

HINTON COMMUNITY SCHOOL DISTRICT

Hinton, Iowa

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

June 30, 2008

HINTON COMMUNITY SCHOOL DISTRICT

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## 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, 2008, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2008 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 February 28, 2009, 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.



KING, REINSCH, PROSSER & CO., L.L.P.  
Certified Public Accountants

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 33 and 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic 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.

February 28, 2009  
Sioux City, Iowa

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

## 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, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2008 Financial Highlights

- General Fund revenues increased from \$4,906,509 in fiscal 2007 to \$5,438,572 in fiscal 2008, while General Fund expenditures increased from \$4,825,959 in fiscal 2007 to \$5,460,659 in fiscal 2008. The District's General Fund balance decreased from \$847,645 in fiscal 2007 to \$825,558 in fiscal 2008, a 2.6% decrease.
- The increase in General Fund revenues was primarily attributable to increased enrollment of resident students and open enrolled students.
- The increase in General Fund expenditures was primarily attributable to the addition of staff with the intent of maintaining small class sizes.

### 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 three 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 three Enterprise Funds, the School Nutrition Fund, the Before and After School Program, and the Child/Adult Care Food 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.

3. Fiduciary Funds - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures

The District is responsible for ensuring the assets reported in the fiduciary 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

The required financial statements for fiduciary funds includes a statement of fiduciary net assets.

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, 2008 and 2007.

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

	Governmental Activities		Business Type Activities		Total District		Total Percentage Change
	2008	2007	2008	2007	2008	2007	2007-2008
Current and other assets	\$ 4,129	\$ 3,995	\$ 73	\$ 95	\$ 4,202	\$ 4,090	2.7%
Capital assets, net	4,521	4,368	50	54	4,571	4,422	3.4%
Total assets	\$ 8,650	\$ 8,363	\$ 123	\$ 149	\$ 8,773	\$ 8,512	3.1%
Long-term liabilities	\$ 974	\$ 1,092	\$ -	\$ -	\$ 974	\$ 1,092	-10.8%
Other liabilities	2,454	2,312	21	24	2,475	2,336	6.0%
Total liabilities	\$ 3,428	\$ 3,404	\$ 21	\$ 24	\$ 3,449	\$ 3,428	0.6%
Net assets:							
Invested in capital assets, net of related debt	\$ 3,606	\$ 3,343	\$ 50	\$ 54	\$ 3,656	\$ 3,397	7.6%
Restricted	790	768	-	-	790	768	2.9%
Unrestricted	826	848	52	71	878	919	-4.5%
Total net assets	\$ 5,222	\$ 4,959	\$ 102	\$ 125	\$ 5,324	\$ 5,084	4.7%

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, 2008 and 2007.

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

	Governmental Activities		Business Type Activities		Total District		Total Percentage Change 2007-2008
	2008	2007	2008	2007	2008	2007	
Revenues:							
Program revenues:							
Charges for services	\$ 1,248	\$ 999	\$ 294	\$ 293	\$ 1,542	\$ 1,292	19.3%
Operating grants, contributions and restricted interest	642	523	77	69	719	592	21.5%
General revenues:							
Property tax	1,746	1,799	-	-	1,746	1,799	-2.9%
Unrestricted state grants	2,111	1,844	-	-	2,111	1,844	14.5%
Unrestricted investment earnings	70	85	2	4	72	89	-19.1%
Local surtax	261	240	-	-	261	240	8.8%
Local option sales tax	329	327	-	-	329	327	0.6%
Other	67	68	-	-	67	68	-1.5%
Total revenues	<u>\$ 6,474</u>	<u>\$ 5,885</u>	<u>\$ 373</u>	<u>\$ 366</u>	<u>\$ 6,847</u>	<u>\$ 6,251</u>	<u>9.5%</u>
Program expenses:							
Instruction	\$ 4,228	\$ 3,612	\$ -	\$ -	\$ 4,228	\$ 3,612	17.1%
Support services	1,757	1,559	-	-	1,757	1,559	12.7%
Non-instructional programs	-	-	396	361	396	361	9.7%
Other expenses	226	219	-	-	226	219	3.2%
Total expenses	<u>\$ 6,211</u>	<u>\$ 5,390</u>	<u>\$ 396</u>	<u>\$ 361</u>	<u>\$ 6,607</u>	<u>\$ 5,751</u>	<u>14.9%</u>
Change in net assets	<u>\$ 263</u>	<u>\$ 495</u>	<u>\$ (23)</u>	<u>\$ 5</u>	<u>\$ 240</u>	<u>\$ 500</u>	<u>-52.0%</u>

Property tax and unrestricted state grants account for 56.3% of the total revenue (58.3% in 2007). The District's expenses primarily relate to instruction and support services, which account for 90.6% of the total expenses (89.9% in 2007).

Governmental Activities - Revenues for governmental activities were \$6,474,045 and expenses were \$6,211,488. Governmental activities revenue increased over 2007 primarily as a result of increased enrollment.

The following table presents the total and net cost of the District's major governmental activities for the years ended June 30, 2008 and 2007: Instruction, support services, non-instructional programs and other expenses.

Figure A-3 (In Thousands)  
Total and Net Cost of Governmental Activities

	Total Cost of Services		Percent	Net Cost of Services		Percent
	2008	2007	Change	2008	2007	Change
Instruction	\$ 4,228	\$ 3,612	17.1%	\$ 2,536	\$ 2,282	11.1%
Support services	1,757	1,559	12.7%	1,750	1,547	13.1%
Other expenses	226	219	3.2%	35	39	-10.3%
Totals	\$ 6,211	\$ 5,390	15.2%	\$ 4,321	\$ 3,868	11.7%

- The cost financed by users of the District's programs was \$1,248,328 (\$999,497 in 2007).
- Federal and state governments subsidized certain programs with grants and contributions totaling \$642,182 (\$523,297 in 2007).
- The net cost of governmental activities was financed with \$2,336,335 in property and other taxes (\$2,366,398 in 2007) and \$2,110,460 in unrestricted state grants (\$1,843,584 in 2007).

*Business Type Activities* - Revenues for business type activities were \$372,850 (\$366,190 in 2007) and expenses were \$395,974 (\$361,153 in 2007). The District's business type activities include the School Nutrition, Before and After School Program and Child/Adult Care Food 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 higher participation in the programs and normal cost increases.

### **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 \$1,692,374, below last year's ending fund balances of \$1,702,600. The District's proprietary funds reported end of year net assets of \$101,504, below last year's ending fund balances of \$124,628.

### **Governmental Fund Highlights**

The District's General Fund balance decreased due to the addition of staff to maintain small class sizes therefore increasing the quality of education.

The Capital Projects Fund balance decline was due to the completion of numerous infrastructure projects during the year using local option sales tax proceeds from prior years.

### Proprietary Fund Highlights

Proprietary fund net assets decreased \$23,124 from \$124,628 in 2007 to \$101,504 in 2008 due to increased costs and no adjustment in fee schedules.

### Budgetary Highlights

The District amended its annual budget for instruction and non-instructional programs due to the need for additional staff and an increase in unemployment insurance. The District also amended its budget for support services and other expenditures primarily due to capital purchases.

### Capital Assets and Debt Administration

Capital Assets - At June 30, 2008, the District had invested \$4,571,064, 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 3 to the financial statements. Depreciation expense for the year was \$272,213.

The original cost of the District's capital assets was \$7,832,263. Governmental funds account for \$7,754,333, with the remainder of \$77,930 accounted for in the Proprietary, School Nutrition Fund and Before and After School Program.

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

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total District</u>		<u>Percent</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2007-2008</u>
Land	\$ 227	\$ 227	\$ -	\$ -	\$ 227	\$ 227	0.0%
Construction in progress	15	60	-	-	15	60	-75.0%
Buildings	2,870	2,859	-	-	2,870	2,859	0.4%
Improvements other than buildings	695	717	-	-	695	717	-3.1%
Furniture and equipment	714	505	50	54	764	559	36.7%
Totals	\$ 4,521	\$ 4,368	\$ 50	\$ 54	\$ 4,571	\$ 4,422	3.4%

Long-Term Debt - At June 30, 2008, the District had \$915,000 in school infrastructure sales and services tax revenue bonds and \$59,113 early retirement payable for total long-term debt of \$974,113. Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

### 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 affect its financial health in the future:

Enrollment is the key to financial stability. Enrollment projections for the District predict the school enrollment to increase.

### **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 Paula Schreck, District Business Manager, Hinton Community School District, P.O. Box 128, 315 W. Grand, Hinton, Iowa 51024.

# **BASIC FINANCIAL STATEMENTS**

HINTON COMMUNITY SCHOOL DISTRICTSTATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 2,155,931	\$ 70,228	\$ 2,226,159
Receivables:			
Property tax:			
Current year	80,301	-	80,301
Succeeding year	1,834,332	-	1,834,332
Accounts	41,600	1,051	42,651
Due from other governments	12,139	-	12,139
Inventories	4,780	1,915	6,695
Capital assets, net of accumulated depreciation	<u>4,521,288</u>	<u>49,776</u>	<u>4,571,064</u>
Total assets	<u>\$ 8,650,371</u>	<u>\$ 122,970</u>	<u>\$ 8,773,341</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 100,495	\$ 404	\$ 100,899
Salaries and benefits payable	501,882	14,569	516,451
Accrued interest payable	17,470	-	17,470
Deferred revenue - succeeding year property tax	1,834,332	-	1,834,332
Deferred revenue - other	-	6,493	6,493
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	20,017	-	20,017
School infrastructure sales and services tax revenue bonds payable	120,000	-	120,000
Portion due after one year:			
Early retirement payable	39,096	-	39,096
School infrastructure sales and services tax revenue bonds payable	<u>795,000</u>	<u>-</u>	<u>795,000</u>
Total liabilities	<u>\$ 3,428,292</u>	<u>\$ 21,466</u>	<u>\$ 3,449,758</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	\$ 3,606,288	\$ 49,776	\$ 3,656,064
Restricted for:			
Capital projects	145,899	-	145,899
Other special revenue purposes	400,386	-	400,386
Debt service	243,948	-	243,948
Unrestricted	<u>825,558</u>	<u>51,728</u>	<u>877,286</u>
Total net assets	<u>\$ 5,222,079</u>	<u>\$ 101,504</u>	<u>\$ 5,323,583</u>
Total liabilities and net assets	<u>\$ 8,650,371</u>	<u>\$ 122,970</u>	<u>\$ 8,773,341</u>

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

		<u>Program Revenues</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
	<u>Expenses</u>			
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Instruction:				
Regular instruction	\$ 3,044,573	\$ 828,881	\$ 413,382	\$ -
Special instruction	510,876	108,411	29,923	-
Other instruction	<u>672,985</u>	<u>310,817</u>	<u>788</u>	<u>-</u>
	<u>\$ 4,228,434</u>	<u>\$ 1,248,109</u>	<u>\$ 444,093</u>	<u>\$ -</u>
Support services:				
Student services	\$ 246,944	\$ -	\$ -	\$ -
Instructional staff services	115,903	-	-	-
Administration services	668,511	-	-	-
Operation and maintenance of plant services	397,697	219	-	-
Transportation services	<u>328,128</u>	<u>-</u>	<u>7,158</u>	<u>-</u>
	<u>\$ 1,757,183</u>	<u>\$ 219</u>	<u>\$ 7,158</u>	<u>\$ -</u>
Other expenses:				
Long-term debt interest	\$ 34,940	\$ -	\$ -	\$ -
AEA flow through	<u>190,931</u>	<u>-</u>	<u>190,931</u>	<u>-</u>
	<u>\$ 225,871</u>	<u>\$ -</u>	<u>\$ 190,931</u>	<u>\$ -</u>
Total governmental activities	\$ 6,211,488	\$ 1,248,328	\$ 642,182	\$ -
Business type activities:				
Non-instructional programs:				
Food service operations	\$ 259,415	\$ 177,954	\$ 76,933	\$ -
Before and after school program	33,855	21,074	-	-
Child/Adult care food program	<u>102,704</u>	<u>94,736</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,607,462</u>	<u>\$ 1,542,092</u>	<u>\$ 719,115</u>	<u>\$ -</u>
<b>GENERAL REVENUES:</b>				
Property tax levied for:				
General purposes				
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

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<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (1,802,310)	\$ -	\$ (1,802,310)
(372,542)	-	(372,542)
<u>(361,380)</u>	<u>-</u>	<u>(361,380)</u>
\$ <u>(2,536,232)</u>	\$ <u>-</u>	\$ <u>(2,536,232)</u>
\$ (246,944)	\$ -	\$ (246,944)
(115,903)	-	(115,903)
(668,511)	-	(668,511)
(397,478)	-	(397,478)
<u>(320,970)</u>	<u>-</u>	<u>(320,970)</u>
\$ <u>(1,749,806)</u>	\$ <u>-</u>	\$ <u>(1,749,806)</u>
\$ (34,940)	\$ -	\$ (34,940)
<u>-</u>	<u>-</u>	<u>-</u>
\$ <u>(34,940)</u>	\$ <u>-</u>	\$ <u>(34,940)</u>
\$ (4,320,978)	\$ -	\$ (4,320,978)
\$ -	\$ (4,528)	\$ (4,528)
-	(12,781)	(12,781)
<u>-</u>	<u>(7,968)</u>	<u>(7,968)</u>
\$ <u>(4,320,978)</u>	\$ <u>(25,277)</u>	\$ <u>(4,346,255)</u>
\$ 1,427,572	\$ -	\$ 1,427,572
175,284	-	175,284
142,989	-	142,989
2,110,460	-	2,110,460
69,486	2,153	71,639
261,350	-	261,350
329,140	-	329,140
<u>67,254</u>	<u>-</u>	<u>67,254</u>
\$ <u>4,583,535</u>	\$ <u>2,153</u>	\$ <u>4,585,688</u>
\$ 262,557	\$ (23,124)	\$ 239,433
<u>4,959,522</u>	<u>124,628</u>	<u>5,084,150</u>
\$ <u>5,222,079</u>	\$ <u>101,504</u>	\$ <u>5,323,583</u>

HINTON COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

<u>ASSETS</u>	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
Cash and pooled investments	\$ 1,274,198	\$ 209,480	\$ 672,253	\$ 2,155,931
Receivables:				
Property tax:				
Current year	18,783	57,419	4,099	80,301
Succeeding year	1,579,950	-	254,382	1,834,332
Accounts	41,600	-	-	41,600
Due from other governments	12,139	-	-	12,139
Inventories	<u>-</u>	<u>-</u>	<u>4,780</u>	<u>4,780</u>
 Total assets	 <u>\$ 2,926,670</u>	 <u>\$ 266,899</u>	 <u>\$ 935,514</u>	 <u>\$ 4,129,083</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 19,280	\$ -	\$ 81,215	\$ 100,495
Salaries and benefits payable	501,882	-	-	501,882
Deferred revenue:				
Succeeding year property tax	<u>1,579,950</u>	<u>-</u>	<u>254,382</u>	<u>1,834,332</u>
Total liabilities	<u>\$ 2,101,112</u>	<u>\$ -</u>	<u>\$ 335,597</u>	<u>\$ 2,436,709</u>
 Fund balances:				
Reserved for debt service	\$ -	\$ 121,000	\$ 140,418	\$ 261,418
Unreserved	<u>825,558</u>	<u>145,899</u>	<u>459,499</u>	<u>1,430,956</u>
Total fund balances	<u>\$ 825,558</u>	<u>\$ 266,899</u>	<u>\$ 599,917</u>	<u>\$ 1,692,374</u>
 Total liabilities and fund balances	 <u>\$ 2,926,670</u>	 <u>\$ 266,899</u>	 <u>\$ 935,514</u>	 <u>\$ 4,129,083</u>

HINTON COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS

TO THE STATEMENT OF NET ASSETS

JUNE 30, 2008

Total fund balances of governmental funds	\$ 1,692,374
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.	4,521,288
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.	(17,470)
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>(974,113)</u>
Net assets of governmental activities	<u>\$ 5,222,079</u>

## HINTON COMMUNITY SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

## GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
Revenues:				
Local sources:				
Local tax	\$ 1,688,922	\$ 329,140	\$ 318,274	\$ 2,336,336
Tuition	856,571	-	-	856,571
Other	121,299	7,460	380,598	509,357
State sources	2,648,317	-	-	2,648,317
Federal sources	123,463	-	-	123,463
Total revenues	<u>\$ 5,438,572</u>	<u>\$ 336,600</u>	<u>\$ 698,872</u>	<u>\$ 6,474,044</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,856,360	\$ -	\$ 65,157	\$ 2,921,517
Special instruction	513,038	-	-	513,038
Other instruction	307,426	-	350,045	657,471
	<u>\$ 3,676,824</u>	<u>\$ -</u>	<u>\$ 415,202</u>	<u>\$ 4,092,026</u>
Support services:				
Student services	\$ 235,818	\$ -	\$ -	\$ 235,818
Instructional staff services	31,334	-	79,572	110,906
Administration services	644,820	-	-	644,820
Operation and maintenance of plant services	366,951	-	130,041	496,992
Transportation services	313,981	-	-	313,981
	<u>\$ 1,592,904</u>	<u>\$ -</u>	<u>\$ 209,613</u>	<u>\$ 1,802,517</u>
Other expenditures:				
Facilities and equipment acquisition	\$ -	\$ 252,206	\$ -	\$ 252,206
Long-term debt:				
Principal	-	-	110,000	110,000
Interest and fiscal charges	-	-	36,590	36,590
AEA flow through	190,931	-	-	190,931
	<u>\$ 190,931</u>	<u>\$ 252,206</u>	<u>\$ 146,590</u>	<u>\$ 589,727</u>
Total expenditures	<u>\$ 5,460,659</u>	<u>\$ 252,206</u>	<u>\$ 771,405</u>	<u>\$ 6,484,270</u>
(Deficiency) excess of revenues (under) over expenditures	\$ (22,087)	\$ 84,394	\$ (72,533)	\$ (10,226)
Other financing sources (uses):				
Transfers (to) from other funds	-	(146,357)	146,357	-
(Deficiency) excess of revenues and other financing sources (under) over expenditures	\$ (22,087)	\$ (61,963)	\$ 73,824	\$ (10,226)
Fund balances beginning of year	<u>847,645</u>	<u>328,862</u>	<u>526,093</u>	<u>1,702,600</u>
Fund balances end of year	<u>\$ 825,558</u>	<u>\$ 266,899</u>	<u>\$ 599,917</u>	<u>\$ 1,692,374</u>

HINTON COMMUNITY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES ANDCHANGES IN FUND BALANCES - GOVERNMENTAL FUNDSTO THE STATEMENT OF ACTIVITIESYEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds	\$	(10,226)
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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	\$	419,028	
Depreciation expense		<u>(265,599)</u>	153,429

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.	110,000
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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.	1,650
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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>7,704</u>
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Change in net assets of governmental activities	\$	<u>262,557</u>
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## HINTON COMMUNITY SCHOOL DISTRICT

## STATEMENTS OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2008

	<u>School Nutrition</u>	<u>Before and After School Program</u>	<u>Child/Adult Care Food Program</u>	<u>Total</u>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 51,347	\$ 12,874	\$ 6,007	\$ 70,228
Accounts receivable	-	915	136	1,051
Inventories	1,915	-	-	1,915
Capital assets, net of accumulated depreciation	<u>48,948</u>	<u>828</u>	<u>-</u>	<u>49,776</u>
Total assets	<u>\$ 102,210</u>	<u>\$ 14,617</u>	<u>\$ 6,143</u>	<u>\$ 122,970</u>
<b>LIABILITIES:</b>				
Accounts payable	\$ -	\$ 47	\$ 357	\$ 404
Salaries and benefits payable	12,160	-	2,409	14,569
Deferred revenue	<u>6,493</u>	<u>-</u>	<u>-</u>	<u>6,493</u>
Total liabilities	<u>\$ 18,653</u>	<u>\$ 47</u>	<u>\$ 2,766</u>	<u>\$ 21,466</u>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	\$ 48,948	\$ 828	\$ -	\$ 49,776
Unrestricted	<u>34,609</u>	<u>13,742</u>	<u>3,377</u>	<u>51,728</u>
Total net assets	<u>\$ 83,557</u>	<u>\$ 14,570</u>	<u>\$ 3,377</u>	<u>\$ 101,504</u>
Total liabilities and net assets	<u>\$ 102,210</u>	<u>\$ 14,617</u>	<u>\$ 6,143</u>	<u>\$ 122,970</u>

## HINTON COMMUNITY SCHOOL DISTRICT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -

## PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>	<u>Before and After School Program</u>	<u>Child/Adult Care Food Program</u>	<u>Total</u>
Operating revenues:				
Local sources:				
Charges for service	\$ 178,876	\$ 21,074	\$ 94,736	\$ 294,686
Operating expenses:				
Non-instructional programs:				
Food service operations:				
Salaries	\$ 92,820	\$ 25,615	\$ 70,659	\$ 189,094
Benefits	25,257	4,239	17,728	47,224
Purchased services	1,508	-	-	1,508
Supplies	133,030	3,586	13,767	150,383
Miscellaneous	601	-	550	1,151
Depreciation	6,199	415	-	6,614
Total operating expenses	<u>\$ 259,415</u>	<u>\$ 33,855</u>	<u>\$ 102,704</u>	<u>\$ 395,974</u>
Operating loss	<u>\$ (80,539)</u>	<u>\$ (12,781)</u>	<u>\$ (7,968)</u>	<u>\$ (101,288)</u>
Non-operating revenues:				
Interest income	\$ 1,427	\$ 453	\$ 273	\$ 2,153
State sources	3,639	-	-	3,639
Federal sources	62,275	-	-	62,275
Food distribution	10,097	-	-	10,097
Total non-operating revenues	<u>\$ 77,438</u>	<u>\$ 453</u>	<u>\$ 273</u>	<u>\$ 78,164</u>
Change in net assets	\$ (3,101)	\$ (12,328)	\$ (7,695)	\$ (23,124)
Net assets beginning of year	<u>86,658</u>	<u>26,898</u>	<u>11,072</u>	<u>124,628</u>
Net assets end of year	<u>\$ 83,557</u>	<u>\$ 14,570</u>	<u>\$ 3,377</u>	<u>\$ 101,504</u>

HINTON COMMUNITY SCHOOL DISTRICT  
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>	<u>Before and After School Program</u>	<u>Child/Adult Care Food Program</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 178,876	\$ -	\$ -	\$ 178,876
Cash received from before/after school parent payments	-	26,379	-	26,379
Cash received from child/adult care food program payments	-	-	89,100	89,100
Cash paid to employees for services	(120,264)	(29,854)	(87,900)	(238,018)
Cash paid to suppliers for goods or services	<u>(121,515)</u>	<u>(3,539)</u>	<u>(13,987)</u>	<u>(139,041)</u>
Net cash used by operating activities	<u>\$ (62,903)</u>	<u>\$ (7,014)</u>	<u>\$ (12,787)</u>	<u>\$ (82,704)</u>
Cash flows from non-capital financing activities:				
State grants received	\$ 3,639	\$ -	\$ -	\$ 3,639
Federal grants received	<u>62,275</u>	<u>-</u>	<u>-</u>	<u>62,275</u>
Net cash provided by non-capital financing activities	<u>\$ 65,914</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,914</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	<u>\$ (2,290)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,290)</u>
Net cash used by capital and related financing activities	<u>\$ (2,290)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,290)</u>
Cash flows from investing activities:				
Interest on investments	<u>\$ 1,427</u>	<u>\$ 453</u>	<u>\$ 273</u>	<u>\$ 2,153</u>
Net change in cash and cash equivalents	\$ 2,148	\$ (6,561)	\$ (12,514)	\$ (16,927)
Cash and cash equivalents beginning of year	<u>49,199</u>	<u>19,435</u>	<u>18,521</u>	<u>87,155</u>
Cash and cash equivalents end of year	<u>\$ 51,347</u>	<u>\$ 12,874</u>	<u>\$ 6,007</u>	<u>\$ 70,228</u>
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	\$ (80,539)	\$ (12,781)	\$ (7,968)	\$ (101,288)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Commodities used	13,811	-	-	13,811
Depreciation	6,199	415	-	6,614
Increase in inventories	(164)	-	-	(164)
Increase in accounts receivable	-	(195)	(136)	(331)
Change in due to/from other funds	-	5,500	(5,500)	-
Increase (decrease) in salaries and benefits payable	(2,187)	-	487	(1,700)
Increase (decrease) in accounts payable	<u>(23)</u>	<u>47</u>	<u>330</u>	<u>354</u>
Net cash used by operating activities	<u>\$ (62,903)</u>	<u>\$ (7,014)</u>	<u>\$ (12,787)</u>	<u>\$ (82,704)</u>
Non-cash investing, capital and financing activities:				
During the year ended June 30, 2008, the District received \$10,097 of federal commodities.				

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS - FIDUCIARY FUND

JUNE 30, 2008

	<u>Agency</u>
ASSETS:	
Cash and cash equivalents	\$ <u>375</u>
Total assets	\$ <u><u>375</u></u>
LIABILITIES:	
Accounts payable	\$ <u>375</u>
Total liabilities	\$ <u>375</u>
NET ASSETS:	
Unrestricted	\$ <u>-</u>
Total net assets	\$ <u>-</u>
Total liabilities and net assets	\$ <u><u>375</u></u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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, 2008

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

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

The District reports the following major proprietary funds:

The District's proprietary funds consist of three enterprise funds, the School Nutrition Fund, the Before and After School Program and the Child/Adult Care Food 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. The Child/Adult Care Food Program is used to account for payments received and expenses related to this program.

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

- 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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

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.

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.

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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

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 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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2007.

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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

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.

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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the instruction, non-instructional programs and other expenditures functional areas exceeded the amounts budgeted.

NOTE 2 - CASH AND POOLED INVESTMENTS:

The District's deposits in banks at June 30, 2008 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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 3 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2008 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 226,600	\$ -	\$ -	\$ 226,600
Construction in progress	<u>59,800</u>	<u>15,163</u>	<u>59,800</u>	<u>15,163</u>
Total capital assets not being depreciated	<u>\$ 286,400</u>	<u>\$ 15,163</u>	<u>\$ 59,800</u>	<u>\$ 241,763</u>
Capital assets being depreciated:				
Buildings	\$ 4,795,568	\$ 131,049	\$ -	\$ 4,926,617
Improvements other than buildings	1,027,999	15,859	-	1,043,858
Furniture and equipment	<u>1,335,726</u>	<u>330,088</u>	<u>123,719</u>	<u>1,542,095</u>
Total capital assets being depreciated	<u>\$ 7,159,293</u>	<u>\$ 476,996</u>	<u>\$ 123,719</u>	<u>\$ 7,512,570</u>
Less accumulated depreciation for:				
Buildings	\$ 1,936,777	\$ 119,519	\$ -	\$ 2,056,296
Improvements other than buildings	311,215	37,184	-	348,399
Furniture and equipment	<u>829,842</u>	<u>108,896</u>	<u>110,388</u>	<u>828,350</u>
Total accumulated depreciation	<u>\$ 3,077,834</u>	<u>\$ 265,599</u>	<u>\$ 110,388</u>	<u>\$ 3,233,045</u>
Total capital assets being depreciated, net	<u>\$ 4,081,459</u>	<u>\$ 211,397</u>	<u>\$ 13,331</u>	<u>\$ 4,279,525</u>
Governmental activities capital assets, net	<u>\$ 4,367,859</u>	<u>\$ 226,560</u>	<u>\$ 73,131</u>	<u>\$ 4,521,288</u>
Business type activities:				
Furniture and equipment	\$ 75,640	\$ 2,290	\$ -	\$ 77,930
Less accumulated depreciation	<u>21,540</u>	<u>6,614</u>	<u>-</u>	<u>28,154</u>
Business type activities capital assets, net	<u>\$ 54,100</u>	<u>\$ (4,324)</u>	<u>\$ -</u>	<u>\$ 49,776</u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 3 - CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 131,638
Special	23,117
Other	<u>29,625</u>
	<u>\$ 184,380</u>

Support services:

Student	\$ 10,626
Instructional staff	4,997
Administration	29,055
Operation and maintenance of plant	22,394
Transportation	<u>14,147</u>
	<u>\$ 81,219</u>

Total depreciation expense - governmental activities \$ 265,599

Business type activities:

Food service operations	<u>\$ 6,614</u>
-------------------------	-----------------

NOTE 4 - LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2008 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>
School infrastructure sales and services tax revenue bonds	\$ 1,025,000	\$ -	\$ 110,000	\$ 915,000	\$ 120,000
Early retirement	<u>66,817</u>	<u>42,810</u>	<u>50,514</u>	<u>59,113</u>	<u>20,017</u>
Total	<u>\$ 1,091,817</u>	<u>\$ 42,810</u>	<u>\$ 160,514</u>	<u>\$ 974,113</u>	<u>\$ 140,017</u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED):

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 currently offered to new retirees consist of a lump sum cash payment; however, health insurance benefits are being provided to three previous retirees until they reach age 65. At June 30, 2008, the District had obligations to three participants with a total liability of \$59,113. Early retirement benefits paid during the year ended June 30, 2008 totaled \$50,514. The total liability for early retirement is recorded in the government-wide financial statements.

School Infrastructure Sales and Services Tax Revenue Bonds - Details of the District's June 30, 2008 school infrastructure sales and services tax revenue bonds indebtedness are as follows:

Year Ending	Bond Issue of July 1, 2004			
	June 30,	Interest Rates	Principal	Interest
2009		3.10%	\$ 120,000	\$ 33,080
2010		3.40%	120,000	29,180
2011		3.60%	125,000	24,890
2012		4.00%	130,000	20,040
2013		4.05%	135,000	14,706
Thereafter		4.20%	<u>285,000</u>	<u>12,149</u>
Total			<u>\$ 915,000</u>	<u>\$ 134,045</u>

The District has pledged future local option sales and services tax revenues to repay the \$1,210,000 bonds issued in July 2004. The bonds were issued for the purpose of financing school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District and are payable through 2014. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 50 percent of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$1,049,045.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED):

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$121,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The District complied with all of the revenue bond provisions during the year ended June 30, 2008.

NOTE 5 - 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 3.90 percent of their annual covered salary and the District is required to contribute 6.05 percent of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$205,733, \$165,801, and \$158,337, respectively, equal to the required contributions for each year.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 6 - INTERFUND TRANSFERS:

During the year ended June 30, 2008, \$146,357 was transferred from the Capital Projects Fund to the Debt Service Fund in order to provide for principal and interest payments on the District's long-term debt.

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.

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 \$190,931 for the year ended June 30, 2008 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, 2008, the District had entered into a construction contract totaling \$64,995 for improvements to the land and building. As of June 30, 2008, no costs had been incurred against the contract.

**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, 2008

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>
Revenues:		
Local sources	\$ 3,702,264	\$ 296,839
State sources	2,648,317	3,639
Federal sources	<u>123,463</u>	<u>72,372</u>
Total revenues	<u>\$ 6,474,044</u>	<u>\$ 372,850</u>
Expenditures:		
Instruction	\$ 4,092,026	\$ -
Support services	1,802,517	-
Non-instructional programs	-	395,974
Other expenditures	<u>589,727</u>	<u>-</u>
Total expenditures	<u>\$ 6,484,270</u>	<u>\$ 395,974</u>
Excess of revenues over expenditures	\$ (10,226)	\$ (23,124)
Balances beginning of year	<u>1,702,600</u>	<u>124,628</u>
Balances end of year	<u>\$ 1,692,374</u>	<u>\$ 101,504</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>	
\$ 3,999,103	\$ 3,627,467	\$ 3,627,467	\$ 371,636
2,651,956	2,581,539	2,581,539	70,417
<u>195,835</u>	<u>153,354</u>	<u>153,354</u>	<u>42,481</u>
<u>\$ 6,846,894</u>	<u>\$ 6,362,360</u>	<u>\$ 6,362,360</u>	<u>\$ 484,534</u>
\$ 4,092,026	\$ 3,770,131	\$ 3,797,785	\$ (294,241)
1,802,517	1,778,610	1,986,141	183,624
395,974	345,814	388,212	(7,762)
<u>589,727</u>	<u>301,948</u>	<u>392,931</u>	<u>(196,796)</u>
<u>\$ 6,880,244</u>	<u>\$ 6,196,503</u>	<u>\$ 6,565,069</u>	<u>\$ (315,175)</u>
\$ (33,350)	<u>\$ 165,857</u>	<u>\$ (202,709)</u>	<u>\$ 169,359</u>
<u>1,827,228</u>			
<u>\$ 1,793,878</u>			

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

YEAR ENDED JUNE 30, 2008

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 GAAP 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 one budget amendment increasing budgeted expenditures by \$368,566.

During the year ended June 30, 2008, expenditures in the instruction, non-instructional programs and other expenditures areas exceeded the amounts budgeted.

**OTHER SUPPLEMENTARY INFORMATION**

HINTON COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2008

ASSETS

	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	<u>Total</u>
Cash and pooled investments	\$ 175,337	\$ 139,296	\$ 217,202	\$ 140,418	\$ 672,253
Receivables:					
Property tax:					
Current year	2,306	-	1,793	-	4,099
Succeeding year	105,000	-	149,382	-	254,382
Inventory	<u>-</u>	<u>4,780</u>	<u>-</u>	<u>-</u>	<u>4,780</u>
Total assets	<u>\$ 282,643</u>	<u>\$ 144,076</u>	<u>\$ 368,377</u>	<u>\$ 140,418</u>	<u>\$ 935,514</u>

LIABILITIES AND FUND EQUITY

Liabilities:					
Accounts payable	\$ -	\$ -	\$ 81,215	\$ -	\$ 81,215
Deferred revenue:					
Succeeding year property tax	<u>105,000</u>	<u>-</u>	<u>149,382</u>	<u>-</u>	<u>254,382</u>
Total liabilities	\$ 105,000	\$ -	\$ 230,597	\$ -	\$ 335,597
Fund equity:					
Reserved for debt service	-	-	-	140,418	140,418
Unreserved fund balances	<u>177,643</u>	<u>144,076</u>	<u>137,780</u>	<u>-</u>	<u>459,499</u>
Total liabilities and fund equity	<u>\$ 282,643</u>	<u>\$ 144,076</u>	<u>\$ 368,377</u>	<u>\$ 140,418</u>	<u>\$ 935,514</u>

## HINTON COMMUNITY SCHOOL DISTRICT

## COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN

## FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS

YEAR ENDED JUNE 30, 2008

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Revenues:					
Local sources:					
Local tax	\$ 175,284	\$ -	\$ 142,990	\$ -	\$ 318,274
Other	5,414	368,665	6,519	-	380,598
Total revenues	<u>\$ 180,698</u>	<u>\$ 368,665</u>	<u>\$ 149,509</u>	<u>\$ -</u>	<u>\$ 698,872</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 65,157	\$ -	\$ -	\$ -	\$ 65,157
Other instruction	-	350,045	-	-	350,045
Total	<u>\$ 65,157</u>	<u>\$ 350,045</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 415,202</u>
Support services:					
Instructional staff services	\$ 79,572	\$ -	\$ -	\$ -	\$ 79,572
Operation and maintenance of plant services	-	-	130,041	-	130,041
Total	<u>\$ 79,572</u>	<u>\$ -</u>	<u>\$ 130,041</u>	<u>\$ -</u>	<u>\$ 209,613</u>
Other expenditures:					
Long-term debt:					
Principal	\$ -	\$ -	\$ -	\$ 110,000	\$ 110,000
Interest and fiscal charges	-	-	-	36,590	36,590
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 146,590</u>	<u>\$ 146,590</u>
Total expenditures	<u>\$ 144,729</u>	<u>\$ 350,045</u>	<u>\$ 130,041</u>	<u>\$ 146,590</u>	<u>\$ 771,405</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 35,969	\$ 18,620	\$ 19,468	\$ (146,590)	\$ (72,533)
Other financing sources:					
Transfers in	-	-	-	146,357	146,357
Excess (deficiency) of revenues and other financing sources over (under) expenditures	\$ 35,969	\$ 18,620	\$ 19,468	\$ (233)	\$ 73,824
Fund balances beginning of year	141,674	125,456	118,312	140,651	526,093
Fund balances end of year	<u>\$ 177,643</u>	<u>\$ 144,076</u>	<u>\$ 137,780</u>	<u>\$ 140,418</u>	<u>\$ 599,917</u>

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

YEAR ENDED JUNE 30, 2008

ACCOUNT:	Balance Beginning of Year	Revenues and Interfund Transfers	Expenditures	Intrafund Transfers	Balance End of Year
Interest income	\$ 14,785	\$ 9,731	\$ 3,753	\$ 144	\$ 20,907
Lifetouch Elementary	1,218	326	1,092	294	746
Hinton spirit store	2,975	5,504	2,859	-	5,620
Athletics	37,858	101,851	100,708	(1,369)	37,632
Birdie fest project	1,378	6,334	1,920	(3,500)	2,292
Physics Club	284	-	-	-	284
Superintendents Office	1,046	67	619	302	796
Preschool	(48)	352	352	-	(48)
Spanish club	394	159	327	1,055	1,281
Soundsational	(2,121)	26,422	23,946	2,927	3,282
School nurse	65	-	37	221	249
Speech and drama club	129	-	201	-	(72)
National Honor Society	254	518	609	478	641
Cheerleaders	1,874	6,801	6,827	1,347	3,195
Drill team	823	11,748	11,430	1,161	2,302
Special education	981	-	-	-	981
Math club	764	-	390	-	374
Tag club	946	-	234	133	845
FCCLA	489	9,170	9,180	175	654
Instrumental music	3,452	2,279	1,245	-	4,486
Vocal music	1,795	1,825	2,552	-	1,068
Music trip	5,676	-	27,710	22,000	(34)
Music fund raiser	3,881	21,293	5,349	(17,000)	2,825
Musical	3,066	4,236	3,175	(3,000)	1,127
2008 Prom	905	85	1,949	380	(579)
2007 Prom	(600)	13,997	11,015	(391)	1,991
Yearbook	7,795	13,477	14,874	(905)	5,493
High school student council	2,092	801	1,702	1,011	2,202
Middle school student council	2,111	2,731	2,700	142	2,284
Elementary student council	1,136	1,480	1,790	286	1,112
Elementary miscellaneous	3,053	1,853	2,376	(1,173)	1,357
Reading fun night	(966)	-	-	966	-
Elementary Trips	(19)	157	165	19	(8)
Wings	281	7,490	1,391	-	6,380
Sixth grade trip	314	1,172	1,908	1,020	598
Concession stand	1,436	33,704	17,211	(13,781)	4,148
Soundwaves	1,863	8,009	6,531	260	3,601
Wrestling fund	646	1,257	2,565	1,324	662
School cents fund	377	1,498	1,186	45	734
Music trip student	25	36,056	27,682	(5,000)	3,399
R.I.F.	744	25	756	(13)	-
Wrestling cheerleaders	3,373	4,725	7,281	207	1,024
Fourth grade project	482	-	262	-	220
Second grade activity	379	147	208	-	318
Pop fund	917	5,650	6,506	(679)	(618)
First grade reading/math	595	39	427	531	738
Book fair	2,564	6,851	5,643	515	4,287
Play	305	-	168	-	137
Global days of service	1,664	1,000	419	-	2,245
Kindergarten project	1,117	155	585	-	687
HCEA	2,345	1,257	2,345	(1,257)	-
Hinton School Projects	-	4,509	899	623	4,233
Boys basketball fundraiser	325	2,286	1,157	-	1,454
Transitional kindergarten	900	-	271	-	629
English co-curricular	488	-	-	-	488
5th grade project	178	138	141	-	175
Reading recovery	1,278	-	270	535	1,543
D.E.C.A.	7,191	5,590	12,394	-	387
Show choir outfits	(3,148)	3,910	894	200	68
Playground	167	-	2,346	2,346	167
Elementary special education	1,179	-	7,513	7,421	1,087
<b>Total</b>	<b>\$ 125,456</b>	<b>\$ 368,665</b>	<b>\$ 350,045</b>	<b>\$ -</b>	<b>\$ 144,076</b>

See accompanying independent auditor's report.

## HINTON COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

## ALL GOVERNMENTAL FUNDS

## FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 2,336,336	\$ 2,367,963	\$ 2,328,933	\$ 2,215,234	\$ 2,003,123
Tuition	856,571	698,814	530,560	506,980	399,912
Other	509,357	433,537	398,267	276,356	248,127
State sources	2,648,317	2,293,655	2,430,832	2,335,187	2,092,177
Federal sources	123,463	91,404	100,625	46,902	49,368
Other financing sources:					
Proceeds from bond issuance, net	-	-	-	1,186,236	-
Sale of equipment	-	-	950	-	-
Total	\$ 6,474,044	\$ 5,885,373	\$ 5,790,167	\$ 6,566,895	\$ 4,792,707
Expenditures:					
Instruction:					
Regular instruction	\$ 2,921,517	\$ 2,655,474	\$ 2,312,074	\$ 2,128,669	\$ 2,119,644
Special instruction	513,038	338,170	317,089	361,222	356,586
Other instruction	657,471	505,423	665,312	588,864	532,887
Support services:					
Student services	235,818	247,095	242,045	236,670	167,082
Instructional staff services	110,906	102,357	77,879	120,358	52,312
Administration services	644,820	577,894	537,979	510,388	540,771
Operation and maintenance of plant services	496,992	444,525	375,315	485,129	338,435
Transportation services	313,981	240,378	215,100	208,621	206,981
Non-instructional programs	-	-	-	849	3,612
Other expenditures:					
Facilities acquisition	252,206	386,705	638,992	444,990	7,992
Long-term debt:					
Principal	110,000	110,000	255,000	215,000	205,000
Interest and other charges	36,590	40,290	49,758	39,828	28,095
AEA flow through	190,931	180,565	163,821	170,233	157,321
Total	\$ 6,484,270	\$ 5,828,876	\$ 5,850,364	\$ 5,510,821	\$ 4,716,718



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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 aggregate remaining fund information of Hinton Community School District (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the District's internal control.



To the Board of Education  
Hinton Community School District

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-08, I-B-08, and I-C-08 are material weaknesses.

#### 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*. However, we noted one instance of noncompliance 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, 2008 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.

The District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit the District's responses and, accordingly, we express no opinion on them.

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, including federal awarding agencies and pass-through entities. 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.

February 28, 2009  
Sioux City, Iowa

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

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

MATERIAL WEAKNESSES:

I-A-08 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.

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.

I-B-08 Preparation of Financial Statements in Accordance with GAAP - The financial statements are the responsibility of the District's management. Part of that responsibility is satisfied by either (a) management preparing the financial statements in accordance with GAAP or (b) management demonstrating the necessary GAAP expertise when reviewing and approving financial statements (that the auditor has assisted in drafting) and the various schedules and calculations used to prepare such financial statements. Management does review draft financial statements prior to issuance but does not fully possess a knowledge of the District's GAAP financial reporting process.

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2008

(CONTINUED)

Part I: Findings Related to the Financial Statements (Continued)

Recommendation - We recommend management review the District's GAAP financial reporting process and seek the necessary guidance/training so as to more fully understand the process to prepare the District's financial statements in accordance with GAAP.

Response - The District understands the nature of the weakness and the necessity for management to further its understanding of GAAP financial reporting. The District will implement changes as deemed necessary.

Conclusion - Response accepted.

I-C-08 Reconciliation of Capital Assets - The District maintains a detailed schedule of capital assets including cost and depreciation information on each asset which is used to prepare the District's financial statements in accordance with GAAP. The beginning cost and accumulated depreciation amounts per this schedule should match the previous year's audited financial statements. During the course of our audit, we noted beginning cost and accumulated depreciation amounts did not match the previous year's audited financial statements.

Recommendation - We recommend management review the capital asset schedule to ensure it is updated and reconcile with the audited financial statements.

Response - The District will implement this procedure.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-08 Certified Budget - Expenditures for the year ended June 30, 2008 exceeded the certified budget amounts in instruction, non-instructional programs and other expenditures functions.

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

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2008

(CONTINUED)

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

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

- II-B-08 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-C-08 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-D-08 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-E-08 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-F-08 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- II-G-08 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-08 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-I-08 Certified Annual Report - The Certified Annual Report was certified to the Department of Education timely.