

HINTON COMMUNITY SCHOOL DISTRICT

Hinton, Iowa

Independent Auditor's Reports
Basic Financial Statements and Supplemental Information
Schedule of Findings

June 30, 2005

HINTON COMMUNITY SCHOOL DISTRICT

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HINTON COMMUNITY SCHOOL DISTRICT

OFFICIALS

JUNE 30, 2005

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---|----------------|---------------------|
| <u>BOARD OF EDUCATION</u> (Before September 2004 Election) | | |
| Robert Held | President | 2005 |
| Michelle Rodgers | Vice President | 2006 |
| Barry Dittmer | Board Member | 2004 |
| Steve Eddy | Board Member | 2006 |
| Kenny Hoefling | Board Member | 2005 |

BOARD OF EDUCATION
(After September 2004 Election)

| | | |
|-------------------|----------------|------|
| Robert Held | President | 2005 |
| Michelle Rodgers | Vice President | 2006 |
| Lynette Blanchard | Board Member | 2008 |
| Steve Eddy | Board Member | 2006 |
| Kenny Hoefling | Board Member | 2009 |

SCHOOL OFFICIALS

| | | |
|-------------|------------------|------------|
| Allen Steen | Superintendent | 2005 |
| Bruce Fey | Board Secretary | 2005 |
| Bruce Fey | Business Manager | 2005 |
| James Hanks | Attorney | Indefinite |

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Hinton 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 Hinton Community School District (the District), Hinton, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 the District at June 30, 2005 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Education of
Hinton Community School District

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 32 and 33 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. 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 the 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, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 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.

King, Reinsch, Prosser & Co., L.L.P.

August 25, 2005
Sioux City, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hinton Community School District (the District) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 Financial Highlights

- General Fund revenues increased from \$4,180,875 in fiscal 2004 to \$4,347,363 in fiscal 2005, while General Fund expenditures increased from \$4,118,910 in fiscal 2004 to \$4,191,517 in fiscal 2005. The District's General Fund balance increased from \$449,950 in fiscal 2004 to \$605,796 in fiscal 2005, a 35% increase.
- The increase in General Fund revenues was primarily attributable to increased open enrollment, increases in AEA pass-through funding from state and property tax sources and new Medicaid revenue.
- The increase in General Fund expenditures was due to the negotiated salary increase, an additional FTE in Curriculum Development, added transportation needs in special education offset by a decrease in open enrollment expense.
- Factors contributing to the General Fund balance increase include net increases in open enrollment revenue, lower than projected costs in Plant Operations and Student Transportation and a deferral of budgeted textbook purchases to the next fiscal year.

Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and present an overall view of the District's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

Reporting the District's Financial Activities

Government-Wide Financial Statements - The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

- **Governmental Activities**: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- **Business Type Activities**: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and before and after school programs are 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 two kinds of funds.

1. **Governmental Funds** - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Proprietary Funds - Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provides more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Funds and the Before and After School Program.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

Figure A-1 below provides a summary of the District's net assets at June 30, 2005 and 2004.

Figure A-1
Condensed Statement of Net Assets (In Thousands)

| | <u>Governmental Activities</u> | | <u>Business Type Activities</u> | | <u>Total District</u> | |
|--|--------------------------------|-----------------|---------------------------------|---------------|-----------------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Current and other assets | \$ 4,098 | \$ 3,283 | \$ 108 | \$ 87 | \$ 4,206 | \$ 3,370 |
| Capital assets, net | <u>3,558</u> | <u>2,992</u> | <u>15</u> | <u>16</u> | <u>3,573</u> | <u>3,008</u> |
| Total assets | <u>\$ 7,656</u> | <u>\$ 6,275</u> | <u>\$ 123</u> | <u>\$ 103</u> | <u>\$ 7,779</u> | <u>\$ 6,378</u> |
| Long-term liabilities | \$ 1,563 | \$ 590 | \$ - | \$ - | \$ 1,563 | \$ 590 |
| Other liabilities | <u>2,417</u> | <u>2,636</u> | <u>15</u> | <u>14</u> | <u>2,432</u> | <u>2,650</u> |
| Total liabilities | <u>\$ 3,980</u> | <u>\$ 3,226</u> | <u>\$ 15</u> | <u>\$ 14</u> | <u>\$ 3,995</u> | <u>\$ 3,240</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | \$ 2,888 | \$ 2,597 | \$ 15 | \$ 16 | \$ 2,903 | \$ 2,613 |
| Restricted | <u>367</u> | <u>126</u> | <u>-</u> | <u>-</u> | <u>367</u> | <u>126</u> |
| Unrestricted | <u>421</u> | <u>326</u> | <u>93</u> | <u>73</u> | <u>514</u> | <u>399</u> |
| Total net assets | <u>\$ 3,676</u> | <u>\$ 3,049</u> | <u>\$ 108</u> | <u>\$ 89</u> | <u>\$ 3,784</u> | <u>\$ 3,138</u> |

The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources from the debt service fund which is funded by a separate tax levy and local option sales tax revenue.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The largest category of restricted net assets, the Debt Service, are restricted based on the provisions of a District bond issuance.

The unrestricted net assets are available from the day to day District operations and are not subject to constraints established by debt covenants, enabling legislation or other legal requirements.

Figure A-2 shows the changes in net assets for the years ended June 30, 2005 and 2004.

Figure A-2
Changes in Net Assets (In Thousands)

| | Governmental Activities | | Business Type Activities | | Total District | |
|---|-------------------------|-----------------|--------------------------|---------------|-----------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 689 | \$ 615 | \$ 165 | \$ 161 | \$ 854 | \$ 776 |
| Operating grants, contributions and restricted interest | 444 | 410 | 59 | 59 | 503 | 469 |
| Capital grants, contributions and restricted interest | 91 | - | - | - | 91 | - |
| General revenues: | | | | | | |
| Property tax | 1,722 | 1,814 | - | - | 1,722 | 1,814 |
| Unrestricted state grants | 1,825 | 1,708 | - | - | 1,825 | 1,708 |
| Unrestricted investment earnings | 38 | 9 | 2 | 1 | 40 | 10 |
| Local surtax | 217 | 189 | - | - | 217 | 189 |
| Local option sales tax | 276 | - | - | - | 276 | - |
| Other | 78 | 48 | - | - | 78 | 48 |
| Total revenues | <u>\$ 5,380</u> | <u>\$ 4,793</u> | <u>\$ 226</u> | <u>\$ 221</u> | <u>\$ 5,606</u> | <u>\$ 5,014</u> |
| Program expenses: | | | | | | |
| Instruction | \$ 3,082 | \$ 3,034 | \$ - | \$ - | \$ 3,082 | \$ 3,034 |
| Support services | 1,402 | 1,340 | - | - | 1,402 | 1,340 |
| Non-instructional programs | 1 | 1 | 206 | 194 | 207 | 195 |
| Other expenses | 268 | 184 | - | - | 268 | 184 |
| Total expenses | <u>\$ 4,753</u> | <u>\$ 4,559</u> | <u>\$ 206</u> | <u>\$ 194</u> | <u>\$ 4,959</u> | <u>\$ 4,753</u> |
| Change in net assets | <u>\$ 627</u> | <u>\$ 234</u> | <u>\$ 20</u> | <u>\$ 27</u> | <u>\$ 647</u> | <u>\$ 261</u> |

Property tax and unrestricted state grants account for 63.3% of the total revenue (70.2% in 2004). The District's expenses primarily relate to instruction and support services, which account for 90.4% of the total expenses (92.0% in 2004).

Governmental Activities - Revenues for governmental activities were \$5,380,659 and expenses were \$4,753,437. Governmental activities revenue increased over 2004 as a result of new sources of revenue such as the State Infrastructure and Local Option Sales Tax which commenced July 1, 2004, and State Medicaid revenue. Increases in net open enrolled students also contributed to the revenue increase.

The following table presents the total and net cost of the District's major governmental activities for the years ended June 30, 2005 and 2004: Instruction, support services, non-instructional programs and other expenses.

Figure A-3 (In Thousands)

Total and Net Cost of Governmental Activities

| | 2005 | | 2004 | |
|----------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> |
| Instruction | \$ 3,082 | \$ 2,147 | \$ 3,034 | \$ 2,176 |
| Support services | 1,402 | 1,375 | 1,340 | 1,331 |
| Non-instructional programs | 1 | 1 | 1 | 1 |
| Other expenses | 268 | 7 | 184 | 27 |
| Totals | \$ 4,753 | \$ 3,530 | \$ 4,559 | \$ 3,535 |

- The cost financed by users of the District's programs was \$689,206 (\$614,787 in 2004).
- Federal and state governments subsidized certain programs with grants and contributions totaling \$534,585 (\$409,811 in 2004).
- The net cost of governmental activities was financed with \$2,215,234 in property and other taxes (\$2,003,123 in 2004) and \$1,825,436 in unrestricted state grants (\$1,708,047 in 2004).

Business Type Activities - Revenues for business type activities were \$225,551 (\$220,851 in 2004) and expenses were \$206,129 (\$193,950 in 2004). The District's business type activities include the School Nutrition and Before and After School Program. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income. Revenue and expense increases were attributable to the school nutrition program because of increases in meal volumes due to increased enrollment.

Governmental Fund Analysis

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,706,300, above last year's ending fund balances of \$650,226. The District's proprietary funds reported end of year net assets of \$108,249, above last year's ending fund balances of \$88,827.

Governmental Fund Highlights

Twenty-seven additional students received their educational services from the District in 2004-05. The District was able to provide the additional service without significant increases in General Fund expenditures. Most of the increase in these expenditures was due to the negotiated salary increase and the addition of a Curriculum Development Specialist who assisted the instruction staff to achieve greater proficiency and improve student outcomes.

Fiscal year 2005 also saw the commencement of the Capital Projects Fund as a result of an affirmative vote by Plymouth County residents to institute a one percent local option sales tax to be used for school infrastructure. This provided the District the opportunity to enter into a bond issue of \$1,210,000, the proceeds of which is to be used exclusively for the infrastructure needs of the District.

During 2004-05, the District used the Capital Project funds to purchase classroom and other equipment totaling \$148,000, renovate the restrooms in the elementary school for \$52,000, tuck point the 1921 building for \$26,000, resurface the parking areas for \$160,000 and start several other major projects. Projects that were undertaken during 2005 but will be completed in 2006 include construction of a new preschool/daycare center, modernization of the science laboratories and replacement of the 1989 building roof.

The fund balances of the non-major special revenue funds, Physical Plant and Equipment Fund, Management Fund and the Activity Fund decreased \$112,731. The Management Fund and Physical Plant and Equipment Fund, both funded primarily with property tax revenues, operated at a deficit during the year which decreased their fund balances. The Activity Fund, funded primarily from other local sources like donations and fees, also experienced a decrease in its fund balance.

Proprietary Fund Highlights

Proprietary fund net assets increased \$19,422 from \$88,827 in 2004 to \$108,249 in 2005. The school lunch program did not experience any significant changes in either expense or revenue and contributed \$13,783 to net assets during the year. Meal volumes were up approximately 3 percent due to the increase in students served by the District. The Nutrition program added approximately \$14,000 to the fund balance without raising prices and after providing for the negotiated salary increase and increased meal volumes. The Before and After School Child Care program continued to experience the same levels of utilization in 2005, around 30 - 35 students per day and therefore had negligible changes in revenue and expense.

Budgetary Highlights

The District amended its annual budget for instruction and other expenditures because of greater than anticipated substitute teacher expenditures, an unexpected need for an additional special education vehicle and anticipated expenditures toward the construction of the new preschool/daycare center.

The District's total revenue was greater than budget primarily due to greater than anticipated numbers in open enrollment in District students and greater than anticipated State Local Option Sales Tax revenues.

Total District expenditures were less than budget due primarily to less than anticipated expenditures on the Preschool Day Care Center and roof replacement which fell into the subsequent fiscal year.

Capital Assets and Debt Administration

Capital Assets - At June 30, 2005, the District had invested \$3,572,961, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-4) More detailed

information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$148,768.

The original cost of the District's capital assets was \$6,275,755. Governmental funds account for \$6,247,970, with the remainder of \$27,785 accounted for in the Proprietary, School Nutrition Fund.

Figure A-4 - Capital Assets,
Net of Depreciation (In Thousands)

| | <u>Governmental Activities</u> | | <u>Business Type</u> | | <u>Total District</u> | |
|-----------------------------------|--------------------------------|-----------------|----------------------|--------------|-----------------------|-----------------|
| | | | <u>Activities</u> | | | |
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Land | \$ 77 | \$ 77 | \$ - | \$ - | \$ 77 | \$ 77 |
| Construction in progress | 282 | 8 | - | - | 282 | 8 |
| Buildings | 2,168 | 2,127 | - | - | 2,168 | 2,127 |
| Improvements other than buildings | 577 | 446 | - | - | 577 | 446 |
| Furniture and equipment | 454 | 334 | 15 | 16 | 469 | 350 |
| Totals | <u>\$ 3,558</u> | <u>\$ 2,992</u> | <u>\$ 15</u> | <u>\$ 16</u> | <u>\$ 3,573</u> | <u>\$ 3,008</u> |

Long-Term Debt - At June 30, 2005, the District had \$180,000 in general obligation bonds, \$1,210,000 in school infrastructure sales and services tax revenue bonds and \$173,580 early retirement payable for total long-term debt of \$1,563,580. Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

A significant share of the early retirement payable (\$116,254) is associated with long-term commitments to three early retirees, representing commitments to pay their monthly health insurance premiums until age 65. These payments are scheduled to end during fiscal year 2012.

Economic Factors Bearing on the District's Future

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

At the time these financial statements were prepared and audited, the District gained voter approval for a 0.67 voter approved Physical Plant and Equipment Levy which will go into effect on July 1, 2006 for a term of ten years. These new funds along with the continued Local Option Sales Tax program will further enhance available capital improvement funds.

Enrollment continues to rise as net open enrollment increases 23 students between the 2004 and 2005 school year. The Preschool Day Care Center opened in late August of 2005 and should help contribute to maintaining or increasing enrollment levels.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bruce Fey, District Business Manager, Hinton Community School District, P.O. Box 128, 315 W. Grand, Hinton, Iowa 51024.

BASIC FINANCIAL STATEMENTS

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2005

| <u>ASSETS</u> | <u>Governmental Activities</u> | <u>Business Type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|---------------------|
| Cash and cash equivalents | \$ 1,952,410 | \$ 104,029 | \$ 2,056,439 |
| Receivables: | | | |
| Property tax: | | | |
| Current year | 27,885 | - | 27,885 |
| Succeeding year | 1,741,060 | - | 1,741,060 |
| Accounts | 812 | 1,040 | 1,852 |
| Due from other governments | 294,074 | - | 294,074 |
| Due from other funds | 79,930 | - | 79,930 |
| Prepaid expenses | - | 116 | 116 |
| Inventories | 1,980 | 2,640 | 4,620 |
| Capital assets, net of accumulated depreciation | <u>3,557,979</u> | <u>14,982</u> | <u>3,572,961</u> |
| Total assets | <u>\$ 7,656,130</u> | <u>\$ 122,807</u> | <u>\$ 7,778,937</u> |
| | | | |
| <u>LIABILITIES</u> | | | |
| Accounts payable | \$ 177,781 | \$ 17 | \$ 177,798 |
| Salaries and benefits payable | 403,736 | - | 403,736 |
| Due to other governments | 2,198 | - | 2,198 |
| Due to other funds | 67,076 | 12,854 | 79,930 |
| Accrued interest payable | 24,236 | - | 24,236 |
| Deferred revenue - succeeding year property tax | 1,741,060 | - | 1,741,060 |
| Deferred revenue - other | - | 1,687 | 1,687 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Early retirement payable | 79,353 | - | 79,353 |
| General obligation bonds payable | 180,000 | - | 180,000 |
| School infrastructure sales and services tax revenue bonds payable | 75,000 | - | 75,000 |
| Portion due after one year: | | | |
| Early retirement payable | 94,227 | - | 94,227 |
| School infrastructure sales and services tax revenue bonds payable | <u>1,135,000</u> | <u>-</u> | <u>1,135,000</u> |
| Total liabilities | <u>\$ 3,979,667</u> | <u>\$ 14,558</u> | <u>\$ 3,994,225</u> |
| | | | |
| <u>NET ASSETS</u> | | | |
| Invested in capital assets, net of related debt | \$ 2,887,572 | \$ 14,982 | \$ 2,902,554 |
| Restricted for: | | | |
| Capital projects | 65,626 | - | 65,626 |
| Other special revenue purposes | 86,025 | - | 86,025 |
| Debt service | 216,218 | - | 216,218 |
| Unrestricted | <u>421,022</u> | <u>93,267</u> | <u>514,289</u> |
| Total net assets | <u>\$ 3,676,463</u> | <u>\$ 108,249</u> | <u>\$ 3,784,712</u> |
| | | | |
| Total liabilities and net assets | <u>\$ 7,656,130</u> | <u>\$ 122,807</u> | <u>\$ 7,778,937</u> |

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

| | | <u>Program Revenues</u> | | |
|---|-----------------|--------------------------------|--|--|
| | <u>Expenses</u> | <u>Charges for Service</u> | <u>Operating Grants, Contributions and Restricted Interest</u> | <u>Capital Grants, Contributions and Restricted Interest</u> |
| FUNCTIONS/PROGRAMS: | | | | |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 2,158,064 | \$ 502,383 | \$ 212,311 | \$ - |
| Special instruction | 353,095 | 40,899 | 29,408 | - |
| Other instruction | <u>571,711</u> | <u>145,924</u> | <u>5,247</u> | <u>-</u> |
| | \$ 3,082,870 | \$ 689,206 | \$ 246,966 | \$ - |
| Support services: | | | | |
| Student services | \$ 244,109 | \$ - | \$ 17,293 | \$ - |
| Instructional staff services | 124,141 | - | - | - |
| Administration services | 526,278 | - | - | - |
| Operation and maintenance of plant services | 292,432 | 128 | - | - |
| Transportation services | <u>215,179</u> | <u>-</u> | <u>9,621</u> | <u>-</u> |
| | \$ 1,402,139 | \$ 128 | \$ 26,914 | \$ - |
| Non-instructional programs | \$ 876 | \$ - | \$ - | \$ - |
| Other expenses: | | | | |
| Facilities acquisition | \$ - | \$ - | \$ - | \$ 90,472 |
| Long-term debt interest and bond costs | 84,470 | - | - | - |
| Loss on disposal of fixed assets | 12,849 | - | - | - |
| AEA flow through | <u>170,233</u> | <u>-</u> | <u>170,233</u> | <u>-</u> |
| | \$ 267,552 | \$ - | \$ 170,233 | \$ 90,472 |
| Total governmental activities | \$ 4,753,437 | \$ 689,334 | \$ 444,113 | \$ 90,472 |
| Business type activities: | | | | |
| Non-instructional programs: | | | | |
| Food service operations | 195,522 | 149,249 | 58,581 | - |
| Before and after school program | <u>10,607</u> | <u>16,070</u> | <u>-</u> | <u>-</u> |
| Total | \$ 4,959,566 | \$ 854,653 | \$ 502,694 | \$ 90,472 |
| GENERAL REVENUES: | | | | |
| Property tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Management levy | | | | |
| Physical plant and equipment levy | | | | |
| Unrestricted state grants | | | | |
| Unrestricted investment earnings | | | | |
| Local surtax | | | | |
| Local option sales tax | | | | |
| Other | | | | |
| Total general revenues | | | | |
| Change in net assets | | | | |
| Net assets beginning of year | | | | |
| Net assets end of year | | | | |

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

| Governmental Activities | Business Type Activities | Total |
|----------------------------|--------------------------------|---------------------|
| \$ (1,443,370) | \$ - | \$ (1,443,370) |
| (282,788) | - | (282,788) |
| <u>(420,540)</u> | <u>-</u> | <u>(420,540)</u> |
| \$ (2,146,698) | \$ - | \$ (2,146,698) |
| \$ (226,816) | \$ - | \$ (226,816) |
| (124,141) | - | (124,141) |
| (526,278) | - | (526,278) |
| (292,304) | - | (292,304) |
| <u>(205,558)</u> | <u>-</u> | <u>(205,558)</u> |
| \$ (1,375,097) | \$ - | \$ (1,375,097) |
| \$ (876) | \$ - | \$ (876) |
| \$ 90,472 | \$ - | \$ 90,472 |
| (84,470) | - | (84,470) |
| (12,849) | - | (12,849) |
| <u>-</u> | <u>-</u> | <u>-</u> |
| \$ (6,847) | \$ - | \$ (6,847) |
| \$ (3,529,518) | \$ - | \$ (3,529,518) |
| - | 12,308 | 12,308 |
| <u>-</u> | <u>5,463</u> | <u>5,463</u> |
| \$ (3,529,518) | \$ 17,771 | \$ (3,511,747) |
| \$ 1,296,836 | \$ - | \$ 1,296,836 |
| 232,414 | - | 232,414 |
| 149,928 | - | 149,928 |
| 43,079 | - | 43,079 |
| 1,825,436 | - | 1,825,436 |
| 38,377 | 1,651 | 40,028 |
| 216,665 | - | 216,665 |
| 276,312 | - | 276,312 |
| <u>77,693</u> | <u>-</u> | <u>77,693</u> |
| \$ 4,156,740 | \$ 1,651 | \$ 4,158,391 |
| \$ 627,222 | \$ 19,422 | \$ 646,644 |
| <u>3,049,241</u> | <u>88,827</u> | <u>3,138,068</u> |
| <u>\$ 3,676,463</u> | <u>\$ 108,249</u> | <u>\$ 3,784,712</u> |

HINTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2005

| <u>ASSETS</u> | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Special Revenue</u> | <u>Total</u> |
|--|---------------------|-------------------------|-----------------------------|---|---------------------|
| Cash and pooled investments | \$ 930,308 | \$ 236,849 | \$ 632,351 | \$ 152,902 | \$ 1,952,410 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Current year | 21,173 | 3,597 | - | 3,115 | 27,885 |
| Succeeding year | 1,342,344 | 186,481 | - | 212,235 | 1,741,060 |
| Accounts | 755 | 8 | - | 49 | 812 |
| Due from other governments | 114,478 | - | 89,124 | 90,472 | 294,074 |
| Due from other funds | 971 | - | 65,000 | 1,105 | 67,076 |
| Due from nutrition fund | 12,854 | - | - | - | 12,854 |
| Inventories | - | - | - | 1,980 | 1,980 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,980</u> | <u>1,980</u> |
| Total assets | <u>\$ 2,422,883</u> | <u>\$ 426,935</u> | <u>\$ 786,475</u> | <u>\$ 461,858</u> | <u>\$ 4,098,151</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 67,704 | \$ - | \$ 1,256 | \$ 108,821 | \$ 177,781 |
| Salaries and benefits payable | 403,736 | - | - | - | 403,736 |
| Due to other governments | 2,198 | - | - | - | 2,198 |
| Due to other funds | 1,105 | - | - | 65,971 | 67,076 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 1,342,344 | 186,481 | - | 212,235 | 1,741,060 |
| Total liabilities | <u>\$ 1,817,087</u> | <u>\$ 186,481</u> | <u>\$ 1,256</u> | <u>\$ 387,027</u> | <u>\$ 2,391,851</u> |
| Fund balances: | | | | | |
| Reserved for debt service | \$ - | \$ 240,454 | \$ - | \$ - | \$ 240,454 |
| Unreserved | 605,796 | - | 785,219 | 74,831 | 1,465,846 |
| Total fund balances | <u>\$ 605,796</u> | <u>\$ 240,454</u> | <u>\$ 785,219</u> | <u>\$ 74,831</u> | <u>\$ 1,706,300</u> |
| Total liabilities and fund balances | <u>\$ 2,422,883</u> | <u>\$ 426,935</u> | <u>\$ 786,475</u> | <u>\$ 461,858</u> | <u>\$ 4,098,151</u> |

HINTON COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS

TO THE STATEMENT OF NET ASSETS

JUNE 30, 2005

| | |
|--|---------------------|
| Total fund balances of governmental funds | \$ 1,706,300 |
| 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. | 3,557,979 |
| 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. | (24,236) |
| Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(1,563,580)</u> |
| Net assets of governmental activities | <u>\$ 3,676,463</u> |

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

| | General | Debt Service | Capital Projects | Nonmajor Special Revenue | Total |
|--|--------------|-----------------|---------------------|--------------------------------|--------------|
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 1,513,501 | \$ 232,414 | \$ 276,312 | \$ 193,007 | \$ 2,215,234 |
| Tuition | 506,980 | - | - | - | 506,980 |
| Other | 35,656 | 2,531 | 15,067 | 223,102 | 276,356 |
| State sources | 2,244,324 | 217 | - | 90,646 | 2,335,187 |
| Federal sources | 46,902 | - | - | - | 46,902 |
| Total revenues | \$ 4,347,363 | \$ 235,162 | \$ 291,379 | \$ 506,755 | \$ 5,380,659 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular instruction | \$ 2,022,178 | \$ - | \$ - | \$ 106,491 | \$ 2,128,669 |
| Special instruction | 360,044 | - | - | 1,178 | 361,222 |
| Other instruction | 356,388 | - | - | 232,476 | 588,864 |
| | \$ 2,738,610 | \$ - | \$ - | \$ 340,145 | \$ 3,078,755 |
| Support services: | | | | | |
| Student services | \$ 235,518 | \$ - | \$ - | \$ 1,152 | \$ 236,670 |
| Instructional staff services | 73,177 | - | - | 47,181 | 120,358 |
| Administration services | 507,493 | - | - | 2,895 | 510,388 |
| Operation and maintenance of plant services | 258,998 | - | - | 226,131 | 485,129 |
| Transportation services | 207,488 | - | - | 1,133 | 208,621 |
| | \$ 1,282,674 | \$ - | \$ - | \$ 278,492 | \$ 1,561,166 |
| Non-instructional programs | \$ - | \$ - | \$ - | \$ 849 | \$ 849 |
| Other expenditures: | | | | | |
| Facilities and equipment acquisition | \$ - | \$ - | \$ 444,990 | \$ - | \$ 444,990 |
| Long-term debt: | | | | | |
| Principal | - | 215,000 | - | - | 215,000 |
| Interest and fiscal charges | - | 39,828 | - | - | 39,828 |
| AEA flow through | 170,233 | - | - | - | 170,233 |
| | \$ 170,233 | \$ 254,828 | \$ 444,990 | \$ - | \$ 870,051 |
| Total expenditures | \$ 4,191,517 | \$ 254,828 | \$ 444,990 | \$ 619,486 | \$ 5,510,821 |
| Excess (deficiency) of revenues over (under) expenditures | \$ 155,846 | \$ (19,666) | \$ (153,611) | \$ (112,731) | \$ (130,162) |
| Other financing sources (uses): | | | | | |
| Proceeds from bond issuance | \$ - | \$ - | \$ 1,210,000 | \$ - | \$ 1,210,000 |
| Fees and discount associated with bond issuance | - | - | (23,764) | - | (23,764) |
| Transfers (to) from other funds | - | 239,414 | (239,414) | - | - |
| | \$ - | \$ 239,414 | \$ 946,822 | \$ - | \$ 1,186,236 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures | \$ 155,846 | \$ 219,748 | \$ 793,211 | \$ (112,731) | \$ 1,056,074 |
| Fund balances beginning of year | 449,950 | 20,706 | (7,992) | 187,562 | 650,226 |
| Fund balances end of year | \$ 605,796 | \$ 240,454 | \$ 785,219 | \$ 74,831 | \$ 1,706,300 |

HINTON COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES ANDCHANGES IN FUND BALANCES - GOVERNMENTAL FUNDSTO THE STATEMENT OF ACTIVITIESYEAR ENDED JUNE 30, 2005

| | | |
|--|----|-----------|
| Net change in fund balances - total governmental funds | \$ | 1,056,074 |
|--|----|-----------|

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 capitalized in the Statement of Net Activities and are expensed over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

| | | | |
|---------------------------------|----|------------------|---------|
| Expenditures for capital assets | \$ | 725,275 | |
| Depreciation expense | | <u>(146,426)</u> | 578,849 |

| | |
|---|---------|
| Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | 215,000 |
|---|---------|

| | |
|---|----------|
| Loss on the disposal of capital assets in the Statement of Activities differs from the amount reported in the governmental funds because capital assets are not recorded in the government funds. In the Statement of Activities, loss is recognized if capital assets are disposed for less than their net book value. | (12,849) |
|---|----------|

| | |
|--|-------------|
| Proceeds from the issuance of bonds in the Statement of Activities differs from the amount reported in the governmental funds because revenue is recorded in the government funds when the monies are received. In the Statement of Activities, bond proceeds are recorded as a long term liability. | (1,210,000) |
|--|-------------|

| | |
|--|----------|
| Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. | (20,878) |
|--|----------|

| | |
|--|---------------|
| Early retirement expenses reported in the Statement of Activities are measured by the amount incurred during the year. However, in the governmental funds, early retirement expenditures are measured by the amount actually paid. | <u>21,026</u> |
|--|---------------|

| | | |
|---|----|----------------|
| Change in net assets of governmental activities | \$ | <u>627,222</u> |
|---|----|----------------|

HINTON COMMUNITY SCHOOL DISTRICTSTATEMENTS OF NET ASSETS - PROPRIETARY FUNDSJUNE 30, 2005

| | <u>School Nutrition</u> | <u>Before and After School Program</u> | <u>Total</u> |
|---|-----------------------------|--|-------------------|
| ASSETS: | | | |
| Cash and cash equivalents | \$ 88,970 | \$ 15,059 | \$ 104,029 |
| Accounts receivable | 274 | 766 | 1,040 |
| Prepaid expenses | 116 | - | 116 |
| Inventories | 2,640 | - | 2,640 |
| Capital assets, net of accumulated depreciation | <u>14,982</u> | <u>-</u> | <u>14,982</u> |
| Total assets | <u>\$ 106,982</u> | <u>\$ 15,825</u> | <u>\$ 122,807</u> |
| LIABILITIES: | | | |
| Accounts payable | \$ - | \$ 17 | \$ 17 |
| Due to other funds | 12,854 | - | 12,854 |
| Deferred revenue | <u>1,687</u> | <u>-</u> | <u>1,687</u> |
| Total liabilities | <u>\$ 14,541</u> | <u>\$ 17</u> | <u>\$ 14,558</u> |
| NET ASSETS: | | | |
| Invested in capital assets, net of related debt | \$ 14,982 | \$ - | \$ 14,982 |
| Unrestricted | <u>77,459</u> | <u>15,808</u> | <u>93,267</u> |
| Total net assets | <u>\$ 92,441</u> | <u>\$ 15,808</u> | <u>\$ 108,249</u> |
| Total liabilities and net assets | <u>\$ 106,982</u> | <u>\$ 15,825</u> | <u>\$ 122,807</u> |

HINTON COMMUNITY SCHOOL DISTRICTSTATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -PROPRIETARY FUNDSYEAR ENDED JUNE 30, 2005

| | <u>School Nutrition</u> | <u>Before and After School Program</u> | <u>Total</u> |
|------------------------------|-----------------------------|--|--------------------------|
| Operating revenues: | | | |
| Local sources: | | | |
| Charges for service | \$ 149,249 | \$ 16,070 | \$ 165,319 |
| Operating expenses: | | | |
| Non-instructional programs: | | | |
| Food service operations: | | | |
| Salaries | \$ 73,581 | \$ 8,795 | \$ 82,376 |
| Benefits | 23,078 | 684 | 23,762 |
| Purchased services | 3,541 | - | 3,541 |
| Supplies | 92,672 | 1,128 | 93,800 |
| Miscellaneous | 308 | - | 308 |
| Depreciation | <u>2,342</u> | <u>-</u> | <u>2,342</u> |
| Total operating expenses | <u>\$ 195,522</u> | <u>\$ 10,607</u> | <u>\$ 206,129</u> |
| Operating (loss) income | <u>\$ (46,273)</u> | <u>\$ 5,463</u> | <u>\$ (40,810)</u> |
| Non-operating revenues: | | | |
| Interest income | \$ 1,475 | \$ 176 | \$ 1,651 |
| State sources | 3,148 | - | 3,148 |
| Federal sources | 44,245 | - | 44,245 |
| Food distribution | <u>11,188</u> | <u>-</u> | <u>11,188</u> |
| Total non-operating revenues | <u>\$ 60,056</u> | <u>\$ 176</u> | <u>\$ 60,232</u> |
| Change in net assets | \$ 13,783 | \$ 5,639 | \$ 19,422 |
| Net assets beginning of year | <u>78,658</u> | <u>10,169</u> | <u>88,827</u> |
| Net assets end of year | <u><u>\$ 92,441</u></u> | <u><u>\$ 15,808</u></u> | <u><u>\$ 108,249</u></u> |

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2005

| | <u>School Nutrition</u> | <u>Before and After School Program</u> | <u>Total</u> |
|---|-----------------------------|--|--------------------|
| Cash flows from operating activities: | | | |
| Cash received from sale of lunches and breakfasts | \$ 150,676 | \$ - | \$ 150,676 |
| Cash received from before/after school parent payments | - | 16,319 | 16,319 |
| Cash paid to employees for services | (95,963) | (9,479) | (105,442) |
| Cash paid to suppliers for goods or services | <u>(83,088)</u> | <u>(1,111)</u> | <u>(84,199)</u> |
| Net cash (used) provided by operating activities | <u>\$ (28,375)</u> | <u>\$ 5,729</u> | <u>\$ (22,646)</u> |
| Cash flows from non-capital financing activities: | | | |
| State grants received | \$ 3,148 | \$ - | \$ 3,148 |
| Federal grants received | <u>44,245</u> | <u>-</u> | <u>44,245</u> |
| Net cash provided by non-capital financing activities | <u>\$ 47,393</u> | <u>\$ -</u> | <u>\$ 47,393</u> |
| Cash flows from capital and related financing activities: | | | |
| Acquisition of capital assets | <u>\$ (1,705)</u> | <u>\$ -</u> | <u>\$ (1,705)</u> |
| Net cash used by capital and related financing activities | <u>\$ (1,705)</u> | <u>\$ -</u> | <u>\$ (1,705)</u> |
| Cash flows from investing activities: | | | |
| Interest on investments | <u>\$ 1,475</u> | <u>\$ 176</u> | <u>\$ 1,651</u> |
| Net increase in cash and cash equivalents | \$ 18,788 | \$ 5,905 | \$ 24,693 |
| Cash and cash equivalents beginning of year | <u>70,182</u> | <u>9,154</u> | <u>79,336</u> |
| Cash and cash equivalents end of year | <u>\$ 88,970</u> | <u>\$ 15,059</u> | <u>\$ 104,029</u> |
| Reconciliation of operating (loss) income to net cash (used) provided by operating activities: | | | |
| Operating (loss) income | \$ (46,273) | \$ 5,463 | \$ (40,810) |
| Adjustments to reconcile operating (loss) income to net cash used by operating activities: | | | |
| Commodities used | 13,971 | - | 13,971 |
| Depreciation | 2,342 | - | 2,342 |
| Increase in inventories | (422) | - | (422) |
| (Increase) decrease in accounts receivable | (274) | 249 | (25) |
| Increase in due to/from other funds | 2,646 | - | 2,646 |
| (Increase) in prepaid expenses | (116) | - | (116) |
| (Decrease) in deferred revenue | (249) | - | (249) |
| Increase in accounts payable | <u>-</u> | <u>17</u> | <u>17</u> |
| Net cash (used) provided by operating activities | <u>\$ (28,375)</u> | <u>\$ 5,729</u> | <u>\$ (22,646)</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$11,188 of federal commodities.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Hinton Community School District (the District) is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic areas served includes the City of Hinton, Iowa, and the predominant agricultural territory in Plymouth County. 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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity - For financial reporting purposes, the 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 GASB 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 District has no component units which meet the GASB criteria.

B. Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary 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 non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Invested in Capital Assets, Net of Related Debt - Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets - Result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - Consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

The District reports the following major proprietary funds:

The District's proprietary fund consists of two enterprise funds, the School Nutrition Fund and the Before and After School Program. The School Nutrition Fund is used to account for the food service operations. The Before and After School Program Fund is used to account for tuition received and expenses related to this program.

- C. Measurement Focus and Basis of Accounting - The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the 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 judgments, compensated absences and special termination benefits 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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 except for those that conflict with or contradict GASB pronouncements.

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

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.

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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Property tax receivable is recognized in these funds on the legally enforceable claim date, which is the date that the tax asking is certified by the Board of Education. Current year 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 become due and collectible in September and March of the fiscal year with a 1-1/2 percent per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

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 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 \$1,000 and estimated useful lives in excess of two years.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|-----------------------------------|--|
| Buildings | 50 years |
| Improvements other than buildings | 20 years |
| Furniture and equipment | 5-15 years |

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents 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 in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed budgeted amounts in any functional areas.

NOTE 2 - CASH AND POOLED INVESTMENTS:

The District's deposits in banks at June 30, 2005 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 ensure there will be no loss of public funds.

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

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

| | |
|-----------------------|---------------------|
| Diversified Portfolio | <u>\$ 1,825,362</u> |
|-----------------------|---------------------|

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District. The investments in the Iowa Schools Joint Investment Trust were both rated AAA by Moody's Investors Service.

As of June 30, 2005, the District had approximately \$594,000 cash in the Capital Projects Fund representing unspent bond proceeds to be spent in accordance with the purpose of the bond issuance.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 3 - DUE FROM AND DUE TO OTHER FUNDS:

The detail of interfund receivables and payables at June 30, 2005 is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|------------------------------|------------------|
| General | Proprietary fund: | |
| | Nutrition | \$ 12,854 |
| General | Special revenue: | |
| | Activity | 971 |
| Special revenue: | General | 1,105 |
| Activity | Special revenue: | |
| Capital projects | Physical plant and equipment | <u>65,000</u> |
| | | <u>\$ 79,930</u> |

The due from and due to other funds balance at June 30, 2005, comprise of expenses paid by one fund on behalf of another fund and is waiting reimbursement for those expenses.

NOTE 4 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2005 was as follows:

| | <u>Balance</u> <u>Beginning of</u> <u>Year</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>End</u> <u>of Year</u> |
|--|--|-------------------|------------------|--|
| Governmental activities: | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 76,600 | \$ - | \$ - | \$ 76,600 |
| Construction in progress | <u>7,719</u> | <u>281,155</u> | <u>6,611</u> | <u>282,263</u> |
| Total capital assets not being depreciated | <u>\$ 84,319</u> | <u>\$ 281,155</u> | <u>\$ 6,611</u> | <u>\$ 358,863</u> |
| Capital assets being depreciated: | | | | |
| Buildings | \$ 3,820,932 | \$ 93,542 | \$ - | \$ 3,914,474 |
| Improvements other than buildings | 672,564 | 157,272 | - | 829,836 |
| Furniture and equipment | <u>1,019,270</u> | <u>193,306</u> | <u>67,778</u> | <u>1,144,798</u> |
| Total capital assets being depreciated | <u>\$ 5,512,766</u> | <u>\$ 444,120</u> | <u>\$ 67,778</u> | <u>\$ 5,889,108</u> |

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 4 - CAPITAL ASSETS (CONTINUED):

| | <u>Balance Beginning of Year</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance End of Year</u> |
|--|--|-------------------|------------------|------------------------------------|
| Governmental activities (continued): | | | | |
| Less accumulated depreciation for: | | | | |
| Buildings | \$ 1,693,769 | \$ 52,749 | \$ - | \$ 1,746,518 |
| Improvements other than buildings | 226,243 | 26,836 | - | 253,079 |
| Furniture and equipment | <u>685,094</u> | <u>66,841</u> | <u>61,540</u> | <u>690,395</u> |
| Total accumulated depreciation | <u>\$ 2,605,106</u> | <u>\$ 146,426</u> | <u>\$ 61,540</u> | <u>\$ 2,689,992</u> |
| Total capital assets being depreciated, net | <u>\$ 2,907,660</u> | <u>\$ 297,694</u> | <u>\$ 6,238</u> | <u>\$ 3,199,116</u> |
| Governmental activities capital assets, net | <u>\$ 2,991,979</u> | <u>\$ 578,849</u> | <u>\$ 12,849</u> | <u>\$ 3,557,979</u> |
| Business type activities: | | | | |
| Furniture and equipment | \$ 26,079 | \$ 1,706 | \$ - | \$ 27,785 |
| Less accumulated depreciation | <u>10,461</u> | <u>2,342</u> | <u>-</u> | <u>12,803</u> |
| Business type activities capital assets, net | <u>\$ 15,618</u> | <u>\$ (636)</u> | <u>\$ -</u> | <u>\$ 14,982</u> |

Depreciation expense was charged to the following functions:

Governmental activities:

 Instruction:

| | |
|---------|------------------|
| Regular | \$ 78,066 |
| Special | 7,782 |
| Other | <u>11,632</u> |
| | <u>\$ 97,480</u> |

 Support services:

| | |
|------------------------------------|------------------|
| Student | \$ 7,439 |
| Instructional staff | 3,783 |
| Administration | 15,890 |
| Operation and maintenance of plant | 15,249 |
| Transportation | 6,558 |
| Non-instructional | <u>27</u> |
| | <u>\$ 48,946</u> |

 Total depreciation expense - governmental activities \$ 146,426

Business type activities:

| | |
|-------------------------|-----------------|
| Food service operations | <u>\$ 2,342</u> |
|-------------------------|-----------------|

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 5 - LONG-TERM LIABILITIES:

During the year ended June 30, 2005, the District issued \$1,210,000 school infrastructure sales and services tax revenue bonds. The proceeds from the issuance of the bonds is to be used primarily for various school capital projects. The bonds will be repaid annually over a scheduled maturity of ten years using proceeds from a voter-approved local option sales tax that became effective July 1, 2004.

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

| | <u>Balance</u> <u>Beginning</u> <u>of Year</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>End</u> <u>of Year</u> | <u>Due</u> <u>Within</u> <u>One Year</u> |
|---|--|--------------------|-------------------|--|--|
| General obligation bonds | \$ 395,000 | \$ - | \$ 215,000 | \$ 180,000 | \$ 180,000 |
| School infrastructure sales and services tax revenue bonds | - | 1,210,000 | - | 1,210,000 | 75,000 |
| Early retirement | <u>194,606</u> | <u>70,091</u> | <u>91,117</u> | <u>173,580</u> | <u>79,353</u> |
| Total | <u>\$ 589,606</u> | <u>\$1,280,091</u> | <u>\$ 306,117</u> | <u>\$1,563,580</u> | <u>\$ 334,353</u> |

Early Retirement - The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least fifty-five and must have completed ten years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee will be based on the age of the applicant as of July 1 and the total salary of the applicant during the most recently completed school year. Early retirement benefits paid during the year ended June 30, 2005 totaled \$91,117. The total liability for early retirement are recorded as long-term liabilities in the government-wide financial statements.

General Obligation Bonds Payable - Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

| <u>Year Ending</u> <u>June 30,</u> | <u>Bond Issue of September 1, 1993</u> | | |
|---------------------------------------|--|-------------------|-----------------|
| | <u>Interest Rates</u> | <u>Principal</u> | <u>Interest</u> |
| 2006 | 5.10 - 5.25% | \$ 180,000 | \$ 6,481 |
| Total | | <u>\$ 180,000</u> | <u>\$ 6,481</u> |

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED):

School Infrastructure Sales and Services Tax Revenue Bonds - Details of the District's June 30, 2005 school infrastructure sales and services tax revenue bonds indebtedness are as follows:

| Year Ending <u>June 30,</u> | <u>Bond Issue of July 1, 2004</u> | | |
|--------------------------------|-----------------------------------|---------------------|-------------------|
| | <u>Interest Rates</u> | <u>Principal</u> | <u>Interest</u> |
| 2006 | 3.75% | \$ 75,000 | \$ 43,969 |
| 2007 | 3.75% | 110,000 | 40,500 |
| 2008 | 3.75% | 110,000 | 36,375 |
| 2009 | 3.75% | 120,000 | 32,062 |
| 2010 | 3.75% | 120,000 | 27,562 |
| Thereafter | 3.75% | <u>675,000</u> | <u>65,158</u> |
| Total | | <u>\$ 1,210,000</u> | <u>\$ 245,626</u> |

NOTE 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 percent of their annual covered salary and the District is required to contribute 5.75 percent of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$147,930, \$143,048, and \$135,489, respectively, equal to the required contributions for each year.

NOTE 7 - RISK MANAGEMENT:

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

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 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 \$170,233 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

NOTE 9 - CONSTRUCTION COMMITMENTS:

At June 30, 2005, the District had entered into various uncompleted construction contracts totaling \$654,168 for improvements to the land and building. At June 30, 2005, \$446,771 of the contracts were uncompleted.

NOTE 10 - INTERFUND TRANSFERS:

The interfund transfers of \$239,414 between the debt service and capital projects fund during the year ended June 30, 2005 were for the principal purpose of meeting reserve and debt service requirements as set forth by the bond issuance.

REQUIRED SUPPLEMENTARY INFORMATION

HINTON COMMUNITY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES

IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS

AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2005

| | <u>Governmental Funds Actual</u> | <u>Proprietary Funds Actual</u> |
|--|--|---|
| Revenues: | | |
| Local sources | \$ 2,998,570 | \$ 166,970 |
| State sources | 2,335,187 | 3,148 |
| Federal sources | <u>46,902</u> | <u>55,433</u> |
| Total receipts | <u>\$ 5,380,659</u> | <u>\$ 225,551</u> |
| Expenditures: | | |
| Instruction | \$ 3,078,755 | \$ - |
| Support services | 1,561,166 | - |
| Non-instructional programs | 849 | 206,129 |
| Other expenditures | <u>870,051</u> | <u>-</u> |
| Total disbursements | <u>\$ 5,510,821</u> | <u>\$ 206,129</u> |
| Excess (deficiency) of revenues over (under) expenditures | \$ (130,162) | \$ 19,422 |
| Other financing sources, net | <u>1,186,236</u> | <u>-</u> |
| Excess of revenues and other financing sources over expenditures | \$ 1,056,074 | \$ 19,422 |
| Balances beginning of year | <u>650,226</u> | <u>88,827</u> |
| Balances end of year | <u>\$ 1,706,300</u> | <u>\$ 108,249</u> |

See accompanying independent auditor's report.

| Total <u>Actual</u> | <u>Budgeted Amounts</u> | | Final to Actual <u>Variance</u> |
|------------------------|-------------------------|---------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | |
| \$ 3,165,540 | \$ 2,776,736 | \$ 2,776,736 | \$ 388,804 |
| 2,338,335 | 2,266,246 | 2,266,246 | 72,089 |
| <u>102,335</u> | <u>344,490</u> | <u>344,490</u> | <u>(242,155)</u> |
| <u>\$ 5,606,210</u> | <u>\$ 5,387,472</u> | <u>\$ 5,387,472</u> | <u>\$ 218,738</u> |
| | | | |
| \$ 3,078,755 | \$ 3,101,746 | \$ 3,166,746 | \$ 87,991 |
| 1,561,166 | 2,092,365 | 2,092,365 | 531,199 |
| 206,978 | 230,700 | 230,700 | 23,722 |
| <u>870,051</u> | <u>669,504</u> | <u>1,042,504</u> | <u>172,453</u> |
| <u>\$ 5,716,950</u> | <u>\$ 6,094,315</u> | <u>\$ 6,532,315</u> | <u>\$ 815,365</u> |
| | | | |
| \$ (110,740) | \$ (706,843) | \$ (1,144,843) | \$ 1,034,103 |
| <u>1,186,236</u> | <u>1,210,000</u> | <u>1,210,000</u> | <u>\$ (23,764)</u> |
| | | | |
| \$ 1,075,496 | <u>\$ 503,157</u> | <u>\$ 65,157</u> | <u>\$ 1,010,339</u> |
| | | | |
| <u>739,053</u> | | | |
| | | | |
| <u>\$ 1,814,549</u> | | | |

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

YEAR ENDED JUNE 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with *Government Accounting Standards Board* Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis.

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 District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted two budget amendments increasing budgeted expenditures by \$438,000.

During the year ended June 30, 2005, expenditures did not exceed budgeted amounts and the District did not exceed its unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

HINTON COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDSJUNE 30, 2005ASSETS

| | <u>Management Levy</u> | <u>Student Activity</u> | <u>Physical Plant and Equipment Levy</u> | <u>Total</u> |
|-----------------------------|----------------------------|-----------------------------|--|-------------------|
| Cash and pooled investments | \$ 67,338 | \$ 84,936 | \$ 628 | \$ 152,902 |
| Receivables: | | | | |
| Property tax: | | | | |
| Current year | 2,448 | - | 667 | 3,115 |
| Succeeding year | 168,297 | - | 43,938 | 212,235 |
| Accounts | - | 49 | - | 49 |
| Due from other governments | - | - | 90,472 | 90,472 |
| Due from other funds | - | 1,105 | - | 1,105 |
| Inventory | - | 1,980 | - | 1,980 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 238,083</u> | <u>\$ 88,070</u> | <u>\$ 135,705</u> | <u>\$ 461,858</u> |

LIABILITIES AND FUND EQUITY

| | | | | |
|-----------------------------------|-------------------|------------------|-------------------|-------------------|
| Liabilities: | | | | |
| Accounts payable | \$ 2,685 | \$ 1,074 | \$ 105,062 | \$ 108,821 |
| Interfund payable | - | 971 | 65,000 | 65,971 |
| Deferred revenue: | | | | |
| Succeeding year property tax | <u>168,297</u> | <u>-</u> | <u>43,938</u> | <u>212,235</u> |
| Total liabilities | <u>\$ 170,982</u> | <u>\$ 2,045</u> | <u>\$ 214,000</u> | <u>\$ 387,027</u> |
| Fund equity: | | | | |
| Unreserved fund balances | <u>67,101</u> | <u>86,025</u> | <u>(78,295)</u> | <u>74,831</u> |
| Total liabilities and fund equity | <u>\$ 238,083</u> | <u>\$ 88,070</u> | <u>\$ 135,705</u> | <u>\$ 461,858</u> |

HINTON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN

FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS

YEAR ENDED JUNE 30, 2005

| | Management <u>Levy</u> | Student <u>Activity</u> | Physical Plant and Equipment <u>Levy</u> | <u>Total</u> |
|--|---------------------------|----------------------------|---|-------------------|
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 149,928 | \$ - | \$ 43,079 | \$ 193,007 |
| Other | 409 | 222,646 | 47 | 223,102 |
| State sources | <u>134</u> | <u>-</u> | <u>90,512</u> | <u>90,646</u> |
| Total revenues | <u>\$ 150,471</u> | <u>\$ 222,646</u> | <u>\$ 133,638</u> | <u>\$ 506,755</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 106,491 | \$ - | \$ - | \$ 106,491 |
| Special instruction | 1,178 | - | - | 1,178 |
| Other instruction | <u>-</u> | <u>232,476</u> | <u>-</u> | <u>232,476</u> |
| Total instruction | <u>\$ 107,669</u> | <u>\$ 232,476</u> | <u>\$ -</u> | <u>\$ 340,145</u> |
| Support services: | | | | |
| Student services | \$ 1,152 | \$ - | \$ - | \$ 1,152 |
| Instructional staff services | 47,181 | - | - | 47,181 |
| Administration services | 2,895 | - | - | 2,895 |
| Operation and maintenance of plant services | 893 | - | 225,238 | 226,131 |
| Transportation services | <u>1,133</u> | <u>-</u> | <u>-</u> | <u>1,133</u> |
| Total support services | <u>\$ 53,254</u> | <u>\$ -</u> | <u>\$ 225,238</u> | <u>\$ 278,492</u> |
| Non-instructional programs | <u>\$ 849</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 849</u> |
| Total expenditures | <u>\$ 161,772</u> | <u>\$ 232,476</u> | <u>\$ 225,238</u> | <u>\$ 619,486</u> |
| Deficiency of revenues under expenditures | \$ (11,301) | \$ (9,830) | \$ (91,600) | \$ (112,731) |
| Fund balances beginning of year | <u>78,402</u> | <u>95,855</u> | <u>13,305</u> | <u>187,562</u> |
| Fund balances end of year | <u>\$ 67,101</u> | <u>\$ 86,025</u> | <u>\$ (78,295)</u> | <u>\$ 74,831</u> |

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

YEAR ENDED JUNE 30, 2005

| ACCOUNT: | Balance Beginning of Year | Revenues and Interfund Transfers | Expenditures | Intrafund Transfers | Balance End of Year |
|-------------------------------|---------------------------------|--|--------------|------------------------|---------------------------|
| Interest income | \$ 6,342 | \$ 1,832 | \$ 910 | \$ (787) | \$ 6,477 |
| Lifetouch Elementary | - | 1,318 | 111 | - | 1,207 |
| Lifetouch MS/HS | - | 221 | 211 | - | 10 |
| Hinton spirit store | - | 3,999 | 3,060 | - | 939 |
| Athletics | 35,361 | 59,010 | 75,315 | 198 | 19,254 |
| Summer concession | 3,286 | 5,193 | 11,769 | 2,470 | (820) |
| Birdie fest project | 891 | 6,161 | 6,308 | - | 744 |
| Scrip fundraiser | - | 27 | 417 | 390 | - |
| School nurse | 132 | 54 | 98 | 205 | 293 |
| Music boosters | 274 | - | - | (274) | - |
| Speech and drama club | 6 | 75 | 83 | 211 | 209 |
| National Honor Society | 147 | 709 | 1,092 | 309 | 73 |
| Cheerleaders | 1,750 | 10,034 | 9,919 | - | 1,865 |
| Drill team | 936 | 70 | 1,005 | 262 | 263 |
| Special education | 1,010 | - | - | - | 1,010 |
| Math club | 625 | 149 | 475 | 601 | 900 |
| Tag club | 263 | 180 | 336 | 392 | 499 |
| FCCLA | 58 | 11,610 | 11,922 | 338 | 84 |
| Instrumental music | 1,968 | 3,763 | 2,791 | 152 | 3,092 |
| Vocal music | 1,013 | 4,200 | 4,375 | - | 838 |
| Music trip | 5,007 | - | 3,263 | - | 1,744 |
| Music fund raiser | - | 15,540 | 9,879 | - | 5,661 |
| Musical | 1,082 | - | 27 | - | 1,055 |
| 2006 Prom | 10 | 12,943 | 11,755 | - | 1,198 |
| 2005 Graduation | 1,870 | - | 1,086 | - | 784 |
| Yearbook | 5,110 | 13,449 | 11,651 | 29 | 6,937 |
| High school student council | 669 | 1,727 | 1,517 | 153 | 1,032 |
| Middle school student council | 812 | 607 | 821 | 561 | 1,159 |
| Elementary student council | 496 | 949 | 1,068 | 432 | 809 |
| Elementary miscellaneous | 4 | 258 | - | - | 262 |
| Reading fun night | 354 | 2,151 | 1,241 | - | 1,264 |
| Wings | 4,060 | 129 | 1,980 | - | 2,209 |
| Sixth grade trip | 878 | 790 | 1,681 | 399 | 386 |
| Concession stand | (94) | 27,901 | 14,642 | (12,090) | 1,075 |
| Agency | - | - | 397 | 397 | - |
| Soundwaves | 2,109 | 7,456 | 10,019 | 1,051 | 597 |
| West library trip | (698) | - | - | 274 | (424) |
| Wrestling fund | 795 | 3,499 | 3,082 | 370 | 1,582 |
| School cents fund | - | 1,500 | 314 | - | 1,186 |
| Music trip student | - | 45 | - | - | 45 |
| Blackhawk Backers | 2,508 | 2,107 | 1,419 | - | 3,196 |
| Wrestling cheerleaders | 1,237 | 4,518 | 5,258 | - | 497 |
| Fourth grade project | 601 | - | 455 | 333 | 479 |
| Second grade activity | - | 267 | 298 | - | (31) |
| Pop fund | 663 | 1,660 | 1,761 | - | 562 |
| First grade reading/math | 389 | - | 90 | 157 | 456 |
| Book fair | 435 | 6,057 | 6,336 | - | 156 |
| Play | 195 | 902 | 891 | - | 206 |
| Relay for life | - | 220 | - | - | 220 |
| Global days of service | 1,291 | 613 | 400 | (600) | 904 |
| Kindergarten project | 1,129 | 581 | 433 | - | 1,277 |
| HCEA | 606 | - | 606 | 784 | 784 |
| Boys basketball fundraiser | 876 | 3,155 | 2,820 | - | 1,211 |
| Transitional kindergarten | 826 | - | 89 | 434 | 1,171 |
| English co-curricular | 365 | - | 201 | - | 164 |
| 5th grade project | 130 | 468 | 305 | - | 293 |
| Reading recovery | 629 | - | 726 | 762 | 665 |
| D.E.C.A. | 6,722 | 1,445 | 3,176 | 1,372 | 6,363 |
| Show choir outfits | (1,561) | 2,925 | 1,284 | - | 80 |
| Playground | 1,081 | 105 | 843 | 642 | 985 |
| Elementary special education | 1,207 | 74 | 465 | 73 | 889 |
| Total | \$ 95,855 | \$ 222,646 | \$ 232,476 | \$ - | \$ 86,025 |

HINTON COMMUNITY SCHOOL DISTRICTSCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTIONALL GOVERNMENTAL FUNDSFOR THE LAST FOUR YEARS

| | <u>Modified Accrual Basis</u> | | | |
|---|-------------------------------|---------------------|---------------------|---------------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 2,215,234 | \$ 2,003,123 | \$ 1,997,183 | \$ 1,541,925 |
| Tuition | 506,980 | 399,912 | 345,002 | 365,582 |
| Other | 276,356 | 248,127 | 321,023 | 295,233 |
| State sources | 2,335,187 | 2,092,177 | 2,067,331 | 2,097,785 |
| Federal sources | 46,902 | 49,368 | 41,530 | 52,742 |
| Other financing sources: | | | | |
| Proceeds from bond issuance, net | <u>1,186,236</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 6,566,895</u> | <u>\$ 4,792,707</u> | <u>\$ 4,772,069</u> | <u>\$ 4,353,267</u> |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 2,128,669 | \$ 2,119,644 | \$ 2,004,593 | \$ 2,024,006 |
| Special instruction | 361,222 | 356,586 | 322,033 | 368,075 |
| Other instruction | 588,864 | 532,887 | 530,343 | 537,622 |
| Support services: | | | | |
| Student services | 236,670 | 167,082 | 155,312 | 152,401 |
| Instructional staff services | 120,358 | 52,312 | 41,008 | 47,164 |
| Administration services | 510,388 | 540,771 | 506,500 | 486,070 |
| Operation and maintenance of plant services | 485,129 | 338,435 | 383,156 | 279,462 |
| Transportation services | 208,621 | 206,981 | 258,328 | 203,806 |
| Non-instructional programs | 849 | 3,612 | 6,513 | 5,040 |
| Other expenditures: | | | | |
| Facilities acquisition | 444,990 | 7,992 | - | - |
| Long-term debt: | | | | |
| Principal | 215,000 | 205,000 | 195,000 | 187,877 |
| Interest and other charges | 39,828 | 28,095 | 37,528 | 46,321 |
| AEA flow through | <u>170,233</u> | <u>157,321</u> | <u>168,005</u> | <u>170,042</u> |
| Total | <u>\$ 5,510,821</u> | <u>\$ 4,716,718</u> | <u>\$ 4,608,319</u> | <u>\$ 4,507,886</u> |



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education of
Hinton Community School District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of Hinton Community School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting 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 judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-05 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-05.

To the Board of Education
Hinton Community School District

COMPLIANCE AND OTHER MATTERS

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the 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 the 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.

King, Reinsch, Prosser & Co., L.L.P.

August 25, 2005
Sioux City, Iowa

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetrate and conceal errors or irregularities. To accomplish proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records. In performing our audit, we noted that the Business Manager has primary responsibility for many accounting and financial duties of the general, special revenue and debt service funds. In addition, the Board Secretary has primary responsibility for the enterprise fund.

Recommendation - The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Education and Superintendent remain actively involved in the financial affairs of the District to provide oversight and review functions.

Response - The District understands the nature of the weakness and the necessity for the Board and Superintendent to provide oversight and review functions. The District will review its procedures and implement changes as deemed necessary.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2005

(CONTINUED)

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

- II-B-05 Certified Budget - Expenditures for the year ended June 30, 2005 did exceed the amount budgeted in any of the functional areas.
- II-C-05 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.
- II-D-05 Travel Expense - 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.
- II-E-05 Business Transactions - We noted no business transactions between the District and District officials or employees that would appear to constitute a conflict of interest.
- II-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-05 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II- I-05 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.
- II- J-05 Certified Annual Report - The Certified Annual Report was timely filed with the Department of Education and we noted no significant deficiencies in the amounts reported.

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2005

(CONTINUED)

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

II-K-05 Deficit Fund Balance - The physical plant and equipment levy fund had a deficit fund balance as of June 30, 2005 due to certain facilities expenditures which were to be funded by bond issue proceeds which were deposited into the capital projects fund.

Recommendation - The District should monitor its funds for deficit balances.

Response - The deficit balance will exist only in the current fiscal year as funds are transferred from the capital projects fund to cover these expenditures.

Conclusion - Response accepted.