>3,594,782</u>	<u>302,910</u>	<u>222,346</u>	<u>4,120,038</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,905,796	-	60,151	1,965,947
Special instruction	383,177	-	-	383,177
Other instruction	197,058	-	107,186	304,244
	<u>2,486,031</u>	<u>-</u>	<u>167,337</u>	<u>2,653,368</u>
Support services:				
Student services	95,473	-	15,952	111,425
Instructional staff services	104,988	-	-	104,988
Administration services	401,427	-	60,444	461,871
Operation and maintenance of plant services	407,117	-	6,873	413,990
Transportation services	160,597	-	7,465	168,062
	<u>1,169,602</u>	<u>-</u>	<u>90,734</u>	<u>1,260,336</u>
Non-instructional programs	<u>20,565</u>	<u>-</u>	<u>-</u>	<u>20,565</u>
Other expenditures:				
Facilities acquisition	-	175,239	-	175,239
Long-term debt:				
Principal	-	-	55,635	55,635
Interest and fiscal charges	-	-	2,787	2,787
AEA flowthrough	145,421	-	-	145,421
	<u>145,421</u>	<u>175,239</u>	<u>58,422</u>	<u>379,082</u>
Total expenditures	<u>3,821,619</u>	<u>175,239</u>	<u>316,493</u>	<u>4,313,351</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(226,837)</u>	<u>127,671</u>	<u>(94,147)</u>	<u>(193,313)</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	2,204	-	-	2,204
Sales of materials and equipment	805	-	-	805
Operating transfers in	2,333	-	58,422	60,755
Operating transfers out	-	(58,422)	(2,333)	(60,755)
Total other financing sources (uses)	<u>5,342</u>	<u>(58,422)</u>	<u>56,089</u>	<u>3,009</u>
Net change in fund balances	(221,495)	69,249	(38,058)	(190,304)
Fund balances beginning of year, as restated	<u>1,368,145</u>	<u>165,840</u>	<u>169,900</u>	<u>1,703,885</u>
Fund balances end of year	<u><u>1,146,650</u></u>	<u><u>235,089</u></u>	<u><u>131,842</u></u>	<u><u>1,513,581</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the
Statement of Activities

Year ended June 30, 2004

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(190,304)

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:

Expenditures for capital assets	100,798	
Depreciation expense	<u>(114,724)</u>	(13,926)

Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 55,635

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due. 227

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	20,400	
Special termination benefits	53,825	
Compensated absences	<u>6,845</u>	<u>81,070</u>

Changes in net assets of governmental activities (Exhibit B) (67,298)

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	-
Accounts receivable	50
Inventories	9,042
Capital assets, net of accumulated depreciation	<u>4,108</u>
Total assets	<u>13,200</u>
Liabilities	
Accounts payable	<u>1,398</u>
Net assets	
Invested in capital assets, net of related debt	4,108
Unrestricted	<u>7,694</u>
Total net assets	<u><u>11,802</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2004

	Nonmajor School Nutrition <u> </u> \$
Operating revenue:	
Local sources:	
Charges for service	<u>107,105</u>
Operating expenses:	
Non-instructional programs:	
Salaries	67,075
Benefits	18,143
Purchased services	2,047
Supplies	94,608
Depreciation	708
Other	<u>4,158</u>
	<u>186,739</u>
Operating gain (loss)	<u>(79,634)</u>
Non-operating revenue:	
State sources	2,745
Federal sources	70,437
Interest income	13
Total non-operating revenue	<u>73,195</u>
Change in net assets	(6,439)
Net assets beginning of year	<u>18,241</u>
Net assets end of year	<u><u>11,802</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Nonmajor School Nutrition \$
Cash flows form operating activities:	
Cash received from sale of lunches and breakfasts	107,208
Cash payments to employees for services	(85,218)
Cash payments to suppliers for goods or services	<u>(79,467)</u>
Net cash used by operating activities	<u>(57,477)</u>
Cash flows from non-capital financing activities:	
State grants received	2,745
Federal grants received	54,545
Net cash provided by non-capital financing activities	<u>57,290</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>13</u>
Net increase (decrease) in cash and cash equivalents	(174)
Cash and cash equivalents at beginning of year	<u>174</u>
Cash and cash equivalents at end of year	<u><u>-</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(79,634)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	15,892
Depreciation	708
Decrease (increase) in inventories	4,149
Decrease (increase) in accounts receivable	103
(Decrease) increase in accounts payable	<u>1,305</u>
Net cash used in operating activities	<u><u>(57,477)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$15,892 of federal commodities.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	Private Purpose Trust Scholarship
	<u> </u>
	\$
Assets	
Cash and pooled investments	2,068
Accrued interest receivable	<u> 2</u>
Total Assets	2,070
Liabilities	<u> -</u>
Net Assets	
Reserved for scholarships	<u><u> 2,070</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

Hubbard-Radcliffe Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Hubbard and Radcliffe, Iowa and the predominate agricultural territory in a portion of Hardin and Hamilton Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Hubbard-Radcliffe Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Hubbard-Radcliffe Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the physical plant and equipment property tax levy.

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private-Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, propriety and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003, through June 30, 2004, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
	\$ -
Land	-
Buildings	25,000
Improvements other than buildings	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General fund.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
		\$
General Fund	Special Revenue: Student Activity Fund	2,333
Debt Service Fund	Special Revenue: Physical Plant and Equipment Levy Fund	58,422

The transfer from the Student Activity Fund to the General Fund moved accounts that were more appropriate for the General Fund.

This transfer from the Physical Plant and Equipment Levy Fund to the Debt Service Fund moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year as restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	8,000	-	-	8,000
Capital assets being depreciated:				
Buildings	2,506,038	95,462	-	2,601,500
Improvements other than buildings	62,380	-	-	62,380
Furniture and equipment	1,116,405	5,336	57,478	1,064,263
Total capital assets being deprec.	<u>3,684,823</u>	<u>100,798</u>	<u>57,478</u>	<u>3,728,143</u>
Less accumulated depreciation for:				
Buildings	2,242,761	36,814	-	2,279,575
Improvements other than buildings	62,380	-	-	62,380
Furniture and equipment	639,993	77,910	57,478	660,425
Total accumulated depreciation	<u>2,945,134</u>	<u>114,724</u>	<u>57,478</u>	<u>3,002,380</u>
Total capital assets being depreciated, net	<u>739,689</u>	<u>(13,926)</u>	-	<u>725,763</u>
Governmental activities capital assets, net	<u>747,689</u>	<u>(13,926)</u>	-	<u>733,763</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	84,556	-	-	84,556
Less accumulated depreciation	<u>79,740</u>	<u>708</u>	<u>-</u>	<u>80,448</u>
Business type activities capital assets, net	<u>4,816</u>	<u>(708)</u>	<u>-</u>	<u>4,108</u>

Depreciation expense was charged to the following functions:

	Amount
	\$
Governmental activities:	
Instruction:	
Regular	27,238
Other	2,874
Operation and maintenance of plant services	1,224
Transportation	<u>46,574</u>
	77,910
Unallocated depreciation	<u>36,814</u>
Total depreciation expense – governmental activities	<u>114,724</u>
Business type activities:	
Food service operations	<u>708</u>

5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Capital leases	110,893	-	55,635	55,258	55,258
Early retirement	43,903	-	20,400	23,503	13,187
Special termination benefits	53,825	-	53,825	-	-
Compensated absences	<u>43,510</u>	<u>-</u>	<u>6,845</u>	<u>36,665</u>	<u>6,800</u>
Total	<u>252,131</u>	<u>-</u>	<u>136,705</u>	<u>115,426</u>	<u>75,245</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age **fifty-nine** and must have completed **twenty** years of service to the District, **except for administrators who must have completed ten years**. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives include a monthly payment of .01 times the salary received prior to retirement until age 65 and single health insurance coverage with a value of up to \$160 per month through age 64. Early retirement expenditures for the year ended June 30, 2004 totaled \$20,400.

Capital Leases

The District has leased [fitness equipment and a copy machine](#) under a capital lease. The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2004.

	<u>Year Ending June 30,</u>	<u>Amount</u>
		\$
	2005	56,687
Less Amount Representing Interest		<u>1,429</u>
Present Value of Minimum Lease Payments		<u><u>55,258</u></u>

6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$134,086, \$134,643, and \$131,845 respectively, equal to the required contributions for each year.

7. Risk Management

[Hubbard-Radcliffe](#) Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$145,421 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

9. Construction Commitment

The District has entered into a \$116,502 contract [roof repairs](#). Work on the project started after June 30, 2004

10. Accounting Change and Restatement

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented for the year ended [June 30, 2004](#). The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended [June 30, 2004](#). The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at [July 1, 2003](#) caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund			Total
	General	PPEL	Nonmajor	
	\$		\$	\$
Net assets, June 30, 2003, as previously reported	1,368,145	165,840	157,290	1,691,275
GASB Interpretation 6 adjustments	-	-	12,610	12,610
Net assets, July 1, 2003, as restated for governmental funds	1,368,145	165,840	169,900	1,703,885
GASB 34 adjustments:				
Capital assets net of accumulated depreciation of 2,945,134				747,689
Long-term liabilities:				
Capital leases			110,893	
Special termination benefits			53,825	
Compensated absences			43,510	
Early retirement			43,903	(252,131)
Accrued interest payable				(449)
Net assets, July 1, 2003, as restated				2,198,994

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Interest	40
Deductions	<u>-</u>
Change in net assets	40
Net assets beginning of year	<u>2,130</u>
Net assets end of year	<u><u>2,170</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	2,455,103	107,221	2,562,324	2,532,014	2,532,014	30,310
State sources	1,507,077	2,745	1,509,822	1,604,801	1,604,801	(94,979)
Federal sources	162,049	70,437	232,486	124,000	124,000	108,486
Total receipts	<u>4,124,229</u>	<u>180,403</u>	<u>4,304,632</u>	<u>4,260,815</u>	<u>4,260,815</u>	<u>43,817</u>
Disbursements:						
Instruction	2,659,377	-	2,659,377	2,821,400	2,821,400	162,023
Support services	1,267,883	-	1,267,883	1,173,400	1,272,900	5,017
Non-instructional programs	20,565	180,577	201,142	190,000	196,000	(5,142)
Other expenditures	475,792	-	475,792	378,973	378,973	(96,819)
Total disbursements	<u>4,423,617</u>	<u>180,577</u>	<u>4,604,194</u>	<u>4,563,773</u>	<u>4,669,273</u>	<u>65,079</u>
Excess (deficiency) of receipts over (under) disbursements	(299,388)	(174)	(299,562)	(302,958)	(408,458)	108,896
Other financing sources (uses) net	<u>3,009</u>	<u>-</u>	<u>3,009</u>	<u>-</u>	<u>-</u>	<u>3,009</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	(296,379)	(174)	(296,553)	(302,958)	(408,458)	111,905
Balance beginning of year	<u>1,730,825</u>	<u>174</u>	<u>1,730,999</u>	<u>1,658,708</u>	<u>1,658,708</u>	<u>72,291</u>
Balance end of year	<u><u>1,434,446</u></u>	<u><u>-</u></u>	<u><u>1,434,446</u></u>	<u><u>1,355,750</u></u>	<u><u>1,250,250</u></u>	<u><u>184,196</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	4,124,229	(4,191)	4,120,038
Expenditures	4,423,617	(110,266)	4,313,351
Net	(299,388)	106,075	(193,313)
Other financing sources (uses) net	3,009	-	3,009
Beginning fund balances	1,730,825	(26,940)	1,703,885
Ending fund balances	1,434,446	79,135	1,513,581

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	180,403	(103)	180,300
Expenditures	180,577	6,162	186,739
Net	(174)	(6,265)	(6,439)
Beginning fund balances	174	18,067	18,241
Ending fund balances	-	11,802	11,802

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the [cash basis](#). Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by **\$105,500**.

During the year ended June 30, **2004**, disbursements in the [non-instructional programs and other expenditures](#) functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Debt Service	
	\$	\$	\$	\$
Cash and pooled investments	70,206	62,553	-	132,759
Receivables:				
Property tax:				
Delinquent	1,242	-	-	1,242
Succeeding year	90,000	-	-	90,000
Total assets	<u>161,448</u>	<u>62,553</u>	<u>-</u>	<u>224,001</u>
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	-	2,159	-	2,159
Deferred revenue:				
Succeeding year property tax	90,000	-	-	90,000
Total liabilities	<u>90,000</u>	<u>2,159</u>	<u>-</u>	<u>92,159</u>
Fund balances:				
Unreserved fund balance	<u>71,448</u>	<u>60,394</u>	<u>-</u>	<u>131,842</u>
Total liabilities and fund balances	<u>161,448</u>	<u>62,553</u>	<u>-</u>	<u>224,001</u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	<u>Special Revenue Funds</u>			Total \$
	Management Levy	Student Activity Fund	Debt Service	
	\$	\$	\$	
Revenues:				
Local sources:				
Local tax	106,186	-	-	106,186
Other	1,213	114,868	-	116,081
State sources	79	-	-	79
Total revenues	<u>107,478</u>	<u>114,868</u>	<u>-</u>	<u>222,346</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	60,151	-	-	60,151
Other instruction	-	107,186	-	107,186
Support services:				
Student services	15,952	-	-	15,952
Administration services	60,444	-	-	60,444
Operation and maintenance of plant services	6,873	-	-	6,873
Transportation services	7,465	-	-	7,465
Other expenditures:				
Long-term debt:				
Principal	-	-	55,635	55,635
Interest and fiscal charges	-	-	2,787	2,787
Total expenditures	<u>150,885</u>	<u>107,186</u>	<u>58,422</u>	<u>316,493</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(43,407)</u>	<u>7,682</u>	<u>(58,422)</u>	<u>(94,147)</u>
Other financing sources (uses):				
Operating transfers in	-	-	58,422	58,422
Operating transfers out	-	(2,333)	-	(2,333)
Total other financing sources (uses)	<u>-</u>	<u>(2,333)</u>	<u>58,422</u>	<u>56,089</u>
Net change in fund balances	(43,407)	5,349	-	(38,058)
Fund balances beginning of year, as restated	<u>114,855</u>	<u>55,045</u>	<u>-</u>	<u>169,900</u>
Fund balances end of year	<u><u>71,448</u></u>	<u><u>60,394</u></u>	<u><u>-</u></u>	<u><u>131,842</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Athletics	455	55,307	50,748	-	5,014
Drill Team	1,678	8,440	6,281	-	3,837
Technology	98	-	-	(98)	-
Boys basketball	1,871	1,614	2,498	-	987
Girls basketball	831	-	-	-	831
Baseball	285	-	-	-	285
Football	4,551	9,017	8,229	-	5,339
Volleyball	3,844	1,354	1,003	-	4,195
Wrestling	416	307	713	-	10
Track	2,320	-	170	-	2,150
Cross country	6	-	-	-	6
Softball	37	-	-	-	37
FCCLA	480	-	-	-	480
Shop club	437	-	-	-	437
Electrathon	485	-	-	-	485
Cheerleaders	417	1,876	1,215	-	1,078
Class of 2001	128	-	-	(128)	-
Class of 2002	678	-	-	(678)	-
Class of 2003	399	-	-	(399)	-
Class of 2004	106	-	106	-	-
Class of 2005	-	8,023	7,965	-	58
Interest	21,836	1,241	-	(3,460)	19,617
Vocal/instrumental music	2	-	-	-	2
Fifth grade	(9)	471	336	-	126
Yearbook	(360)	15,737	16,879	3,460	1,958
Spanish club	2,541	7,387	6,909	-	3,019
Student Council HS	398	2,085	1,236	2,606	3,853
Student Council MS	3,354	1,033	1,107	1,828	5,108
E/MS pop-juice	460	301	-	(761)	-
Activity donation	4,173	57	-	(4,230)	-
HS fitness room	2,131	240	2,371	-	-
Elementary activity	1,337	378	-	1,926	3,640
Wellness	44	-	44	-	-
Health	93	-	-	(93)	-
General	(27)	-	-	27	-
June 30, 2003 accrual entries	(450)	-	(450)	-	-
June 30, 2004 accrual entries	-	-	2,159	-	(2,159)
Total	55,045	114,868	109,519	-	60,393

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,156,433	2,140,933	2,091,563	2,005,505
Tuition	39,597	33,458	36,929	25,181
Other	243,150	245,764	196,433	242,370
State sources	1,508,423	1,540,410	1,640,111	1,833,516
Federal sources	172,435	140,187	96,960	79,805
	<u>4,120,038</u>	<u>4,100,752</u>	<u>4,061,996</u>	<u>4,186,377</u>
Expenditures:				
Instruction:				
Regular instruction	1,965,947	2,128,096	1,886,508	1,874,210
Special instruction	383,177	347,741	355,842	360,418
Other instruction	304,244	290,537	287,700	291,825
Support services:				
Student services	111,425	105,336	89,486	88,649
Instructional staff services	104,988	120,900	94,132	77,655
Administration services	461,871	400,252	380,844	349,497
Operation and maintenances of plant services	413,990	364,184	336,350	360,704
Transportation services	168,062	236,386	213,361	257,644
Central support services	-	-	1,166	967
Non-instructional programs	20,565	20,924	9,201	3,176
Other expenditures:				
Facilities acquisition	175,239	151,457	145,284	167,701
Long-term debt:				
Principal	55,635	50,257	1,925	66,743
Interest and other charges	2,787	8,165	700	3,298
AEA flowthrough	145,421	155,095	156,383	165,409
	<u>4,313,351</u>	<u>4,379,330</u>	<u>3,958,882</u>	<u>4,067,896</u>

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of the
Hubbard-Radcliffe Community School District

We have audited the financial statements of the Hubbard-Radcliffe Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 27, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Hubbard-Radcliffe Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for items 04-II-E and 04-II-K.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Hubbard-Radcliffe Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items [04-I-A](#) and [04-I-B](#) are material weaknesses. Prior year reportable conditions have all been resolved except for items [04-I-A](#).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the [Hubbard-Radcliffe](#) Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of [Hubbard-Radcliffe](#) Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

[September 27, 2004](#)

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

04-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and increase monitoring to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties. We have made changes to segregate duties and will consider ways to increase our monitoring activities.

Conclusion: Response accepted.

04-I-B Supporting Documentation: We tested eleven Student Activity Fund expenditures and noted one expenditure that did not have a detailed receipt or invoice.

Recommendation: The District should receive detailed supporting documentation (receipt, invoice, contract, entry form, etc.) for all expenditures.

District Response: We will review our policies and make any necessary adjustments.

Conclusion: Response accepted.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:

04-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget: Disbursement for the year ended June 30, 2004, exceeded the amounts budgeted in the non-instructional programs and other expenditures functions.

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

District Response: We did amend our budget but year-end disbursements were more than anticipated.

Conclusion: Response accepted.

04-II-C Questionable Disbursements: We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

04-II-E Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jan Vaughan, board member, owner of Old Mother Hubbard Preschool	Rents space from the school for the preschool business.	\$1

Recommendation: The District should consult legal council to determine if this situation is a conflict of interest.

District Response: We have consulted with our attorney. Before entering into a lease for the 2005 fiscal year we held a public hearing as recommended by our attorney.

Conclusion: Response accepted.

04-II-F Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-II-G Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

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

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

04-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

04-II-J Certified Annual Report (CAR): The CAR was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

04-II-K Home School Assistance Program Expenditures: We reviewed expenditures of State monies received for the home school assistance program. We noted \$523 of payments for school supplies made from the District directly to parents of home schooled students.

Recommendation: The District should not be making payments to parents. The District may purchase education supplies for the home school assistance program directly from the vendors. Any supplies purchased for the home school program must be the type of supplies that the District could purchase for use in the public school.

District Response: These payments were made prior to the audit of our June 30, 2003 financial statements. We are no longer reimbursing parents for supplies. We will monitor the types of supplies that are purchased for the home school assistance program.

Conclusion: Response accepted.