

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	16
Statement of Activities	B	17-18
Governmental Fund Financial Statements:		
Balance Sheet	C	19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	20
Statement of Revenues, Expenditures and Changes in Fund Balances	E	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	22
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	23
Statement of Revenues, Expenses, and Changes in Net Assets	H	24
Statement of Cash Flows	I	25
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	26
Statement of Changes in Fiduciary Net Assets	K	27
Notes to Financial Statements		28-35
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and proprietary Fund		37
Budget to GAAP Reconciliation		38
Notes to Required Supplementary Information - Budgetary Reporting		39
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	44
Independent Auditor's Report on 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		45-46
Schedule of Findings		47-50

Gary E. Horton CPA

PO Box 384

Clarion, IA 50525-0384

(515)532-6681 Phone

(515) 532-2405 Fax

BETCO@mchsi.com E-mail

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Hubbard-Radcliffe Community School District, Hubbard, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Hubbard-Radcliffe Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2005, on our consideration of Hubbard-Radcliffe Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 37 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hubbard-Radcliffe Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental 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.

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

September 20, 2005

**Hubbard -Radcliffe Community Schools
Management Discussion & Analysis
FY 2004-2005**

The Hubbard-Radcliffe Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow. Comparisons to prior year data will be provided for all key financial information.

Financial Highlights

- General Fund revenues increased from \$3,594,782 in fiscal year 2004 to \$3,724,399 in fiscal year 2005, while General Fund expenditures increased from \$3,821,619 in FY 2004 to \$4,035,432 in FY 2005. This indicates that deficit spending (more expenditures than revenues) increased from \$226,837 in FY 2004 to \$311,033 in FY2005.
- The increase in General Fund revenues can be attributed to an increase in state revenue in fiscal 2005. The increase in expenditures is due primarily to the increased cost of the negotiated salary and benefits package for employees (instructional and support services) above and beyond any new money generated through the state funding formula. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2005 and the General Fund had to supplement the Nutrition Fund to give it a positive balance. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- During fiscal year 2004, the district's cost reduction measures for the fiscal 2005 for the General Fund were significantly less than the increased costs of salaries and benefits.

The District's began collecting a local option sales tax in July 2004. The sales tax is expected to generate approximately \$233,000 in revenues per year for a ten-year period of time. These proceeds are available for capital improvements, equipment purchases and property tax relief.

The district's solvency ratio decreased to 19.4% in FY 2005, down from 29.4% the previous year.

Overview of the Financial Statements

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

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

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

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending.

Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

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

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

Financial Analysis of the District as a Whole

The following table represents a condensed statement of net assets for the FY 2004 and FY 2005.

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2004-05
	2004	2005	2004	2005	2004	2005	
Current and other assets	\$3,494,103	\$3,332,916	\$9,092	\$6,558	\$3,503,195	\$3,339,474	-4.7%
Capital assets	\$733,763	\$748,136	\$4,108	\$3,400	\$737,871	\$751,536	1.9%
Total Assets	\$4,227,866	\$4,081,052	\$13,200	\$9,958	\$4,241,066	\$4,091,010	-3.5%
Long-term debt outstanding	\$40,181	\$46,935	\$0	\$0	\$40,181	\$46,935	16.8%
Other liabilities	\$2,055,989	\$2,032,677	\$1,398	\$771	\$2,057,387	\$2,033,448	-1.2%
Total liabilities	\$2,096,170	\$2,079,612	\$1,398	\$771	\$2,097,568	\$2,080,383	-0.8%
Net Assets							
Invested in capital assets, Net of related debt	\$678,505	\$748,136	\$4,108	\$3,400	\$682,613	\$751,536	10.1%
Restricted	\$434,499	\$567,324			\$434,499	\$567,324	30.6%
Unrestricted	\$1,018,692	\$685,980	\$7,694	\$5,787	\$1,026,386	\$691,767	-32.6%
TOTAL NET ASSETS	\$2,131,696	\$2,001,440	\$11,802	\$9,187	\$2,143,498	\$2,010,627	-6.2%

The District's financial position reflects a downward trend over time. This is the product of many factors. Reductions in enrollment drive a reduction in district revenues and should be coupled with an equal amount of reduction in expenses. A decrease in revenues, no significant decrease in expenditures and using the authorized unspent balance in order to meet increased expenditures and expenditures that exceed revenues are evidence of this decline.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$132,825 or 30.6% over the prior year. The increase was primarily a result of sales tax revenues that were not spend during fiscal year 2005.

The following table shows the changes in net assets for the years ending June 30, 2005 and 2004.

Changes in Net Assets from Operating Results

	Governmental Activities 2005	Governmental Activities 2004	Business- Type Activities 2005	Business- Type Activities 2004	Total School District 2005	Total School District 2004	Percent Change 2004- 2005
Revenues							
Program Revenues							
Charges for services	\$ 275,774	\$ 209,215	\$108,737	\$ 107,105	\$ 384,511	\$ 316,320	21.6%
Operating Grants & Contributions	\$ 410,186	\$ 414,101	\$ 73,402	\$ 73,182	\$ 483,588	\$ 487,283	-0.8%
Capital Grants & Contributions	\$ -	\$ 87,213	\$ -	\$ -	\$ -	\$ 87,213	100.0%
General Revenues							
Property taxes	\$ 1,963,490	\$ 2,156,433	\$ -	\$ -	\$ 1,963,490	\$ 2,156,433	8.9%
Sales taxes	\$ 237,391	\$ -	\$ -	\$ -	\$ 237,391	\$ -	-
State formula aid	\$ 1,403,420	\$ 1,216,757	\$ -	\$ -	\$ 1,403,420	\$ 1,216,757	15.3%
Other	\$ 33,232	\$ 39,328	\$ -	\$ 13	\$ 33,232	\$ 39,341	15.5%
Total Revenues	\$ 4,323,493	\$ 4,123,047	\$182,139	\$ 180,300	\$ 4,505,632	\$ 4,303,347	4.7%
Expenses							
Instruction	\$ 2,746,287	\$ 2,650,899	\$ -	\$ -	\$ 2,746,287	\$ 2,650,899	3.6%
Support Services	\$ 1,408,831	\$ 1,254,309	\$ -	\$ -	\$ 1,408,831	\$ 1,254,309	12.3%
Non-instructional programs	\$ 17,250	\$ 20,565	\$199,804	\$ -	\$ 186,739	\$ 207,304	4.8%
Other	\$ 266,331	\$ 264,572	\$ -	\$ -	\$ 266,331	\$ 264,572	0.7%
Total Expenses	\$ 4,438,699	\$ 4,190,345	\$199,804	\$ 186,739	\$ 4,638,503	\$ 4,377,084	6.0%
Excess (deficiency) before Transfers	\$ (115,206)	\$ (67,298)	\$ (17,665)	\$ (6,439)	\$ 132,871	\$ (73,737)	
Transfers	\$ (15,050)	\$ -	\$ 15,050	\$ -	\$ -	\$ -	
Increase (decrease) in net assets	\$ (115,206)	\$ (67,298)	\$ (2,615)	\$ (6,439)	\$ 132,871	\$ (73,737)	
Net assets beginning of year	\$ 2,131,696	\$ 2,198,994	\$ 11,802	\$ 18,241	\$ 2,143,498	\$ 2,217,235	
Net assets end of year	\$ 2,001,440	\$ 2,131,696	\$ 9,187	\$ 11,802	\$ 2,010,627	\$ 2,143,498	

Total revenue increased by 4.7% in 2005, however expenses also increased by 5.97%. Property tax and unrestricted state grants account for 75% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

Governmental Activities

The District experienced a decrease in the overall property tax base. Taxable valuation went from 185,577,246 for fiscal year 2004 budget to 150,421,605 for fiscal year 2005 budget.

Revenues for governmental activities were \$4,323,493 while expenses totaled \$4,438,699. In a difficult budget year, the District used its unspent balance to meet increased expenditures in lieu of reducing expenditures or seeking additional revenue sources.

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

Net Cost of Governmental Activities

	Total Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
Instruction	\$ 2,746,287			
		\$ 2,650,899	\$2,209,731	\$2,156,046
Support Services	\$ 1,408,831			
Non-instructional Programs	\$ 17,250	\$ 1,254,309	\$1,401,292	\$1,234,054
Other	\$ 266,331	\$ 20,565	\$17,250	\$20,565
TOTAL	\$ 4,438,699	\$ 4,190,345	\$ 3,752,739	\$ 3,479,816

- The cost of all governmental activities this year was \$4,438,699.
- The portion of the cost financed by users of the District's programs was \$275,774, which represents student registration fees for textbook sales and rentals, tuition charged to other schools and proceeds from student activities.
- The federal and state government (and private contributors) subsidized certain programs with grants and contributions totaling \$410,186.
- The net cost portion of governmental activities was financed with \$1,963,490 in property tax, \$1,403,420 in state foundation aid, \$237,391 in local option sales & services tax, and \$33,232 in interest income.

Business-Type Activities

Revenues of the District's business-type activities totaled \$182,139 while expenses totaled \$199,804. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

Deficits in the School Nutrition Fund are noted. The increased cost of food was not offset by an increase in student participation that was realized during the year. Meal prices charged were increase for 2004-05 to offset increased expense. The district will be monitoring revenues and expenditures and making adjustments as necessary to increase revenues or reduce expenditures.

Financial Analysis of the District's Funds

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,319,852, lower than last year's ending fund balances of \$1,513,581.

Governmental Fund Highlights

- The General Fund balance decreased to \$822,468 in FY05 from \$1,146,650 in FY04. General Fund revenues increased, but the increase was not enough to cover the increase in General Fund expenses.

The Physical Plant and Equipment Levy (PPEL) Fund balance decreased \$91,043 during the year. Increased expenditures and decreased revenues account for this reduction of the Fund balance.

The \$221,496 increase in fund balance in the non-major funds was the result of sales tax revenues that were not spent during the year. The sales tax revenues will be used to finance future capital improvements and equipment purchases.

Business-Type Fund Highlights

- The School Nutrition Fund balance decreased \$2,615. The reasons for this decrease were previously stated.

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

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the cash basis. The District did not amend the budget during the year.

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

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

Total expenditures were \$894,223 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

Capital Asset and Debt Administration

Capital Assets

By the end of fiscal 2005, the District had invested \$751,536, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers and audio-visual equipment, transportation equipment, and administrative offices. This amount represents a net increase of 2 percent from last year. (See table below). Depreciation expense for the year was approximately \$116,477.

During fiscal year 2005 the District replaced a roof at a cost of \$116,500. At June 30, 2005 the District had entered in to a \$93,000 contract for the replacement of a boiler, but work on the contract had not started yet.

	Capital Assets Net of Accumulated Depreciation						Total Percentage Change 2004-05
	Governmental Activities		Business-type Activities		Total School District		
	2004	2005	2004	2005	2004	2005	
Land	\$ 8,000	\$ 8,000			\$ 8,000	\$ 8,000	0.0%
Buildings	\$ 321,925	\$ 394,859	\$ -	\$ -	\$ 321,925	\$ 394,859	22.7%
Equipment & Furniture	\$ 403,838	\$ 345,277	\$ 4,108	\$ 3,400	\$ 407,946	\$ 348,677	-14.5%
TOTAL	\$ 733,763	\$ 748,136	\$ 4,108	\$ 3,400	\$ 737,871	\$ 751,536	1.9%

Long-Term Debt

At year-end, the district had \$66,548 in general obligation debt and other long-term debt outstanding. This represents a decrease of 42.3 percent from FY 2004.

Factors Bearing on the District's Future

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

- Anticipated enrollment reductions in the next 3-4 years are a concern to the district as it is likely to result in fewer revenues through the state funding formula. The district will need to consider ways to reduce its expenditures in future years.
- The board also anticipates using local option sales tax funds for school infrastructure, beginning with the 2005-06 school year.

- The board engaged in conversation with neighboring districts about future whole grade sharing possibilities. The board then voted intent to develop a two-way whole grade sharing agreement (WGSA) with the Eldora-New Providence District to begin with the 2007-08 school year. The sharing of some activities is to begin in the spring of 2006 and for the 2006-07 school year.
- The impact of voting intent to develop a WGSA with the Eldora-New Providence District for the 2007-06 school year is that the district now has 127 additional, or new, students open enrolled out to other districts for the 2006-07 school year. 127 students represents approximately 30% of the district's students.

Contacting the District's Financial Management

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

Debra England, Board Secretary or Ron Blakley, Superintendent
Hubbard-Radcliffe Community Schools
200 Chestnut, Hubbard, IA 50122

BASIC FINANCIAL STATEMENTS

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	1,242,729	43	1,242,772
Receivables:			
Property tax:			
Delinquent	30,612	-	30,612
Succeeding year	1,974,967	-	1,974,967
Accounts	491	-	491
Accrued interest	5,172	-	5,172
Due from other governments	76,210	-	76,210
Prepaid expenses	2,735	-	2,735
Inventories	-	6,515	6,515
Capital assets, net of accumulated depreciation	748,136	3,400	751,536
Total assets	4,081,052	9,958	4,091,010
Liabilities			
Accounts payable	38,097	771	38,868
Deferred revenue:			
Succeeding year property tax	1,974,967	-	1,974,967
Long-term liabilities:			
Portion due within one year:			
Early retirement	13,993	-	13,993
Compensated absences	5,620	-	5,620
Portion due after one year:			
Early retirement	12,848	-	12,848
Compensated absences	34,087	-	34,087
Total Liabilities	2,079,612	771	2,080,383
Net assets			
Invested in capital assets, net of related debt	748,136	3,400	751,536
Restricted for:			
Gifted and talented program	93,123	-	93,123
Iowa early intervention block grant	3,658	-	3,658
Management levy	28,641	-	28,641
Physical plant and equipment levy	144,046	-	144,046
Other special revenue purposes	58,347	-	58,347
Local option sales tax capital projects	239,509	-	239,509
Unrestricted	685,980	5,787	691,767
Total net assets	2,001,440	9,187	2,010,627

See notes to financial statements.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	1,986,717	173,130	184,054	-
Special instruction	326,630	9,708	23,501	-
Other instruction	432,940	88,939	57,224	-
	<u>2,746,287</u>	<u>271,777</u>	<u>264,779</u>	<u>-</u>
Support services:				
Student services	96,488	-	-	-
Instructional staff services	204,951	3,997	2,700	-
Administration services	443,695	-	-	-
Operation and maintenance of plant services	438,481	-	-	-
Transportation services	225,216	-	842	-
	<u>1,408,831</u>	<u>3,997</u>	<u>3,542</u>	<u>-</u>
Non-instructional programs	<u>17,250</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	79,691	-	-	-
Long-term debt interest	1,207	-	-	-
AEA flowthrough	141,865	-	141,865	-
Depreciation (unallocated)*	43,568	-	-	-
	<u>266,331</u>	<u>-</u>	<u>141,865</u>	<u>-</u>
Total governmental activities	<u>4,438,699</u>	<u>275,774</u>	<u>410,186</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>199,804</u>	<u>108,737</u>	<u>73,402</u>	<u>-</u>
Total	<u>4,638,503</u>	<u>384,511</u>	<u>483,588</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				

Change in net assets

Net assets beginning of year

Net assets end of year

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

See notes to financial statements.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,629,533)	-	(1,629,533)
(293,421)	-	(293,421)
<u>(286,777)</u>	-	<u>(286,777)</u>
<u>(2,209,731)</u>	-	<u>(2,209,731)</u>
(96,488)	-	(96,488)
(198,254)	-	(198,254)
(443,695)	-	(443,695)
(438,481)	-	(438,481)
<u>(224,374)</u>	-	<u>(224,374)</u>
<u>(1,401,292)</u>	-	<u>(1,401,292)</u>
<u>(17,250)</u>	-	<u>(17,250)</u>
(79,691)	-	(79,691)
(1,207)	-	(1,207)
-	-	-
<u>(43,568)</u>	-	<u>(43,568)</u>
<u>(124,466)</u>	-	<u>(124,466)</u>
(3,752,739)	-	(3,752,739)
-	<u>(17,665)</u>	<u>(17,665)</u>
<u>(3,752,739)</u>	<u>(17,665)</u>	<u>(3,770,404)</u>
1,790,947	-	1,790,947
172,543	-	172,543
237,391	-	237,391
1,403,420	-	1,403,420
31,331	-	31,331
1,901	-	1,901
<u>3,637,533</u>	-	<u>3,637,533</u>
<u>(15,050)</u>	15,050	-
<u>3,622,483</u>	15,050	<u>3,637,533</u>
(130,256)	(2,615)	(132,871)
<u>2,131,696</u>	<u>11,802</u>	<u>2,143,498</u>
<u>2,001,440</u>	<u>9,187</u>	<u>2,010,627</u>

See notes to financial statements.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	781,963	146,339	314,427	1,242,729
Receivables:				
Property tax:				
Delinquent	26,514	2,691	1,407	30,612
Succeeding year	1,653,855	201,112	120,000	1,974,967
Accounts	307	-	184	491
Accrued interest	5,172	-	-	5,172
Due from other governments	36,860	-	39,350	76,210
Prepaid expenses	2,735	-	-	2,735
	<u>2,507,406</u>	<u>350,142</u>	<u>475,368</u>	<u>3,332,916</u>
Total assets				
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	31,083	4,984	2,030	38,097
Deferred revenue:				
Succeeding year property tax	1,653,855	201,112	120,000	1,974,967
Total liabilities	<u>1,684,938</u>	<u>206,096</u>	<u>122,030</u>	<u>2,013,064</u>
Fund balances:				
Reserved for:				
Prepaid expenses	2,735	-	-	2,735
Gifted and talented program	93,123	-	-	93,123
Iowa early intervention block grant	3,658	-	-	3,658
Unreserved reported in:				
General fund	722,952	-	-	722,952
Special revenue funds	-	144,046	113,829	257,875
Capital projects funds	-	-	239,509	239,509
Total fund balances	<u>822,468</u>	<u>144,046</u>	<u>353,338</u>	<u>1,319,852</u>
Total liabilities and fund balances	<u>2,507,406</u>	<u>350,142</u>	<u>475,368</u>	<u>3,332,916</u>

HUBBARD-RADCLIFFE 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 (Exhibit C)	1,319,852
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	748,136
Long-term liabilities, including compensated absences and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(66,548)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,001,440</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,700,720	172,543	327,618	2,200,881
Tuition	44,568	-	-	44,568
Other	165,702	2,804	94,031	262,537
State sources	1,692,165	130	67	1,692,362
Federal sources	121,244	-	-	121,244
Total revenues	<u>3,724,399</u>	<u>175,477</u>	<u>421,716</u>	<u>4,321,592</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,885,638	-	68,399	1,954,037
Special instruction	326,630	-	-	326,630
Other instruction	337,288	-	92,319	429,607
	<u>2,549,556</u>	<u>-</u>	<u>160,718</u>	<u>2,710,274</u>
Support services:				
Student services	96,488	-	-	96,488
Instructional staff services	204,951	-	-	204,951
Administration services	421,049	-	22,646	443,695
Operation and maintenance of plant services	428,962	-	8,212	437,174
Transportation services	175,311	-	8,644	183,955
	<u>1,326,761</u>	<u>-</u>	<u>39,502</u>	<u>1,366,263</u>
Non-instructional programs	<u>17,250</u>	<u>-</u>	<u>-</u>	<u>17,250</u>
Other expenditures:				
Facilities acquisition	-	209,833	-	209,833
Long-term debt:				
Principal	-	-	55,258	55,258
Interest and fiscal charges	-	-	1,429	1,429
AEA flowthrough	141,865	-	-	141,865
	<u>141,865</u>	<u>209,833</u>	<u>56,687</u>	<u>408,385</u>
Total expenditures	<u>4,035,432</u>	<u>209,833</u>	<u>256,907</u>	<u>4,502,172</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(311,033)</u>	<u>(34,356)</u>	<u>164,809</u>	<u>(180,580)</u>
Other financing sources (uses):				
Sales of materials and equipment	1,901	-	-	1,901
Operating transfers in	-	-	56,687	56,687
Operating transfers out	(15,050)	(56,687)	-	(71,737)
Total other financing sources (uses)	<u>(13,149)</u>	<u>(56,687)</u>	<u>56,687</u>	<u>(13,149)</u>
Net change in fund balances	(324,182)	(91,043)	221,496	(193,729)
Fund balances beginning of year	<u>1,146,650</u>	<u>235,089</u>	<u>131,842</u>	<u>1,513,581</u>
Fund balances end of year	<u>822,468</u>	<u>144,046</u>	<u>353,338</u>	<u>1,319,852</u>

See notes to financial statements.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(193,729)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	130,142	
Depreciation expense	<u>(115,769)</u>	14,373
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		55,258
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.		222
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement	(3,338)	
Compensated absences	<u>(3,042)</u>	<u>(6,380)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>(130,256)</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	43
Inventories	6,515
Capital assets, net of accumulated depreciation	<u>3,400</u>
Total assets	9,958
Liabilities	
Accounts payable	<u>771</u>
Net assets	
Invested in capital assets, net of related debt	3,400
Unrestricted	<u>5,787</u>
Total net assets	<u><u>9,187</u></u>

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

Year ended June 30, 2005

	Nonmajor School Nutrition
	\$
Operating revenue:	
Local sources:	
Charges for service	108,737
Operating expenses:	
Non-instructional programs:	
Salaries	68,751
Benefits	19,048
Purchased services	2,472
Supplies	104,677
Depreciation	708
Other	4,148
	199,804
Operating gain (loss)	(91,067)
Non-operating revenue:	
State sources	2,769
Federal sources	70,633
Total non-operating revenue	73,402
Gain (loss) before transfers	(17,665)
Transfers in	15,050
Change in net assets	(2,615)
Net assets beginning of year	11,802
Net assets end of year	9,187

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	108,787
Cash received from daycare services	
Cash payments to employees for services	(87,799)
Cash payments to suppliers for goods or services	(96,216)
Net cash used by operating activities	<u>(75,228)</u>
Cash flows from non-capital financing activities:	
Transfer from General Fund	15,050
State grants received	2,769
Federal grants received	57,452
Net cash provided by non-capital financing activities	<u>75,271</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>-</u>
Net increase (decrease) in cash and cash equivalents	43
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	<u><u>43</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(91,067)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	13,181
Depreciation	708
Decrease (increase) in inventories	2,527
Decrease (increase) in accounts receivable	50
(Decrease) increase in accounts payable	(627)
Net cash used in operating activities	<u><u>(75,228)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$13,181 of federal commodities.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	Private Purpose Trust <u>Scholarship</u> \$
Assets	
Cash and pooled investments	52,107
Accrued interest receivable	<u>42</u>
Total Assets	52,149
Liabilities	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>52,149</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	50,500
Interest	<u>79</u>
Total additions	50,579
Deductions	
Support services:	
Scholarships awarded	<u>500</u>
Change in net assets	50,079
Net assets beginning of year	<u>2,070</u>
Net assets end of year	<u><u>52,149</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be

susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property

tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 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 market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be

used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

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

Compensated Absences - District employees accumulate a limited amount of earned but unused sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

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 insure there will be no loss of public funds.

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 40.

3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
		\$
General Fund	Enterprise: School Nutrition Fund	15,050
Debt Service Fund	Special Revenue:	

Physical Plant and Equipment Levy Fund 56,687

The transfer from the General Fund to the School Nutrition Fund was made to subsidize the School Nutrition Fund.

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

4. Capital Assets

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

	Balance Beginning of Year \$	Increases \$	Decreases \$	Balance End of Year \$
Governmental activities:				
Capital assets not being depreciated:				
Land	8,000	-	-	8,000
Capital assets being depreciated:				
Buildings	2,601,500	116,502	-	2,718,002
Improvements other than buildings	62,380	-	-	62,380
Furniture and equipment	1,064,263	13,640	43,500	1,034,403
Total capital assets being deprec.	<u>3,728,143</u>	<u>130,142</u>	<u>43,500</u>	<u>3,814,785</u>
Less accumulated depreciation for:				
Buildings	2,279,575	43,568	-	2,323,143
Improvements other than buildings	62,380	-	-	62,380
Furniture and equipment	660,425	72,201	43,500	689,126
Total accumulated depreciation	<u>3,002,380</u>	<u>115,769</u>	<u>43,500</u>	<u>3,074,649</u>
Total capital assets being depreciated, net	<u>725,763</u>	<u>14,373</u>	-	<u>740,136</u>
Governmental activities capital Assets, net	<u>733,763</u>	<u>14,373</u>	-	<u>748,136</u>
	Balance Beginning of Year \$	Increases \$	Decreases \$	Balance End of Year \$
Business type activities:				
Furniture and equipment	84,556	-	-	84,556
Less accumulated depreciation	<u>80,448</u>	<u>708</u>	-	<u>81,156</u>
Business type activities capital Assets, net	<u>4,108</u>	<u>(708)</u>	-	<u>3,400</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	26,300
Other	3,333
Support Services:	
Operation and maintenance of plant services	1,307
Transportation	41,261
	<u>72,201</u>
Unallocated depreciation	<u>43,568</u>
Total depreciation expense – governmental activities	<u>115,769</u>
Business type activities:	
Food service operations	<u>708</u>

5. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Capital leases	55,258	-	55,258	-	-
Early retirement	23,503	18,760	15,422	26,841	13,993
Compensated absences	36,665	8,662	5,620	39,707	5,620
	<u>115,426</u>	<u>27,422</u>	<u>76,300</u>	<u>66,548</u>	<u>19,613</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and must have completed twenty years of service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives include a monthly payment of .01 times the salary received prior to retirement until age 65 and single health insurance coverage with a value of up to \$160 per month through age 64. Early retirement expenditures for the year ended June 30, 2005 totaled \$15,422.

6. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$139,447, \$134,086, and \$134,643 respectively, equal to the required contributions for each year.

7. Risk Management

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

8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$141,865 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.

9. Construction Commitment

The District has entered into a \$93,236 contract for a new boiler. Work on the project started after June 30, 2005.

10. Lease Commitment

The District entered into a five-year contract to lease copy machines during fiscal year 2004. The payments the District will make over the next four years are as follows:

<u>Year Ended June 30</u>	<u>Lease Payment</u>
	\$
2006	7,421
2007	7,421
2008	7,421
2009	3,710

REQUIRED SUPPLEMENTARY INFORMATION

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	2,456,954	108,787	2,565,741	2,517,721	2,517,721	48,020
State sources	1,684,496	2,769	1,687,265	1,703,416	1,703,416	(16,151)
Federal sources	140,651	70,633	211,284	176,000	176,000	35,284
Total receipts	<u>4,282,101</u>	<u>182,189</u>	<u>4,464,290</u>	<u>4,397,137</u>	<u>4,397,137</u>	<u>67,153</u>
Disbursements:						
Instruction	2,710,741	-	2,710,741	3,276,710	3,276,710	565,969
Support services	1,358,402	-	1,358,402	1,498,000	1,498,000	139,598
Non-instructional programs	17,250	197,196	214,446	235,714	235,714	21,268
Other expenditures	374,276	-	374,276	541,664	541,664	167,388
Total disbursements	<u>4,460,669</u>	<u>197,196</u>	<u>4,657,865</u>	<u>5,552,088</u>	<u>5,552,088</u>	<u>894,223</u>
Excess (deficiency) of receipts over (under) disbursements	(178,568)	(15,007)	(193,575)	(1,154,951)	(1,154,951)	961,376
Other financing sources (uses) net	<u>(13,149)</u>	<u>15,050</u>	<u>1,901</u>	<u>7,600</u>	<u>7,600</u>	<u>(5,699)</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	(191,717)	43	(191,674)	(1,147,351)	(1,147,351)	955,677
Balance beginning of year	<u>1,434,446</u>	<u>-</u>	<u>1,434,446</u>	<u>1,344,099</u>	<u>1,344,099</u>	<u>90,347</u>
Balance end of year	<u><u>1,242,729</u></u>	<u><u>43</u></u>	<u><u>1,242,772</u></u>	<u><u>196,748</u></u>	<u><u>196,748</u></u>	<u><u>1,046,024</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	4,282,101	39,491	4,321,592
Expenditures	4,460,669	41,503	4,502,172
Net	(178,568)	(2,012)	(180,580)
Other financing sources (uses) net	(13,149)	-	(13,149)
Beginning fund balances	1,434,446	79,135	1,513,581
Ending fund balances	1,242,729	77,123	1,319,852

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
\$	\$	\$	
Revenues	182,189	(50)	182,139
Expenditures	197,196	2,608	199,804
Net	(15,007)	(2,658)	(17,665)
Other financing sources (uses) net	15,050	-	15,050
Beginning fund balances	-	11,802	11,802
Ending fund balances	43	9,144	9,187

HUBBARD-RADCLIFFE 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 Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

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

OTHER SUPPLEMENTARY INFORMATION

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds		Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Local Option Sales Tax	
	\$	\$	\$	\$
Cash and pooled investments	54,075	60,193	200,159	314,427
Receivables:				
Property tax:				
Delinquent	1,407	-	-	1,407
Succeeding year	120,000	-	-	120,000
Accounts	-	184	-	184
Due from other governments	-	-	39,350	39,350
Total assets	175,482	60,377	239,509	475,368
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	-	2,030	-	2,030
Deferred revenue:				
Succeeding year property tax	120,000	-	-	120,000
Total liabilities	120,000	2,030	-	122,030
Fund balances:				
Unreserved reported in:				
Special revenue funds	55,482	58,347	-	113,829
Capital projects funds	-	-	239,509	239,509
Total fund balances	55,482	58,347	239,509	353,338
Total liabilities and fund balances	175,482	60,377	239,509	475,368

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Special Revenue Funds		Capital Projects Fund	Debt Service	Total
	Management Levy	Student Activity Fund	Local Option Sales Tax		
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	90,227	-	237,391	-	327,618
Other	1,641	90,272	2,118	-	94,031
State sources	67	-	-	-	67
Total revenues	<u>91,935</u>	<u>90,272</u>	<u>239,509</u>	<u>-</u>	<u>421,716</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	68,399	-	-	-	68,399
Other instruction	-	92,319	-	-	92,319
Support services:					
Administration services	22,646	-	-	-	22,646
Operation and maintenance of plant services	8,212	-	-	-	8,212
Transportation services	8,644	-	-	-	8,644
Other expenditures:					
Long-term debt:					
Principal	-	-	-	55,258	55,258
Interest and fiscal charges	-	-	-	1,429	1,429
Total expenditures	<u>107,901</u>	<u>92,319</u>	<u>-</u>	<u>56,687</u>	<u>256,907</u>
Excess (deficiency) of revenues over (under) expenditures	(15,966)	(2,047)	239,509	(56,687)	164,809
Other financing sources (uses):					
Operating transfers in	-	-	-	56,687	56,687
Net change in fund balances	(15,966)	(2,047)	239,509	-	221,496
Fund balances beginning of year	<u>71,448</u>	<u>60,394</u>	<u>-</u>	<u>-</u>	<u>131,842</u>
Fund balances end of year	<u><u>55,482</u></u>	<u><u>58,347</u></u>	<u><u>239,509</u></u>	<u><u>-</u></u>	<u><u>353,338</u></u>

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Athletics	5,014	37,565	43,489	-	(910)
Drill Team	3,837	7,420	7,657	-	3,600
Boys basketball	987	1,620	1,879	-	728
Girls basketball	831	-	-	-	831
Baseball	285	150	375	-	60
Football	5,339	5,631	3,473	-	7,497
Volleyball	4,195	386	991	-	3,590
Wrestling	10	2,042	1,107	-	945
Track	2,150	-	285	-	1,865
Cross country	6	-	-	-	6
Softball	37	-	-	-	37
FCCLA	480	-	-	-	480
Shop club	437	-	-	(437)	-
Electrathon	485	-	-	(485)	-
Electric car	-	2,297	1,253	-	1,044
FFA	-	4,135	3,612	922	1,445
Cheerleaders	1,078	437	1,465	-	50
Class of 2006	-	8,834	7,981	-	853
Class of 2005	58	86	144	-	-
Interest	19,617	1,334	-	-	20,951
Vocal/instrumental music	2	-	-	-	2
Fifth grade	126	330	-	-	456
Yearbook	1,958	9,314	10,830	-	442
Spanish club	3,019	4,462	4,819	-	2,662
Student Council HS	3,854	1,726	2,001	-	3,579
Student Council MS	5,108	2,078	952	-	6,234
Elementary council	3,640	241	135	-	3,746
June 30, 2005 accrual entries	-	184	2,030	-	(1,846)
June 30, 2004 accrual entries	(2,159)	-	(2,159)	-	-
Total	60,394	90,272	92,319	-	58,347

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,200,881	2,156,433	2,140,933	2,091,563
Tuition	44,568	39,597	33,458	36,929
Other	262,537	243,150	245,764	196,433
State sources	1,692,362	1,508,423	1,540,410	1,640,111
Federal sources	121,244	172,435	140,187	96,960
Total revenues	<u>4,321,592</u>	<u>4,120,038</u>	<u>4,100,752</u>	<u>4,061,996</u>
Expenditures:				
Instruction:				
Regular instruction	1,954,037	1,965,947	2,128,096	1,886,508
Special instruction	326,630	383,177	347,741	355,842
Other instruction	429,607	304,244	290,537	287,700
Support services:				
Student services	96,488	111,425	105,336	89,486
Instructional staff services	204,951	104,988	120,900	94,132
Administration services	443,695	461,871	400,252	380,844
Operation and maintenance of plant services	437,174	413,990	364,184	336,350
Transportation services	183,955	168,062	236,386	213,361
Central support services	-	-	-	1,166
Non-instructional programs	17,250	20,565	20,924	9,201
Other expenditures:				
Facilities acquisition	209,833	175,239	151,457	145,284
Long-term debt:				
Principal	55,258	55,635	50,257	1,925
Interest and other charges	1,429	2,787	8,165	700
AEA flowthrough	141,865	145,421	155,095	156,383
Total expenditures	<u>4,502,172</u>	<u>4,313,351</u>	<u>4,379,330</u>	<u>3,958,882</u>

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
Hubbard-Radcliffe Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Hubbard-Radcliffe Community School District 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 September 20, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hubbard-Radcliffe Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 items 05-I-A, 05-I-B, 05-I-C, 05-I-D and 05-I-E are material weaknesses.

Compliance and Other Matters

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

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.

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

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

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

September 20, 2005

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

05-I-B Supporting Documentation: We tested twelve Student Activity Fund expenditures and noted one credit card expenditure that did not have a detailed receipt or invoice for \$91. We tested 26 General Fund expenditures and noted one credit card expenditure that did not have detailed receipts for \$364.

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

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

Conclusion: Response accepted.

05-I-C Purchase Order System: The District is using a purchase order system to control the purchase of services, supplies and equipment for all departments except operating and maintenance, transportation, and food service. The purchase order system requires that an employee have a purchase order, signed by the specified administrator, before ordering or purchasing any goods or services for the school.

Recommendation: The District's control over purchasing would be improved by requiring the use of the purchase order system for all departments.

District Response: We will require that all departments use the purchase order system.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

Conclusion: Response accepted.

05-I-D Bank Deposits: We noted that Student Activity Fund and School Nutrition Fund cash and checks collected at the Radcliffe Center were only deposited in the bank once a month.

Recommendation: All cash and checks collected should be deposited daily.

District Response: We will change our deposit procedures.

Conclusion: Response accepted.

05-I-E Athletic Gate Admissions: District procedures require the use of a ticket system for student activities that charge an admission fee. However, it appears that the ticket system requirements are often not followed.

Recommendation: The system should be followed for all events. Tickets should be issued to each person paying an admission fee. At the end of the event two people should count the cash collected and reconcile the cash to the number of tickets sold. The cash should then be taken to the bank's night depository or securely locked up in the school. The cash reconciliation sheet from the night of the event should be compared to the bank deposit.

District Response: We will renew our efforts to use a ticket system.

Conclusion: Response accepted.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:

- 05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.
- 05-II-B Certified Budget: Disbursements for the year ended June 30, 2005, did not exceed the amounts budgeted.
- 05-II-C Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 05-II-D Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 05-II-E Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Rex Crosser, board member,	Substitute bus driver	\$510
Jan Vaughan, board member, owner of Old Mother Hubbard Preschool	Rents space from the school for the preschool business.	\$1

Recommendation: Hiring a board member as a substitute bus driver does not appear to be a conflict of interest because the employment is part time and temporary and is less than \$2,500 as allowed by the Code of Iowa. Renting space to a board member for a private business may be a conflict of interest, the District should consult legal council.

District Response: We have consulted with our attorney. Before entering into a lease for the 2005 and 2006 fiscal years we held a public hearing as recommended by our attorney.

Conclusion: Response accepted.

- 05-II-F Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.
- 05-II-H Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.
- 05-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

HUBBARD-RADCLIFFE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

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

05-II-K Old Outstanding Checks: We noted that the District's bank reconciliations included approximately \$365 of old outstanding checks. Iowa Code Section 566 specifies that holders of unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

Recommendation: The District should investigate the status of all old outstanding checks. Checks that were issued in error or in duplicate should be voided and removed from the list of outstanding checks. The District should search for the owners of all other outstanding checks, then reissue new checks if the owners are found. If the owners can not be found, the District must file an unclaimed property report with and send the money to the Treasurer State of Iowa.

District Response: We will begin investigating the status of old outstanding checks and we will file an unclaimed property report with the Treasurer of Iowa if necessary.

Conclusion: Response accepted.