

HINTON COMMUNITY SCHOOL DISTRICT

Hinton, Iowa

Independent Auditor's Reports
Basic Financial Statements and Supplementary Information
Schedule of Findings and Questioned Costs

June 30, 2010

HINTON COMMUNITY SCHOOL DISTRICT

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HINTON COMMUNITY SCHOOL DISTRICT

OFFICIALS

JUNE 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>BOARD OF EDUCATION</u> (Before September 2009 Election)		
Robert Held	President	2009
Ed Vondrak	Vice President	2011
Lynette Blanchard	Board Member	2011
Steve Eddy	Board Member	2009
Randy Riediger	Board Member	2011

BOARD OF EDUCATION
(After September 2009 Election)

Robert Held	President	2013
Ed Vondrak	Vice President	2011
Lynette Blanchard	Board Member	2011
John Reintzel	Board Member	2013
Randy Riediger	Board Member	2011

SCHOOL OFFICIALS

Larry Williams	Superintendent	2010
Melissa Sanders	Board Secretary	2010
James Hanks	Attorney	Indefinite



INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Hinton Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Hinton Community School District (the District), Hinton, Iowa, as of and for the year ended June 30, 2010, 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 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 the District at June 30, 2010 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 January 21, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



To the Board of Education of
Hinton Community School District

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 10 and 39 through 41 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 the District's basic financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

January 21, 2011
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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 Financial Highlights

- General Fund revenues decreased from \$5,802,617 in fiscal year 2009 to \$5,755,409 in fiscal year 2010, while General Fund expenditures increased from \$5,922,423 in fiscal year 2009 to \$5,961,699 in fiscal year 2010. The District's General Fund balance decreased from \$705,752 in fiscal year 2009 to \$499,462 in fiscal year 2010, a 29.2 percent decrease.
- The decrease in General Fund revenues was primarily attributable to a reduction in state funding unable to be offset by additional federal ARRA monies.
- The increase in General Fund expenditures was primarily attributable to increases in employee salaries and benefits.

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. The remaining statements provide financial information about activities for which the District acts solely as an agent or custodian for the benefit of those outside of the District.

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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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, before and after school, and child/adult care food 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 net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3. Fiduciary Funds - The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private Purpose Trust and Agency Funds.
- Private Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency 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 and a statement of changes in 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, 2010 and 2009.

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

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total District</u>		<u>Total</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>Percentage</u>
							<u>Change</u>
Current and other assets	\$ 13,395	\$ 4,997	\$ 79	\$ 67	\$ 13,474	\$ 5,064	166.1%
Capital assets, net	6,004	4,537	43	49	6,047	4,586	31.9%
Total assets	\$ 19,399	\$ 9,534	\$ 122	\$ 116	\$ 19,521	\$ 9,650	102.3%
Long-term liabilities	\$ 10,631	\$ 1,689	\$ -	\$ -	\$ 10,631	\$ 1,689	529.4%
Other liabilities	3,819	2,760	25	24	3,844	2,784	38.1%
Total liabilities	\$ 14,450	\$ 4,449	\$ 25	\$ 24	\$ 14,475	\$ 4,473	223.6%
Net assets:							
Invested in capital assets, net of related debt	\$ 3,737	\$ 3,742	\$ 43	\$ 49	\$ 3,780	\$ 3,791	-0.3%
Restricted	740	640	-	-	740	640	15.6%
Unrestricted	472	703	54	43	526	746	-29.5%
Total net assets	\$ 4,949	\$ 5,085	\$ 97	\$ 92	\$ 5,046	\$ 5,177	-2.5%

The District's combined net assets decreased 2.5 percent, or approximately \$131,000, from the prior year. 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 other than capital assets.

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 \$100,000, or 15.6 percent over the prior year. The increase was primarily a result of additional cash transferred to the Debt Service Fund for the future pay down of long-term debts.

During fiscal year 2010, the District issued additional long term liabilities totaling \$9,145,000 for the purpose of constructing a new elementary school. The bond proceeds were received; however, little was spent prior to June 30, 2010.

The unrestricted net assets are available for 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, 2010 and 2009.

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

	Governmental Activities		Business Type Activities		Total District		Total Percentage Change
	2010	2009	2010	2009	2010	2009	2009-2010
Revenues:							
Program revenues:							
Charges for services	\$ 1,435	\$ 1,310	\$ 319	\$ 313	\$ 1,754	\$ 1,623	8.1%
Operating grants, contributions and restricted interest	1,036	789	92	81	1,128	870	29.7%
General revenues:							
Property tax	1,851	1,835	-	-	1,851	1,835	0.9%
Unrestricted state grants	1,655	2,126	-	-	1,655	2,126	-22.2%
Unrestricted investment earnings	45	40	1	1	46	41	12.2%
Local surtax	276	248	-	-	276	248	11.3%
Statewide sales, services and use tax	333	366	-	-	333	366	-9.0%
Other	141	71	-	-	141	71	98.6%
Total revenues	\$ 6,772	\$ 6,785	\$ 412	\$ 395	\$ 7,184	\$ 7,180	0.1%
Program expenses:							
Instruction	\$ 4,617	\$ 4,568	\$ -	\$ -	\$ 4,617	\$ 4,568	1.1%
Support services	1,847	2,050	-	-	1,847	2,050	-9.9%
Non-instructional programs	-	-	408	404	408	404	1.0%
Other expenses	443	304	-	-	443	304	45.7%
Total expenses	\$ 6,907	\$ 6,922	\$ 408	\$ 404	\$ 7,315	\$ 7,326	-0.2%
Change in net assets	\$ (135)	\$ (137)	\$ 4	\$ (9)	\$ (131)	\$ (146)	10.3%

Property tax and unrestricted state grants account for 48.8 percent of the total revenue (55.2 percent in 2009). The District's expenses primarily relate to instruction and support services, which account for 88.4 percent of the total expenses (90.3 percent in 2009).

Governmental Activities - Revenues for governmental activities were \$6,771,333 and expenses were \$6,906,780. Governmental activities revenue decreased over 2009. In a difficult budget year, the District strived to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities for the years ended June 30, 2010 and 2009: instruction, support services 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
	2010	2009	Change 2009-2010	2010	2009	Change 2009-2010
Instruction	\$ 4,617	\$ 4,568	1.1%	\$ 2,373	\$ 2,682	-11.5%
Support services	1,847	2,050	-9.9%	1,841	2,041	-9.8%
Other expenses	443	304	45.7%	222	100	122.0%
Totals	\$ 6,907	\$ 6,922	-0.2%	\$ 4,436	\$ 4,823	-8.0%

- The cost financed by users of the District's programs was \$1,434,571 (\$1,310,389 in 2009).
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,036,299 (\$788,669 in 2009).
- The net cost of governmental activities was financed with \$2,459,916 in property and other taxes (\$2,448,614 in 2009) and \$1,654,610 in unrestricted state grants (\$2,125,437 in 2009).

Business Type Activities - Revenues for business type activities were \$412,463 (\$395,095 in 2009) and expenses were \$408,133 (\$404,129 in 2009). 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 enrollment increases in identified programs while expenses were concomitantly increased, primarily for additional staff coverage.

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 \$9,593,534, well above last year's ending fund balances of \$2,252,457. However, the primary reason for the increase in combined fund balances at June 30, 2010 is due to approximately \$8,000,000 of unexpended general obligation and revenue bond proceeds received in fiscal year 2010. The District's proprietary funds reported end of year net assets of \$96,800, above last year's ending fund balances of \$92,470.

Governmental Fund Highlights

The District's General Fund balance decreased due to the major reductions in state funding while trying to maintain the quality of education and staff necessary to succeed.

The Capital Projects Fund balance increase was due to the deposit of bond proceeds far exceeding what was expended on the new elementary school.

The Special Revenue, Physical Plant and Equipment Levy Fund Balance decreased due to the purchase of the land for the new elementary school using fiscal year 2009 bond proceeds.

Proprietary Fund Highlights

Proprietary fund net assets increased \$4,330 from \$92,470 in 2009 to \$96,800 in 2010 due to increased or consistent receipts from enrollment in all programs while maintaining minimal increases in expenses.

Budgetary Highlights

Over the course of the year, the District amended its budget one time for all expense programs due to normal operational adjustments made near the end of the year, each of which was explained at the time they were approved by the Board.

Capital Assets and Debt Administration

Capital Assets - At June 30, 2010, the District had invested \$6,047,260, 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 \$255,374.

The original cost of the District's capital assets was \$9,833,812. Governmental funds account for \$9,750,290, with the remainder of \$83,522 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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>Change</u>
Land	\$ 807	\$ 227	\$ -	\$ -	\$ 807	\$ 227	255.5%
Construction in progress	1,123	32	-	-	1,123	32	3409.4%
Buildings	2,710	2,822	-	-	2,710	2,822	-4.0%
Improvements other than buildings	769	787	-	-	769	787	-2.3%
Furniture and equipment	595	669	43	49	638	718	-11.1%
Totals	<u>\$ 6,004</u>	<u>\$ 4,537</u>	<u>\$ 43</u>	<u>\$ 49</u>	<u>\$ 6,047</u>	<u>\$ 4,586</u>	<u>31.9%</u>

Long-Term Debt - At June 30, 2010, the District had outstanding \$3,920,000 in school infrastructure sales, services and use tax revenue bonds, \$570,000 in general obligation capital loan notes, \$5,900,000 in general obligation bonds payable, \$177,359 early retirement payable, and \$64,000 in net OPEB liabilities for total long-term debt of \$10,631,359. Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-5 (In Thousands)
Outstanding Long-Term Obligations

	<u>Total District</u>		<u>Total</u>
	<u>June 30</u>		<u>Change</u>
	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
General obligation capital loan note	\$ 570	\$ 650	-12.3%
General obligation bonds payable	5,900	-	100.0%
School infrastructure sales, services and use tax revenue bonds	3,920	795	393.1%
Early retirement	177	244	-27.5%
Net OPEB liability	64	-	100.0%
Total	<u>\$ 10,631</u>	<u>\$ 1,689</u>	<u>529.4%</u>

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:

- Limited state revenues and uncertain allocations, coupled with a change in gubernatorial leadership and the composition of the Iowa House of Representatives.
- An increase in local taxes this past year argues for constraining further reliance on new taxes in the budget of succeeding fiscal years.
- The statewide one (1) percent sales, services and use tax will continue to provide reserve for capital repairs and improvements, but at a lesser level than in the past due to statewide economic conditions.
- American Recovery and Reinvestment Act of 2009 (ARRA) funds are being used in the District to help save jobs that would have been affected by the reduction in state aid. The District is well aware of the "funding cliff" when these funds are exhausted. There is likely to be no continuance of the funds in fiscal year 2012.

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 DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2010

	<u>Governmental</u>	<u>Business Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 10,227,094	\$ 73,739	\$ 10,300,833
Receivables:			
Property tax:			
Delinquent	78,199	-	78,199
Succeeding year	2,772,644	-	2,772,644
Accounts	266,102	1,862	267,964
Due from other governments	11,582	-	11,582
Inventories	1,187	3,570	4,757
Deferred charges	38,132	-	38,132
Capital assets, net of accumulated depreciation	<u>6,004,299</u>	<u>42,961</u>	<u>6,047,260</u>
Total assets	<u>\$ 19,399,239</u>	<u>\$ 122,132</u>	<u>\$ 19,521,371</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 399,050	\$ 271	\$ 399,321
Salaries and benefits payable	591,580	16,445	608,025
Accrued interest payable	55,254	-	55,254
Deferred revenue - succeeding year property tax	2,772,644	-	2,772,644
Deferred revenue - other	-	8,616	8,616
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	28,364	-	28,364
School infrastructure sales, services and use tax revenue bonds payable	125,000	-	125,000
General obligation capital loan note	85,000	-	85,000
General obligation bond payable	205,000	-	205,000
Portion due after one year:			
Early retirement payable	148,995	-	148,995
School infrastructure sales, services and use tax revenue bonds payable	3,795,000	-	3,795,000
General obligation capital loan note	485,000	-	485,000
General obligation bond payable	5,695,000	-	5,695,000
Net OPEB liability	<u>64,000</u>	<u>-</u>	<u>64,000</u>
Total liabilities	<u>\$ 14,449,887</u>	<u>\$ 25,332</u>	<u>\$ 14,475,219</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 3,737,108	\$ 42,961	\$ 3,780,069
Restricted for:			
Categorical funding	26,998	-	26,998
Capital projects	115,256	-	115,256
Other special revenue purposes	72,632	-	72,632
Debt service	524,894	-	524,894
Unrestricted	<u>472,464</u>	<u>53,839</u>	<u>526,303</u>
Total net assets	<u>\$ 4,949,352</u>	<u>\$ 96,800</u>	<u>\$ 5,046,152</u>
Total liabilities and net assets	<u>\$ 19,399,239</u>	<u>\$ 122,132</u>	<u>\$ 19,521,371</u>

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

		Program Revenues		
	<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Instruction:				
Regular instruction	\$ 3,505,073	\$ 1,042,136	\$ 666,322	\$ -
Special instruction	503,886	91,320	138,137	-
Other instruction	607,833	300,647	4,805	-
	<u>\$ 4,616,792</u>	<u>\$ 1,434,103</u>	<u>\$ 809,264</u>	<u>\$ -</u>
Support services:				
Student services	\$ 239,727	\$ -	\$ -	\$ -
Instructional staff services	121,672	-	-	-
Administration services	759,992	-	-	-
Operation and maintenance of plant services	376,741	468	-	-
Transportation services	348,789	-	5,773	-
	<u>\$ 1,846,921</u>	<u>\$ 468</u>	<u>\$ 5,773</u>	<u>\$ -</u>
Other expenditures:				
Facilities acquisition	\$ 44,599	\$ -	\$ -	\$ -
Long-term debt interest	177,206	-	-	-
AEA flow through	221,262	-	221,262	-
	<u>\$ 443,067</u>	<u>\$ -</u>	<u>\$ 221,262</u>	<u>\$ -</u>
Total governmental activities	\$ 6,906,780	\$ 1,434,571	\$ 1,036,299	\$ -
Business type activities:				
Non-instructional programs:				
Food service operations	\$ 289,453	\$ 197,217	\$ 91,705	\$ -
Before and after school program	22,399	19,315	-	-
Child/Adult care food program	96,281	103,259	-	-
Total	<u>\$ 7,314,913</u>	<u>\$ 1,754,362</u>	<u>\$ 1,128,004</u>	<u>\$ -</u>
GENERAL REVENUES:				
Property tax levied for:				
General purposes				
Management levy				
Physical plant and equipment levy				
Unrestricted state grants				
Unrestricted investment earnings				
Local surtax				
Statewide sales, services and use 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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (1,796,615)	\$ -	\$ (1,796,615)
(274,429)	-	(274,429)
(302,381)	-	(302,381)
<u>\$ (2,373,425)</u>	<u>\$ -</u>	<u>\$ (2,373,425)</u>
\$ (239,727)	\$ -	\$ (239,727)
(121,672)	-	(121,672)
(759,992)	-	(759,992)
(376,273)	-	(376,273)
(343,016)	-	(343,016)
<u>\$ (1,840,680)</u>	<u>\$ -</u>	<u>\$ (1,840,680)</u>
\$ (44,599)	\$ -	\$ (44,599)
(177,206)	-	(177,206)
-	-	-
<u>\$ (221,805)</u>	<u>\$ -</u>	<u>\$ (221,805)</u>
\$ (4,435,910)	\$ -	\$ (4,435,910)
\$ -	\$ (531)	\$ (531)
-	(3,084)	(3,084)
-	6,978	6,978
<u>\$ (4,435,910)</u>	<u>\$ 3,363</u>	<u>\$ (4,432,547)</u>
\$ 1,652,948	\$ -	\$ 1,652,948
40,031	-	40,031
158,192	-	158,192
1,654,610	-	1,654,610
44,466	967	45,433
275,467	-	275,467
333,278	-	333,278
141,471	-	141,471
<u>\$ 4,300,463</u>	<u>\$ 967</u>	<u>\$ 4,301,430</u>
\$ (135,447)	\$ 4,330	\$ (131,117)
5,084,799	92,470	5,177,269
<u>\$ 4,949,352</u>	<u>\$ 96,800</u>	<u>\$ 5,046,152</u>

HINTON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2010

	<u>General</u>	<u>Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
<u>ASSETS</u>						
Cash and pooled investments	\$ 861,308	\$ 171,600	\$ 8,562,695	\$ 459,148	\$ 172,343	\$ 10,227,094
Receivables:						
Property tax:						
Delinquent	19,604	1,849	56,271	-	475	78,199
Succeeding year	2,100,738	167,931	-	446,475	57,500	2,772,644
Accounts	266,102	-	-	-	-	266,102
Due from other governments	11,582	-	-	-	-	11,582
Inventories	-	-	-	-	1,187	1,187
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 3,259,334</u>	<u>\$ 341,380</u>	<u>\$ 8,618,966</u>	<u>\$ 905,623</u>	<u>\$ 231,505</u>	<u>\$ 13,356,808</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 67,554	\$ 271	\$ 330,074	\$ -	\$ 1,151	\$ 399,050
Salaries and benefits payable	591,580	-	-	-	-	591,580
Deferred revenue:						
Succeeding year property tax	<u>2,100,738</u>	<u>167,931</u>	<u>-</u>	<u>446,475</u>	<u>57,500</u>	<u>2,772,644</u>
Total liabilities	<u>\$ 2,759,872</u>	<u>\$ 168,202</u>	<u>\$ 330,074</u>	<u>\$ 446,475</u>	<u>\$ 58,651</u>	<u>\$ 3,763,274</u>
Fund balances:						
Reserved for:						
Categorical funding	\$ 26,998	\$ -	\$ -	\$ -	\$ -	\$ 26,998
Debt service	-	-	121,000	459,148	-	580,148
Unreserved	<u>472,464</u>	<u>173,178</u>	<u>8,167,892</u>	<u>-</u>	<u>172,854</u>	<u>8,986,388</u>
Total fund balances	<u>\$ 499,462</u>	<u>\$ 173,178</u>	<u>\$ 8,288,892</u>	<u>\$ 459,148</u>	<u>\$ 172,854</u>	<u>\$ 9,593,534</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 3,259,334</u>	<u>\$ 341,380</u>	<u>\$ 8,618,966</u>	<u>\$ 905,623</u>	<u>\$ 231,505</u>	<u>\$ 13,356,808</u>

HINTON COMMUNITY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDSTO THE STATEMENT OF NET ASSETSJUNE 30, 2010

Total fund balances of governmental funds	\$ 9,593,534
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.	6,004,299
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.	(55,254)
Deferred charges are not financial resources and, therefore, are not reported as assets in the governmental funds.	38,132
Long-term liabilities, including bonds and notes payable, early retirement, and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(10,631,359)</u>
Net assets of governmental activities	<u>\$ 4,949,352</u>

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2010

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Nonmajor	Total
Revenues:						
Local sources:						
Local tax	\$ 1,928,415	\$ 158,192	\$ 333,278	\$ -	\$ 40,031	\$ 2,459,916
Tuition	1,081,888	-	-	-	-	1,081,888
Other	54,195	2,262	26,589	-	353,437	436,483
State sources	2,256,928	-	-	-	-	2,256,928
Federal sources	433,983	-	-	-	-	433,983
Total revenues	<u>\$ 5,755,409</u>	<u>\$ 160,454</u>	<u>\$ 359,867</u>	<u>\$ -</u>	<u>\$ 393,468</u>	<u>\$ 6,669,198</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	\$ 3,292,764	\$ -	\$ -	\$ -	\$ 68,934	\$ 3,361,698
Special instruction	495,854	-	-	-	-	495,854
Other instruction	256,796	-	-	-	353,355	610,151
	<u>\$ 4,045,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 422,289</u>	<u>\$ 4,467,703</u>
Support services:						
Student services	\$ 230,526	\$ -	\$ -	\$ -	\$ -	\$ 230,526
Instructional staff services	34,843	-	-	-	82,159	117,002
Administration services	731,971	-	-	-	-	731,971
Operation and maintenance of plant services	362,281	-	-	-	-	362,281
Transportation services	335,402	-	-	-	-	335,402
	<u>\$ 1,695,023</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,159</u>	<u>\$ 1,777,182</u>
Other expenditures:						
Facilities and equipment acquisition	\$ -	\$ 646,997	\$ 1,129,638	\$ -	\$ -	\$ 1,776,635
Long-term debt:						
Principal	-	-	-	200,000	-	200,000
Interest and fiscal charges	-	-	69,027	136,416	-	205,443
AEA flow through	221,262	-	-	-	-	221,262
	<u>\$ 221,262</u>	<u>\$ 646,997</u>	<u>\$ 1,198,665</u>	<u>\$ 336,416</u>	<u>\$ -</u>	<u>\$ 2,403,340</u>
Total expenditures	<u>\$ 5,961,699</u>	<u>\$ 646,997</u>	<u>\$ 1,198,665</u>	<u>\$ 336,416</u>	<u>\$ 504,448</u>	<u>\$ 8,648,225</u>
Deficiency of revenues under expenditures	\$ (206,290)	\$ (486,543)	\$ (838,798)	\$ (336,416)	\$ (110,980)	\$ (1,979,027)
Other financing sources (uses):						
General obligation bonds issued	\$ -	\$ -	\$ 5,900,000	\$ -	\$ -	\$ 5,900,000
Revenue bonds issued	-	-	3,245,000	-	-	3,245,000
Insurance recoveries	-	-	175,104	-	-	175,104
Transfers (to) from other funds	-	(97,386)	(561,818)	659,204	-	-
Total other financing sources (uses):	<u>\$ -</u>	<u>\$ (97,386)</u>	<u>\$ 8,758,286</u>	<u>\$ 659,204</u>	<u>\$ -</u>	<u>\$ 9,320,104</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures	\$ (206,290)	\$ (583,929)	\$ 7,919,488	\$ 322,788	\$ (110,980)	\$ 7,341,077
Fund balances beginning of year	<u>705,752</u>	<u>757,107</u>	<u>369,404</u>	<u>136,360</u>	<u>283,834</u>	<u>2,252,457</u>
Fund balances end of year	<u>\$ 499,462</u>	<u>\$ 173,178</u>	<u>\$ 8,288,892</u>	<u>\$ 459,148</u>	<u>\$ 172,854</u>	<u>\$ 9,593,534</u>

HINTON COMMUNITY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES ANDCHANGES IN FUND BALANCES - GOVERNMENTAL FUNDSTO THE STATEMENT OF ACTIVITIESYEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds \$ 7,341,077

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 Activities and are allocated 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	\$ 1,716,684	
Depreciation expense	(249,258)	1,467,426

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. 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. Current year issues exceeded repayments, as follows:

Issued	\$ (9,145,000)	
Repaid	200,000	(8,945,000)

Governmental funds report the effect of bond issuance costs when new debt is issued, whereas, these amounts are deferred and amortized in the Statement of Activities. 38,132

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. (39,644)

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	\$ 66,562	
Other postemployment benefits	(64,000)	2,562

Change in net assets of governmental activities \$ (135,447)

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENTS OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2010

	<u>School Nutrition</u>	<u>Before and After School Program</u>	<u>Child/Adult Care Food Program</u>	<u>Total</u>
ASSETS:				
Cash and cash equivalents	\$ 56,588	\$ 3,876	\$ 13,275	\$ 73,739
Accounts receivable	506	1,036	320	1,862
Inventories	3,570	-	-	3,570
Capital assets, net of accumulated depreciation	<u>42,961</u>	<u>-</u>	<u>-</u>	<u>42,961</u>
Total assets	<u>\$ 103,625</u>	<u>\$ 4,912</u>	<u>\$ 13,595</u>	<u>\$ 122,132</u>
LIABILITIES:				
Accounts payable	\$ 62	\$ 47	\$ 162	\$ 271
Salaries and benefits payable	14,816	-	1,629	16,445
Deferred revenue	<u>8,616</u>	<u>-</u>	<u>-</u>	<u>8,616</u>
Total liabilities	<u>\$ 23,494</u>	<u>\$ 47</u>	<u>\$ 1,791</u>	<u>\$ 25,332</u>
NET ASSETS:				
Invested in capital assets	\$ 42,961	\$ -	\$ -	\$ 42,961
Unrestricted	<u>37,170</u>	<u>4,865</u>	<u>11,804</u>	<u>53,839</u>
Total net assets	<u>\$ 80,131</u>	<u>\$ 4,865</u>	<u>\$ 11,804</u>	<u>\$ 96,800</u>
Total liabilities and net assets	<u>\$ 103,625</u>	<u>\$ 4,912</u>	<u>\$ 13,595</u>	<u>\$ 122,132</u>

HINTON COMMUNITY SCHOOL DISTRICT

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

PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2010

	School Nutrition	Before and After School Program	Child/Adult Care Food Program	Total
Operating revenues:				
Local sources:				
Charges for service	\$ 197,217	\$ 19,315	\$ 103,259	\$ 319,791
Operating expenses:				
Non-instructional programs:				
Food service operations:				
Salaries	\$ 103,451	\$ 16,855	\$ 66,782	\$ 187,088
Benefits	25,544	3,414	17,641	46,599
Purchased services	5,993	-	-	5,993
Supplies	147,288	1,716	11,128	160,132
Miscellaneous	1,475	-	730	2,205
Depreciation	5,702	414	-	6,116
Total operating expenses	\$ 289,453	\$ 22,399	\$ 96,281	\$ 408,133
Operating income (loss)	\$ (92,236)	\$ (3,084)	\$ 6,978	\$ (88,342)
Non-operating revenues:				
Interest income	\$ 718	\$ 62	\$ 187	\$ 967
State sources	3,190	-	-	3,190
Federal sources	71,614	-	-	71,614
Food distribution	16,901	-	-	16,901
Total non-operating revenues	\$ 92,423	\$ 62	\$ 187	\$ 92,672
Change in net assets	\$ 187	\$ (3,022)	\$ 7,165	\$ 4,330
Net assets beginning of year	79,944	7,887	4,639	92,470
Net assets end of year	\$ 80,131	\$ 4,865	\$ 11,804	\$ 96,800

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2010

	<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	\$ 197,247	\$ -	\$ -	\$ 197,247
Cash received from before/after school parent payments	-	18,828	-	18,828
Cash received from child/adult care food program payments	-	-	103,079	103,079
Cash paid to employees for services	(128,787)	(20,269)	(85,351)	(234,407)
Cash paid to suppliers for goods or services	(137,354)	(1,716)	(11,834)	(150,904)
Net cash provided by (used by) operating activities	<u>\$ (68,894)</u>	<u>\$ (3,157)</u>	<u>\$ 5,894</u>	<u>\$ (66,157)</u>
Cash flows from non-capital financing activities:				
State grants received	\$ 3,190	\$ -	\$ -	\$ 3,190
Federal grants received	71,614	-	-	71,614
Net cash provided by non-capital financing activities	<u>\$ 74,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,804</u>
Cash flows from investing activities:				
Interest on investments	\$ 718	\$ 62	\$ 187	\$ 967
Net change in cash and cash equivalents	\$ 6,628	\$ (3,095)	\$ 6,081	\$ 9,614
Cash and cash equivalents beginning of year	49,960	6,971	7,194	64,125
Cash and cash equivalents end of year	<u>\$ 56,588</u>	<u>\$ 3,876</u>	<u>\$ 13,275</u>	<u>\$ 73,739</u>
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:				
Operating income (loss)	\$ (92,236)	\$ (3,084)	\$ 6,978	\$ (88,342)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:				
Commodities used	17,689	-	-	17,689
Depreciation	5,702	414	-	6,116
Increase in inventories	(93)	-	-	(93)
(Increase) decrease in accounts receivable	30	(487)	(180)	(637)
Increase (decrease) in salaries and benefits payable	208	-	(928)	(720)
Increase (decrease) in accounts payable	(194)	-	24	(170)
Net cash provided by (used by) operating activities	<u>\$ (68,894)</u>	<u>\$ (3,157)</u>	<u>\$ 5,894</u>	<u>\$ (66,157)</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2010, the District received \$16,901 of federal commodities.

HINTON COMMUNITY SCHOOL DISTRICTSTATEMENTS OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDSJUNE 30, 2010

	<u>Private Purpose Trust</u>	<u>Agency</u>
ASSETS:		
Cash and pooled investments	\$ 34,865	\$ 1,294
Total assets	<u>\$ 34,865</u>	<u>\$ 1,294</u>
LIABILITIES:		
Due to others	\$ -	\$ 1,294
Total liabilities	<u>\$ -</u>	<u>\$ 1,294</u>
NET ASSETS:		
Reserved for scholarships	\$ 34,865	\$ -
Total net assets	<u>\$ 34,865</u>	<u>\$ -</u>
Total liabilities and net assets	<u>\$ 34,865</u>	<u>\$ 1,294</u>

HINTON COMMUNITY SCHOOL DISTRICTSTATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDSYEAR ENDED JUNE 30, 2010

	<u>Private Purpose Trust</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 34,833
Interest income	<u>32</u>
Total additions	\$ 34,865
Deductions:	
Support services:	
Scholarships awarded	\$ <u>-</u>
Change in net assets	\$ 34,865
Net assets beginning of year	<u>-</u>
Net assets end of year	<u>\$ 34,865</u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 area 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 U.S. generally accepted accounting principles 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.

Jointly Governed Organization - 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 Plymouth 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 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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

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:

Invested in Capital Assets, Net of Related Debt - Consists of capital assets, net of accumulated depreciation/amortization 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 not meeting 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, 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 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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

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

The Physical Plant and Equipment Levy Fund accounts for a regular property tax levy and a special voted property tax levy per thousand dollars of assessed valuation in the District for the use in the purchase of equipment, repairs and improving schoolhouse buildings and grounds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

The District reports the following major proprietary funds:

The District's major 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 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.

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, proprietary and fiduciary 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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

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

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

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

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 funds of the District apply 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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

Proprietary funds distinguish 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 Funds are 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.

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 financial statements:

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.

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 that 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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

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 and intangibles, 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 the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Intangibles	25,000
Furniture and equipment	1,000

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Improvements other than buildings	20
Intangibles	5-10
Furniture and equipment	5-15

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 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 succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

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

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

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 are imposed by law through constitutional provisions or enabling legislation.

Subsequent Events - The District evaluated for subsequent events through January 21, 2011, the date which the District's financial statements were available to be issued.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures in the other expenditures area exceeded the amounts budgeted.

NOTE 2 - CASH AND POOLED INVESTMENTS:

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 3 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2010 was as follows:

	<u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>End</u> <u>of Year</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 226,600	\$ 580,288	\$ -	\$ 806,888
Construction in progress	<u>31,655</u>	<u>1,091,903</u>	<u>-</u>	<u>1,123,558</u>
Total capital assets not being depreciated	<u>\$ 258,255</u>	<u>\$ 1,672,191</u>	<u>\$ -</u>	<u>\$ 1,930,446</u>
Capital assets being depreciated:				
Buildings	\$ 4,998,838	\$ -	\$ -	\$ 4,998,838
Improvements other than buildings	1,172,823	16,626	-	1,189,449
Furniture and equipment	<u>1,603,690</u>	<u>27,867</u>	<u>-</u>	<u>1,631,557</u>
Total capital assets being depreciated	<u>\$ 7,775,351</u>	<u>\$ 44,493</u>	<u>\$ -</u>	<u>\$ 7,819,844</u>
Less accumulated depreciation for:				
Buildings	\$ 2,176,376	\$ 112,166	\$ -	\$ 2,288,542
Improvements other than buildings	385,757	34,896	-	420,653
Furniture and equipment	<u>934,600</u>	<u>102,196</u>	<u>-</u>	<u>1,036,796</u>
Total accumulated depreciation	<u>\$ 3,496,733</u>	<u>\$ 249,258</u>	<u>\$ -</u>	<u>\$ 3,745,991</u>
Total capital assets being depreciated, net	<u>\$ 4,278,618</u>	<u>\$ (204,765)</u>	<u>\$ -</u>	<u>\$ 4,073,853</u>
Governmental activities capital assets, net	<u>\$ 4,536,873</u>	<u>\$ 1,467,426</u>	<u>\$ -</u>	<u>\$ 6,004,299</u>
Business type activities:				
Furniture and equipment	\$ 83,522	\$ -	\$ -	\$ 83,522
Less accumulated depreciation	<u>34,445</u>	<u>6,116</u>	<u>-</u>	<u>40,561</u>
Business type activities capital assets, net	<u>\$ 49,077</u>	<u>\$ (6,116)</u>	<u>\$ -</u>	<u>\$ 42,961</u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 3 - CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 137,484
Special	16,486
Other	<u>24,354</u>
	<u>\$ 178,324</u>

Support services:

Student	\$ 9,201
Instructional staff	4,670
Administration	29,216
Operation and maintenance of plant	14,460
Transportation	<u>13,387</u>
	<u>\$ 70,934</u>

Total depreciation expense - governmental activities \$ 249,258

Business type activities:

Food service operations	<u>\$ 6,116</u>
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NOTE 4 - INTERFUND TRANSFERS:

During the year ended June 30, 2010, \$561,818 and \$97,386 were transferred from the Capital Projects Fund and the Physical Plant and Equipment Levy Fund, respectively, to the Debt Service Fund in order to provide for principal and interest payments on the District's long-term debt.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 5 - LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance Beginning <u>of Year</u>	<u>Additions</u>	<u>Reductions</u>	Balance End <u>of Year</u>	Due Within <u>One Year</u>
General obligation capital loan note	\$ 650,000	\$ -	\$ 80,000	\$ 570,000	\$ 85,000
General obligation bonds payable	-	5,900,000	-	5,900,000	205,000
School infrastructure sales, services and use tax revenue bonds	795,000	3,245,000	120,000	3,920,000	125,000
Early retirement	243,921	-	66,562	177,359	28,364
Net OPEB liability	-	<u>64,000</u>	-	<u>64,000</u>	-
Total	<u>\$ 1,688,921</u>	<u>\$ 9,209,000</u>	<u>\$ 266,562</u>	<u>\$10,631,359</u>	<u>\$ 443,364</u>

Early Retirement - The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least fifty-five and must have completed ten years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee will be based on the age of the applicant as of July 1 and the total salary of the applicant during the most recently completed school year. Early retirement benefits currently offered to new retirees consist of a lump sum cash payment; however, health insurance benefits are being provided to three retirees until they reach age 65.

At June 30, 2010, the District had obligations to three participants with a total liability of \$177,359 extending through June 30, 2019. Early retirement benefits paid during the year ended June 30, 2010 totaled \$66,562. The total liability for early retirement is recorded in the government-wide financial statements and is calculated assuming an annual 10 percent increase in monthly premiums with a 5 percent discount rate.

General Obligation Capital Loan Note - Details of the District's June 30, 2010 general obligation capital loan note indebtedness are as follows:

Year Ending	<u>Capital Loan Note Dated June 29, 2009</u>			
<u>June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	2.25%	\$ 85,000	\$ 17,252	\$ 102,252
2012	2.50%	90,000	15,340	105,340
2013	2.80%	95,000	13,090	108,090
2014	3.15%	95,000	10,430	105,430
2015	3.50%	100,000	7,438	107,438
Thereafter	3.75%	<u>105,000</u>	<u>3,938</u>	<u>108,938</u>
Total		<u>\$ 570,000</u>	<u>\$ 67,488</u>	<u>\$ 637,488</u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED):

General Obligation Bonds Payable - Details of the District's June 30, 2010 general obligation bonds payable indebtedness are as follows:

Year Ending	General Obligation Bond Dated May 1, 2010				
	June 30,	Interest Rates	Principal	Interest	Total
2011		3.75%	\$ 205,000	\$ 241,475	\$ 446,475
2012		3.75%	215,000	233,787	448,787
2013		3.75%	220,000	225,725	445,725
2014		3.75%	230,000	217,475	447,475
2015		3.75%	235,000	208,850	443,850
Thereafter		3.75-4.60%	<u>4,795,000</u>	<u>1,784,503</u>	<u>6,579,503</u>
Total			<u>\$ 5,900,000</u>	<u>\$2,911,815</u>	<u>\$8,811,815</u>

School Infrastructure Sales, Services and Use Tax Revenue Bonds - Details of the District's June 30, 2010 school infrastructure sales, services and use tax revenue bonds indebtedness are as follows:

Year Ending	Bond Issue of July 1, 2004			Bond Issue of December 1, 2009			Total			
	June 30,	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2011		3.60%	\$ 125,000	\$ 24,890	4.25%	\$ -	\$ 74,533	\$ 125,000	\$ 99,423	\$ 224,423
2012		4.00%	130,000	20,040	4.25%	-	149,065	130,000	169,105	299,105
2013		4.05%	135,000	14,706	4.25%	-	149,065	135,000	163,771	298,771
2014		4.15%	140,000	9,067	4.25%	-	149,065	140,000	158,132	298,132
2015		4.25%	145,000	3,081	4.25%	-	149,065	145,000	152,146	297,146
Thereafter			-	-	4.25-5.00%	<u>3,245,000</u>	<u>1,270,950</u>	<u>3,245,000</u>	<u>1,270,950</u>	<u>4,515,950</u>
Total			<u>\$ 675,000</u>	<u>\$ 71,784</u>		<u>\$3,245,000</u>	<u>\$1,941,743</u>	<u>\$3,920,000</u>	<u>\$2,013,527</u>	<u>\$5,933,527</u>

The District has pledged future statewide sales, services and use tax revenues to repay the bonds issue of July 2004 and December 2009. The bonds were issued for the purpose of financing school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2014 and 2029, respectively. 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 80 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$5,933,527. For the current year, \$236,135 in principal and interest was paid on the bonds and total statewide sales, services and use tax revenues were \$333,278.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED):

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$121,000 of the proceeds from the issuance of the 2004 revenue bonds and \$320,440 from the 2009 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 statewide sales, services and use 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, 2010.

NOTE 6 - PENSION AND RETIREMENT BENEFITS:

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

Plan members are required to contribute 4.30 percent of their annual covered salary and the District is required to contribute 6.65 percent of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$251,699, \$234,616, and \$205,733, respectively, equal to the required contributions for each year.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions* during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits. There are 79 active and 6 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount implicitly contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 103,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>\$ 103,000</u>
Contributions made	<u>(39,000)</u>
Increase in net OPEB obligation	\$ 64,000
Net OPEB obligation beginning on year	-
Net OPEB obligation end of year	<u><u>\$ 64,000</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the implicit contributions for the year ended June 30, 2010.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED):

For the year ended June 30, 2010, the District had an implicit contribution of \$39,000 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 103,000	37.9%	\$ 64,000

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$561,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$561,000. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED):

As of the July 1, 2009 actuarial valuation date, the Alternative Measurement Method was used. The actuarial assumptions includes a 4.5 percent discount rate based on the District's funding policy. The projected annual medical trend rate is 11 percent. The ultimate medical trend rate is 5 percent. The medical trend rate is reduced 0.5 percent each year until reaching the 5 percent ultimate trend rate.

Mortality rates are from the RP-2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from Table 1 in GASB 45 paragraph 35(b).

Projected claim costs of the medical plan are \$575 per month for retirees less than age 65. The salary increase rate was assumed to be 3.5 percent per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 8 - 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 9 - 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 \$221,262 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 10 - LEASE COMMITMENT:

The District is using operating leases to rent a portable classroom and copier equipment. The minimum lease payments required are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Lease</u> <u>Payment</u>
2011	\$ 14,595
2012	1,260
2013	945
	<u>\$ 16,800</u>

NOTE 11 - CONSTRUCTION COMMITMENTS:

At June 30, 2010, the District had entered into various construction contracts for the construction of a new elementary school and building improvements totaling \$8,055,656. As of June 30, 2010, costs of \$960,535 had been incurred against the contracts. The balance of \$7,095,121 remaining at June 30, 2010 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

HINTON COMMUNITY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES

AND CHANGES IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS

AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2010

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Total Actual</u>
Revenues:			
Local sources	\$ 3,978,287	\$ 320,758	\$ 4,299,045
State sources	2,256,928	3,190	2,260,118
Federal sources	<u>433,983</u>	<u>88,515</u>	<u>522,498</u>
Total revenues	<u>\$ 6,669,198</u>	<u>\$ 412,463</u>	<u>\$ 7,081,661</u>
Expenditures/Expenses:			
Instruction	\$ 4,467,703	\$ -	\$ 4,467,703
Support services	1,777,182	-	1,777,182
Non-instructional programs	-	408,133	408,133
Other expenditures	<u>2,403,340</u>	<u>-</u>	<u>2,403,340</u>
Total expenditures/expenses	<u>\$ 8,648,225</u>	<u>\$ 408,133</u>	<u>\$ 9,056,358</u>
(Deficiency) excess of revenues (under) over expenditures	\$ (1,979,027)	\$ 4,330	\$ (1,974,697)
Other financing sources, net	<u>9,320,104</u>	<u>-</u>	<u>9,320,104</u>
Excess of revenues and other financing sources over expenditures/expenses	\$ 7,341,077	\$ 4,330	\$ 7,345,407
Balances beginning of year	<u>2,252,457</u>	<u>92,470</u>	<u>2,344,927</u>
Balances end of year	<u>\$ 9,593,534</u>	<u>\$ 96,800</u>	<u>\$ 9,690,334</u>

See accompanying independent auditor's report.

<u>Budgeted Amounts</u>		<u>Final to</u>
<u>Original</u>	<u>Final</u>	<u>Actual</u>
		<u>Variance</u>
\$ 4,218,105	\$ 4,218,105	\$ 80,940
3,206,325	3,206,325	(946,207)
<u>176,359</u>	<u>176,359</u>	<u>346,139</u>
<u>\$ 7,600,789</u>	<u>\$ 7,600,789</u>	<u>\$ (519,128)</u>
\$ 4,615,655	\$ 4,875,655	\$ 407,952
2,008,437	2,058,437	281,255
304,480	879,480	471,347
<u>365,637</u>	<u>1,245,000</u>	<u>(1,158,340)</u>
<u>\$ 7,294,209</u>	<u>\$ 9,058,572</u>	<u>\$ 2,214</u>
\$ 306,580	\$ (1,457,783)	\$ (516,914)
<u>-</u>	<u>-</u>	<u>9,320,104</u>
<u>\$ 306,580</u>	<u>\$ (1,457,783)</u>	<u>\$ 8,803,190</u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

YEAR ENDED JUNE 30, 2010

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 except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a 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. 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 \$1,764,363.

During the year ended June 30, 2010, expenditures in the other expenditures program area exceeded the amounts budgeted.

HINTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN (IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
2010	July 1, 2009	\$ -	\$ 561	\$ 561	0.0%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

HINTON COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2010

ASSETS

	<u>Special Revenue</u>		<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	
Cash and pooled investments	\$ 24,746	\$ 147,597	\$ 172,343
Receivables:			
Property tax:			
Delinquent	475	-	475
Succeeding year	57,500	-	57,500
Inventory	<u>-</u>	<u>1,187</u>	<u>1,187</u>
 Total assets	 <u>\$ 82,721</u>	 <u>\$ 148,784</u>	 <u>\$ 231,505</u>

LIABILITIES AND FUND BALANCES

Liabilities:			
Accounts payable	\$ -	\$ 1,151	\$ 1,151
Deferred revenue:			
Succeeding year property tax	<u>57,500</u>	<u>-</u>	<u>57,500</u>
Total liabilities	<u>\$ 57,500</u>	<u>\$ 1,151</u>	<u>\$ 58,651</u>
 Fund balances:			
Reserved for debt service	-	-	-
Unreserved fund balances	<u>25,221</u>	<u>147,633</u>	<u>172,854</u>
 Total liabilities and fund balances	 <u>\$ 82,721</u>	 <u>\$ 148,784</u>	 <u>\$ 231,505</u>

HINTON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2010

	<u>Special Revenue</u>		
	<u>Management</u>	<u>Student</u>	
	<u>Levy</u>	<u>Activity</u>	<u>Total</u>
Revenues:			
Local sources:			
Local tax	\$ 40,031	\$ -	\$ 40,031
Other	<u>11,326</u>	<u>342,111</u>	<u>353,437</u>
Total revenues	<u>\$ 51,357</u>	<u>\$ 342,111</u>	<u>\$ 393,468</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	\$ 68,934	\$ -	\$ 68,934
Other instruction	<u>-</u>	<u>353,355</u>	<u>353,355</u>
	<u>\$ 68,934</u>	<u>\$ 353,355</u>	<u>\$ 422,289</u>
Support services:			
Instructional staff services	<u>\$ 82,159</u>	<u>\$ -</u>	<u>\$ 82,159</u>
	<u>\$ 82,159</u>	<u>\$ -</u>	<u>\$ 82,159</u>
Other expenditures:			
Long-term debt:			
Principal	\$ -	\$ -	\$ -
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total expenditures	<u>\$ 151,093</u>	<u>\$ 353,355</u>	<u>\$ 504,448</u>
Deficiency of revenues under expenditures	\$ (99,736)	\$ (11,244)	\$ (110,980)
Other financing sources:			
Transfers from other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures	\$ (99,736)	\$ (11,244)	\$ (110,980)
Fund balances beginning of year	<u>124,957</u>	<u>158,877</u>	<u>283,834</u>
Fund balances end of year	<u>\$ 25,221</u>	<u>\$ 147,633</u>	<u>\$ 172,854</u>

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

YEAR ENDED JUNE 30, 2010

ACCOUNT:	Balance Beginning of Year	Revenues and Interfund Transfers	Expenditures	Intrafund Transfers	Balance End of Year
Interest income	\$ 23,371	\$ 2,130	\$ 1,680	\$ 6,759	\$ 30,580
Middle school	374	401	167	62	670
Hinton spirit store	7,310	4,121	4,778	-	6,653
Athletics	38,376	105,299	132,668	(6,118)	4,889
Birdie fest project	1,869	4,614	2,187	-	4,296
Physics club	277	-	-	-	277
Superintendents office	603	-	606	742	739
Preschool	(48)	104	-	-	56
Spanish club	2,207	-	30	-	2,177
Soundsational	8,519	29,005	24,254	(49)	13,221
School nurse	353	-	88	163	428
Speech and drama club	(122)	-	50	-	(172)
National Honor Society	232	308	488	121	173
Cheerleaders	684	12,160	10,379	-	2,465
Drill team	1,343	5,459	5,431	-	1,371
Special education	825	-	58	-	767
Math club	341	-	342	310	309
Tag club	575	40	228	306	693
FCCLA	278	7,032	8,728	2,615	1,197
Instrumental music	4,468	1,722	2,173	-	4,017
Vocal music	1,180	1,828	1,895	159	1,272
Music trip	-	-	36,013	36,013	-
Music fund raiser	6,498	14,105	8,515	(12,088)	-
Musical	1,354	1,328	1,742	-	940
Elementary music project	90	288	301	13	90
Junior class fund	1,265	14,194	12,603	(1,265)	1,591
Senior class fund	1,236	103	821	28	546
Yearbook	10,882	14,720	21,617	426	4,411
High school student council	1,903	1,010	1,515	51	1,449
Middle school student council	2,318	1,370	2,366	210	1,532
Elementary student council	503	1,573	1,614	-	462
Elementary miscellaneous	1,153	470	542	(14)	1,067
Elementary trips	(8)	-	-	-	(8)
Wings	5,401	-	1,213	-	4,188
Sixth grade trip	521	1,032	1,966	929	516
Concession stand	7,016	31,304	18,423	(11,640)	8,257
Soundwaves	1,937	7,655	6,612	(197)	2,783
Climate culture	15	-	8	-	7
School cents fund	262	2,517	2,397	1,487	1,869
Music trip student	3,399	28,700	282	(23,623)	8,194
Wrestling cheerleaders	1,150	4,142	5,311	150	131
Fourth grade project	293	-	59	187	421
Second grade activity	298	-	-	-	298
Pop fund	1,167	3,014	2,812	423	1,792
First grade reading/math	912	-	989	1,399	1,322
Book fair	3,526	11,373	10,219	874	5,554
Play	718	-	309	-	409
Global days of service	2,811	2,034	562	-	4,283
Kindergarten project	702	-	77	-	625
Hinton School projects	2,575	10,646	1,617	(231)	11,373
Boys basketball fundraiser	561	1,481	804	-	1,238
Transitional kindergarten	319	-	246	-	73
English co-curricular	488	-	-	-	488
5th grade project	236	-	101	47	182
Reading recovery	1,181	-	185	(20)	976
D.E.C.A.	3,417	10,417	11,532	1,043	3,345
Show choir outfits	(1,485)	4,412	3,116	54	(135)
Playground	167	-	323	323	167
Elementary special education	1,081	-	313	351	1,119
Total	\$ 158,877	\$ 342,111	\$ 353,355	\$ -	\$ 147,633

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 85	\$ 50,936	\$ 49,727	\$ 1,294
Total assets	<u>\$ 85</u>	<u>\$ 50,936</u>	<u>\$ 49,727</u>	<u>\$ 1,294</u>
<u>LIABILITIES</u>				
Due to others	\$ 85	\$ 50,936	\$ 49,727	\$ 1,294
Total liabilities	<u>\$ 85</u>	<u>\$ 50,936</u>	<u>\$ 49,727</u>	<u>\$ 1,294</u>

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS

FOR THE LAST SEVEN YEARS

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 2,459,916	\$ 2,448,614	\$ 2,336,336	\$ 2,367,963	\$ 2,328,933	\$ 2,215,234	\$ 2,003,123
Tuition	1,081,888	974,514	856,571	698,814	530,560	506,980	399,912
Other	436,483	429,284	509,357	433,537	398,267	276,356	248,127
State sources	2,256,928	2,778,873	2,648,317	2,293,655	2,430,832	2,335,187	2,098,177
Federal sources	433,983	153,711	123,463	91,404	100,625	46,902	49,368
Other financing sources:							
Proceeds from bond issuance, net	9,145,000	650,000	-	-	-	1,186,236	-
Insurance proceeds	175,104	-	-	-	-	-	-
Sale of equipment	-	-	-	-	950	-	-
Total	<u>\$15,989,302</u>	<u>\$ 7,434,996</u>	<u>\$ 6,474,044</u>	<u>\$ 5,885,373</u>	<u>\$ 5,790,167</u>	<u>\$ 6,566,895</u>	<u>\$ 4,798,707</u>
Expenditures:							
Instruction:							
Regular instruction	\$ 3,361,698	\$ 3,400,958	\$ 2,921,517	\$ 2,655,474	\$ 2,312,074	\$ 2,128,669	\$ 2,119,644
Special instruction	495,854	491,428	513,038	338,170	317,089	361,222	356,586
Other instruction	610,151	599,331	657,471	505,423	665,312	588,864	532,887
Support services:							
Student services	230,526	231,566	235,818	247,095	242,045	236,670	167,082
Instructional staff services	117,002	117,902	110,906	102,357	77,879	120,358	52,312
Administration services	731,971	719,838	644,820	577,894	537,979	510,388	540,771
Operation and maintenance of plant services	362,281	356,499	496,992	444,525	375,315	485,129	338,435
Transportation services	335,402	298,073	313,981	240,378	215,100	208,621	206,981
Non-instructional programs	-	-	-	-	-	849	3,612
Other expenditures:							
Facilities and equipment acquisition	1,776,635	302,535	252,206	386,705	638,992	444,990	7,992
Long-term debt:							
Principal	200,000	120,000	110,000	110,000	255,000	215,000	205,000
Interest and fiscal charges	205,443	33,080	36,590	40,290	49,758	39,828	28,095
AEA flow through	221,262	203,703	190,931	180,565	163,821	170,233	157,321
Total	<u>\$ 8,648,225</u>	<u>\$ 6,874,913</u>	<u>\$ 6,484,270</u>	<u>\$ 5,828,876</u>	<u>\$ 5,850,364</u>	<u>\$ 5,510,821</u>	<u>\$ 4,716,718</u>

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	\$ 4,983
National School Lunch Program	10.555	FY10	80,688 *
Child and Adult Care Food Program	10.558	FY10	<u>2,843</u>
			<u>\$ 88,514</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY10	\$ 27,566
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	<u>18,308</u>
			<u>\$ 45,874</u>
Career and Technical Education - Basic Grants to States	84.048	FY10	<u>\$ 3,343</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY10	<u>\$ 1,141</u>
Grants for State Assessments and Related Activities	84.369	FY10	<u>\$ 4,453</u>
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	<u>\$ 77,174 **</u>
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY10	<u>\$ 243,621</u>
Northwest Area Education Agency:			
Special Education - Grants to States	84.027	FY10	<u>\$ 28,224 **</u>
U.S. Department of Health and Human Services:			
Medical Assistance Program	93.778	FY10	<u>\$ 26,515</u>
Drug-Free Communities Support Program	93.276	FY10	<u>\$ 3,637</u>
U.S. Department of Homeland Security:			
Public Assistance Grant Program	97.036	FY10	<u>\$ 2,983</u>
Total			<u>\$ 525,479</u>

* - Includes \$16,901 of non-cash awards.

** - Total for Special Education Cluster (IDEA) is \$105,398.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Hinton Community School District and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 21, 2011. 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 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10 to be material weaknesses.



To the Board of Education
Hinton Community School District

COMPLIANCE AND OTHER MATTERS

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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 and Questioned Costs. 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, and 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.

January 21, 2011
Sioux City, Iowa

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



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education of
Hinton Community School District

COMPLIANCE

We have audited Hinton Community School District's (the District's) compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.



To the Board of Education
Hinton Community School District

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the District's response, we did not audit the District's response and, accordingly, we express no opinion on it.

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, and is not intended to be and should not be anyone other than these specified parties.

January 21, 2011
Sioux City, Iowa

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

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) Audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a) are reported in this schedule.
- (g) Major programs were as follows:
 - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act.
 - Clustered programs (Special Education Cluster (IDEA):
 - CFDA Number 84.391 - ARRA - Special Education Grants to States, Recovery Act
 - CFDA Number 84.027 - Special Education Grants to States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Hinton Community School District did not qualify as a low-risk auditee.

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

(CONTINUED)

Part II: Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 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 fraud. 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. Nevertheless, the District should review and segregate duties to the extent possible especially with respect to cash receipts, disbursements and payroll activities. For example, different individuals should a) open the mail, b) deposit cash receipts, and c) record cash receipts to the general ledger.

The Board of Education and Superintendent must remain actively involved in the financial affairs of the District to provide oversight and review functions. For example, the Superintendent should receive monthly bank statements directly (unopened) and review for any unknown payees, unauthorized signatories or any other unusual items. In addition, the Superintendent or a Board member should review payroll registers for accuracy by comparing to approved pay rates/contracts for selected employees.

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.

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

(CONTINUED)

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

II-B-10 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.

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.

Part III: Findings and Questioned Costs For Federal Awards

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

Special Education Cluster (IDEA):

CFDA Number 84.391: ARRA - Special Education Grants to States, Recovery Act

CFDA Number 84.027: Special Education Grants to States

Federal Award Year: 2010

U.S. Department of Education

Passed through the Iowa Department of Education

CFDA Number 84.394: ARRA-State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act

Federal Award year: 2010

U.S. Department of Education

Passed through the Iowa Department of Education

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

(CONTINUED)

Part III: Findings and Questioned Costs For Federal Awards (Continued)

III-A-10 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 fraud. 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. Nevertheless, the District should review and segregate duties to the extent possible especially with respect to cash receipts, disbursements and payroll activities. For example, different individuals should a) open the mail, b) deposit cash receipts, and c) record cash receipts to the general ledger.

The Board of Education and Superintendent must remain actively involved in the financial affairs of the District to provide oversight and review functions. For example, the Superintendent should receive monthly bank statements directly (unopened) and review for any unknown payees, unauthorized signatories or any other unusual items. In addition, the Superintendent or a Board member should review payroll registers for accuracy by comparing to approved pay rates/contracts for selected employees.

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.

HINTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

(CONTINUED)

Part IV: Other Findings Related to Statutory Reporting

IV-A-10 Certified Budget - Expenditures for the year ended June 30, 2010 exceeded the certified budget amount in the other expenditures program function.

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

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

Conclusion - Response accepted.

IV-B-10 Questionable Expenditures - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-10 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.

IV-D-10 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage will be reviewed annually to ensure that the coverage is adequate for current operations.

IV-F-10 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

IV-G-10 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-10 Deposits and Investments - 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 were noted.

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

(CONTINUED)

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

- IV-J-10 Certified Annual Report - The Certified Annual Report was certified to the Iowa Department of Education timely.
- IV-K-10 Categorical Funding - No instances of categorical funding being used to supplant rather than supplement other funds were noted.
- IV-L-10 Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning balance		\$ 98,502
Statewide sales, services and use tax revenue		333,278
Debt service for school infrastructure:		
School infrastructure sales, services and use		
tax revenue bonds	\$ (431,780)	(431,780)
Ending balance		<u>\$ -</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction of \$2.10834 per \$1,000 of taxable valuation in property tax levies.

- IV-M-10 Deficit Balances - Three student activity accounts had deficit balances at June 30, 2010.

Recommendation - The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response - The District will try to eliminate or minimize such deficits in the student activity accounts at the end of the fiscal year.

Conclusion - Response accepted.