

HINTON COMMUNITY SCHOOL DISTRICT

Hinton, Iowa

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

June 30, 2011

HINTON COMMUNITY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Hinton Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Hinton Community School District (the District), Hinton, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District at June 30, 2011 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accepted accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2012 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 11 and 40 through 42 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. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. Other supplementary information included in Schedules 1 through 7 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 23, 2012
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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 Financial Highlights

- General Fund revenues increased from \$5,755,409 in fiscal year 2010 to \$6,318,476 in fiscal year 2011, while General Fund expenditures decreased from \$5,961,699 in fiscal year 2010 to \$5,880,860 in fiscal year 2011. The District's General Fund balance increased from \$499,462 in fiscal year 2010 to \$937,078 in fiscal year 2011, a 87.6 percent increase.
- The increase in General Fund revenues was primarily attributable to increases in tax levy rates and the restoration of state source funding.
- The decrease in General Fund expenditures was primarily attributable to administrators taking a pay freeze and the elimination of select other administrative assistant and coaching positions.

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 and Capital Project Funds.

Reporting the District's Financial Activities

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

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

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

- Governmental Activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- Business Type Activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition, 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, 2011 compared to June 30, 2010.

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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>Percentage Change 2010-2011</u>
Current and other assets	\$ 8,326	\$ 13,395	\$ 95	\$ 79	\$ 8,421	\$ 13,474	-37.5%
Capital assets, net	<u>12,015</u>	<u>6,004</u>	<u>37</u>	<u>43</u>	<u>12,052</u>	<u>6,047</u>	<u>99.3%</u>
Total assets	<u>\$ 20,341</u>	<u>\$ 19,399</u>	<u>\$ 132</u>	<u>\$ 122</u>	<u>\$ 20,473</u>	<u>\$ 19,521</u>	<u>4.9%</u>
Long-term liabilities	\$ 10,246	\$ 10,631	\$ -	\$ -	\$ 10,246	\$ 10,631	-3.6%
Other liabilities	<u>4,459</u>	<u>3,819</u>	<u>23</u>	<u>25</u>	<u>4,482</u>	<u>3,844</u>	<u>16.6%</u>
Total liabilities	<u>\$ 14,705</u>	<u>\$ 14,450</u>	<u>\$ 23</u>	<u>\$ 25</u>	<u>\$ 14,728</u>	<u>\$ 14,475</u>	<u>1.7%</u>
Net assets:							
Invested in capital assets, net of related debt	\$ 3,615	\$ 3,256	\$ 37	\$ 43	\$ 3,652	\$ 3,299	10.7%
Restricted	1,239	1,221	-	-	1,239	1,221	1.5%
Unrestricted	<u>782</u>	<u>472</u>	<u>72</u>	<u>54</u>	<u>854</u>	<u>526</u>	<u>62.4%</u>
Total net assets	<u>\$ 5,636</u>	<u>\$ 4,949</u>	<u>\$ 109</u>	<u>\$ 97</u>	<u>\$ 5,745</u>	<u>\$ 5,046</u>	<u>13.9%</u>

The District's combined net assets increased 13.9 percent, or approximately \$700,000, 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 \$18,000, or 1.5 percent over the prior year. The increase was primarily the result of an increase in restricted capital projects fund balance.

Unrestricted net assets represent resources that can be used to finance day to day District operations without constraints established by debt covenants, enabling legislation or other legal requirements. The District's unrestricted net assets increased approximately \$328,000, or 62.4 percent over the prior year. The increase was primarily a result of the increase in the General Fund as previously discussed.

Figure A-2 shows the changes in net assets for the years ended June 30, 2011 compared to the year ended June 30, 2010.

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

	Governmental Activities		Business Type Activities		Total District		Total Percentage Change
	2011	2010	2011	2010	2011	2010	2010-2011
Revenues:							
Program revenues:							
Charges for services	\$ 1,561	\$ 1,435	\$ 326	\$ 319	\$ 1,887	\$ 1,754	7.6%
Operating grants, contributions and restricted interest	623	1,036	90	92	713	1,128	-36.8%
General revenues:							
Property tax	2,642	1,851	-	-	2,642	1,851	42.7%
Unrestricted state grants	2,271	1,655	-	-	2,271	1,655	37.2%
Unrestricted investment earnings	84	45	1	1	85	46	84.8%
Local surtax	271	276	-	-	271	276	-1.8%
Statewide sales, services and use tax	380	333	-	-	380	333	14.1%
Other	84	141	-	-	84	141	-40.4%
Total revenues	\$ 7,916	\$ 6,772	\$ 417	\$ 412	\$ 8,333	\$ 7,184	16.0%
Program expenses:							
Instruction	\$ 4,687	\$ 4,617	\$ -	\$ -	\$ 4,687	\$ 4,617	1.5%
Support services	1,720	1,847	-	-	1,720	1,847	-6.9%
Non-instructional programs	-	-	404	408	404	408	-1.0%
Other expenses	822	443	-	-	822	443	85.6%
Total expenses	\$ 7,229	\$ 6,907	\$ 404	\$ 408	\$ 7,633	\$ 7,315	4.3%
Change in net assets	\$ 687	\$ (135)	\$ 13	\$ 4	\$ 700	\$ (131)	634.4%

In fiscal year 2011, property tax and unrestricted state grants accounted for 59.0 percent of the total revenue (48.8 percent in 2010). The District's expenses primarily relate to instruction and support services, which account for 83.9 percent of the total expenses (88.4 percent in 2010).

The District's total revenues were approximately \$8.3 million, of which approximately \$7.9 million was from governmental activities and approximately \$400,000 was from business type activities.

As shown in Figure A-2, the District as a whole experienced a 16.0 percent increase in revenues and a 4.3 percent increase in expenses. Property tax revenue increased approximately \$791,000 primarily due to an increase in tax levy rates and unrestricted state grants were restored after large decreases in fiscal year 2010. The increase in expenses is primarily related to increases in long-term debt interest and various other expenses associated with the new elementary school.

Governmental Activities - Revenues for governmental activities were \$7,916,075 and expenses were \$7,229,284. Governmental activities revenue increased over 2010 as previously discussed. In a difficult budget year, the District was able 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: instruction, support services, and other expenses, for the years ended June 30, 2011 compared to the year ended June 30, 2010:

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

	<u>Total Cost of Services</u>		<u>Percent</u>	<u>Net Cost of Services</u>		<u>Percent</u>
	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>2011</u>	<u>2010</u>	<u>Change</u>
			<u>2010-2011</u>			<u>2010-2011</u>
Instruction	\$ 4,687	\$ 4,617	1.5%	\$ 2,733	\$ 2,373	15.2%
Support services	1,720	1,847	-6.9%	1,715	1,841	-6.8%
Other expenses	822	443	85.6%	597	222	168.9%
Totals	<u>\$ 7,229</u>	<u>\$ 6,907</u>	<u>4.7%</u>	<u>\$ 5,045</u>	<u>\$ 4,436</u>	<u>13.7%</u>

- The cost financed by users of the District's programs was \$1,560,934 (\$1,434,571 in 2010).
- Federal and state governments subsidized certain programs with grants and contributions totaling \$623,471 (\$1,036,299 in 2010).
- The net cost of governmental activities was financed with \$3,292,554 in property and other taxes (\$2,459,916 in 2010) and \$2,270,953 in unrestricted state grants (\$1,654,610 in 2010).

Business-Type Activities - Revenues for business-type activities during the year ended June 30, 2011 were \$416,591 (\$412,463 in 2010) and expenses were \$403,654 (\$408,133 in 2010). 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.

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 \$3,883,059, well below last year's ending fund balances of \$9,593,534. However, the primary reason for the decrease in combined fund balances at June 30, 2011 is due to approximately \$6,000,000 of capital asset acquisitions in fiscal year 2011. The District's proprietary funds reported end of year net assets of \$109,737, above last year's ending fund balances of \$96,800.

Governmental Fund Highlights

The District's General Fund balance increased primarily due to increases in property tax revenue associated with higher levy rates and property values within the District and restoration of state source monies decreased in the prior year along with slight allowable growth.

The Capital Projects Fund balance decrease was due to the use of bond proceeds for the construction of the new elementary school, none of which were received in the current year.

The Special Revenue Fund Balance increased due to increases in property tax revenue associated with higher levy rates and property values within the District.

Proprietary Fund Highlights

Proprietary fund net assets increased \$12,937 from \$96,800 in 2010 to \$109,737 in 2011 due to increased participation in programs, slight increases in rates changed, while maintaining consistent operating expenses.

Budgetary Highlights

Over the course of the year, the District amended its budget one time to reflect normal operational adjustments not previously considered and the expenditure of prior periods unspent bond proceeds.

The District's total revenues were \$301,638 more than budgeted revenues, a variance of 3.8 percent. The most significant variance resulted from the District receiving more in both local and federal sources than originally anticipated. The District's total expenditures were \$3,859,748 less than budgeted, a variance of 21.5 percent. A portion of the variances resulted from the District's spending less in the instruction and support services functions than anticipated due to the District's ability to control expenses associated with these functions.

Capital Assets and Debt Administration

Capital Assets - At June 30, 2011, the District had invested \$12,052,243, 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 \$240,844.

The original cost of the District's capital assets was \$16,079,639. Governmental funds account for \$15,996,117, with the remainder of \$83,522 accounted for in the Proprietary, School Nutrition Fund and Before and After School Program.

The largest change in capital assets activity during the year occurred in the construction in progress category. The District is in the process of building a new elementary school.

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

	Governmental Activities		Business Type Activities		Total District		Percent
	2011	2010	2011	2010	2011	2010	Change 2010-2011
Land	\$ 807	\$ 807	\$ -	\$ -	\$ 807	\$ 807	0.0%
Construction in progress	7,299	1,123	-	-	7,299	1,123	550.0%
Buildings	2,604	2,710	-	-	2,604	2,710	-3.9%
Improvements other than buildings	790	769	-	-	790	769	2.7%
Furniture and equipment	515	595	37	43	552	638	-13.5%
Totals	\$ 12,015	\$ 6,004	\$ 37	\$ 43	\$ 12,052	\$ 6,047	99.3%

Long-Term Liabilities - At June 30, 2011, the District had outstanding \$3,795,000 in school infrastructure sales, services and use tax revenue bonds, \$485,000 in general obligation capital loan notes, \$5,695,000 in general obligation bonds payable, \$149,995 early retirement payable, and \$121,400 in net OPEB liabilities for total long-term liabilities of \$10,246,395. Additional information about the District's long-term liabilities is presented in Note 6 to the financial statements.

Figure A-5 (In Thousands)
Long-Term Liabilities

	Total District		Total
	June 30 2011	June 30 2010	Change 2010-2011
General obligation capital loan note	\$ 485	\$ 570	-14.9%
General obligation bonds payable	5,695	5,900	-3.5%
School infrastructure sales, services and use tax revenue bonds	3,795	3,920	-3.2%
Early retirement	150	177	-15.3%
Net OPEB liability	121	64	89.1%
Total	\$ 10,246	\$ 10,631	-3.6%

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:

- Under Iowa's school funding formula, the District is highly dependent on student enrollment. The District did see an increase in students for funding of the 2011-2012 school year.

- The statewide one percent local option sales tax will continue to provide revenue 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 past reduction in state aid. The District is well aware of the "funding cliff" in 2012 when these funds are exhausted.

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, 2011

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 4,828,535	\$ 87,023	\$ 4,915,558
Receivables:			
Property tax:			
Delinquent	25,104	-	25,104
Succeeding year	3,014,648	-	3,014,648
Accounts	323,646	4,562	328,208
Due from other governments	97,678	310	97,988
Inventories	374	3,080	3,454
Deferred charges	36,148	-	36,148
Capital assets, net of accumulated depreciation	<u>12,014,894</u>	<u>37,349</u>	<u>12,052,243</u>
Total assets	<u>\$ 20,341,027</u>	<u>\$ 132,324</u>	<u>\$ 20,473,351</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 760,349	\$ 1,060	\$ 761,409
Salaries and benefits payable	631,929	17,068	648,997
Accrued interest payable	51,563	-	51,563
Deferred revenue - succeeding year property tax	3,014,648	-	3,014,648
Deferred revenue - other	-	4,459	4,459
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	23,734	-	23,734
School infrastructure sales, services and use tax revenue bonds payable	130,000	-	130,000
General obligation capital loan note	90,000	-	90,000
General obligation bond payable	215,000	-	215,000
Portion due after one year:			
Early retirement payable	126,261	-	126,261
School infrastructure sales, services and use tax revenue bonds payable	3,665,000	-	3,665,000
General obligation capital loan note	395,000	-	395,000
General obligation bond payable	5,480,000	-	5,480,000
Net OPEB liability	<u>121,400</u>	<u>-</u>	<u>121,400</u>
Total liabilities	<u>\$ 14,704,884</u>	<u>\$ 22,587</u>	<u>\$ 14,727,471</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 3,614,613	\$ 37,349	\$ 3,651,962
Restricted for:			
Categorical funding	33,395	-	33,395
Capital projects	619,217	-	619,217
Other special revenue purposes	56,179	-	56,179
Debt service	530,456	-	530,456
Unrestricted	<u>782,283</u>	<u>72,388</u>	<u>854,671</u>
Total net assets	<u>\$ 5,636,143</u>	<u>\$ 109,737</u>	<u>\$ 5,745,880</u>
Total liabilities and net assets	<u>\$ 20,341,027</u>	<u>\$ 132,324</u>	<u>\$ 20,473,351</u>

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

		Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Instruction:				
Regular instruction	\$ 3,485,383	\$ 1,112,116	\$ 293,673	\$ -
Special instruction	585,202	181,051	93,620	-
Other instruction	<u>616,099</u>	<u>267,434</u>	<u>5,445</u>	<u>-</u>
	<u>\$ 4,686,684</u>	<u>\$ 1,560,601</u>	<u>\$ 392,738</u>	<u>\$ -</u>
Support services:				
Student services	\$ 250,259	\$ -	\$ -	\$ -
Instructional staff services	129,141	-	-	-
Administration services	666,980	-	-	-
Operation and maintenance of plant services	341,013	333	-	-
Transportation services	<u>333,000</u>	<u>-</u>	<u>5,202</u>	<u>-</u>
	<u>\$ 1,720,393</u>	<u>\$ 333</u>	<u>\$ 5,202</u>	<u>\$ -</u>
Other expenditures:				
Facilities acquisition	\$ 165,251	\$ -	\$ -	\$ -
Long-term debt interest	431,425	-	-	-
AEA flow through	<u>225,531</u>	<u>-</u>	<u>225,531</u>	<u>-</u>
	<u>\$ 822,207</u>	<u>\$ -</u>	<u>\$ 225,531</u>	<u>\$ -</u>
Total governmental activities	\$ 7,229,284	\$ 1,560,934	\$ 623,471	\$ -
Business-type activities:				
Non-instructional programs:				
Food service operations	\$ 292,921	\$ 199,217	\$ 90,173	\$ -
Before and after school program	20,173	18,795	-	-
Child/Adult care food program	<u>90,560</u>	<u>107,823</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,632,938</u>	<u>\$ 1,886,769</u>	<u>\$ 713,644</u>	<u>\$ -</u>
GENERAL REVENUES:				
Property tax levied for:				
General purposes				
Debt service				
Management levy				
Physical plant and equipment levy				
Unrestricted state grants				
Unrestricted investment earnings				
Local surtax				
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</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (2,079,594)	\$ -	\$ (2,079,594)
(310,531)	-	(310,531)
(343,220)	-	(343,220)
<u>\$ (2,733,345)</u>	<u>\$ -</u>	<u>\$ (2,733,345)</u>
\$ (250,259)	\$ -	\$ (250,259)
(129,141)	-	(129,141)
(666,980)	-	(666,980)
(340,680)	-	(340,680)
(327,798)	-	(327,798)
<u>\$ (1,714,858)</u>	<u>\$ -</u>	<u>\$ (1,714,858)</u>
\$ (165,251)	\$ -	\$ (165,251)
(431,425)	-	(431,425)
-	-	-
<u>\$ (596,676)</u>	<u>\$ -</u>	<u>\$ (596,676)</u>
\$ (5,044,879)	\$ -	\$ (5,044,879)
\$ -	\$ (3,531)	\$ (3,531)
-	(1,378)	(1,378)
-	17,263	17,263
<u>\$ (5,044,879)</u>	<u>\$ 12,354</u>	<u>\$ (5,032,525)</u>
\$ 1,852,968	\$ -	\$ 1,852,968
445,308	-	445,308
175,610	-	175,610
167,719	-	167,719
2,270,953	-	2,270,953
84,439	583	85,022
271,353	-	271,353
379,596	-	379,596
83,724	-	83,724
<u>\$ 5,731,670</u>	<u>\$ 583</u>	<u>\$ 5,732,253</u>
\$ 686,791	\$ 12,937	\$ 699,728
4,949,352	96,800	5,046,152
<u>\$ 5,636,143</u>	<u>\$ 109,737</u>	<u>\$ 5,745,880</u>

HINTON COMMUNITY SCHOOL DISTRICTBALANCE SHEET - GOVERNMENTAL FUNDSJUNE 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
<u>ASSETS</u>					
Cash and pooled investments	\$ 1,367,723	\$ 461,985	\$ 2,788,144	\$ 210,683	\$ 4,828,535
Receivables:					
Property tax:					
Delinquent	17,759	4,119	1,549	1,677	25,104
Succeeding year	2,224,894	448,788	175,967	164,999	3,014,648
Accounts	323,041	-	-	605	323,646
Due from other governments	25,614	-	72,064	-	97,678
Due from other funds	-	-	5,085	-	5,085
Inventories	-	-	-	374	374
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 3,959,031</u>	<u>\$ 914,892</u>	<u>\$ 3,042,809</u>	<u>\$ 378,338</u>	<u>\$ 8,295,070</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 165,130	\$ -	\$ 588,054	\$ 7,165	\$ 760,349
Salaries and benefits payable	631,929	-	-	-	631,929
Due to other funds	-	5,085	-	-	5,085
Deferred revenue:					
Succeeding year property tax	<u>2,224,894</u>	<u>448,788</u>	<u>175,967</u>	<u>164,999</u>	<u>3,014,648</u>
Total liabilities	<u>\$ 3,021,953</u>	<u>\$ 453,873</u>	<u>\$ 764,021</u>	<u>\$ 172,164</u>	<u>\$ 4,412,011</u>
Fund balances:					
Restricted for:					
Categorical funding	\$ 33,395	\$ -	\$ -	\$ -	\$ 33,395
Debt service	-	461,019	121,000	-	582,019
Management levy purposes	-	-	-	55,472	55,472
Student activities	-	-	-	150,702	150,702
School infrastructure	-	-	1,980,324	-	1,980,324
Physical plant and equipment	-	-	177,464	-	177,464
Unassigned	<u>903,683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>903,683</u>
Total fund balances	<u>\$ 937,078</u>	<u>\$ 461,019</u>	<u>\$ 2,278,788</u>	<u>\$ 206,174</u>	<u>\$ 3,883,059</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 3,959,031</u>	<u>\$ 914,892</u>	<u>\$ 3,042,809</u>	<u>\$ 378,338</u>	<u>\$ 8,295,070</u>

HINTON COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS

TO THE STATEMENT OF NET ASSETS

JUNE 30, 2011

Total fund balances of governmental funds \$ 3,883,059

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. 12,014,894

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. (51,563)

Deferred charges are not financial resources and, therefore, are not reported as assets in the governmental funds. 36,148

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. (10,246,395)

Net assets of governmental activities \$ 5,636,143

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2011

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 2,124,321	\$ 445,308	\$ 547,315	\$ 175,610	\$ 3,292,554
Tuition	1,232,408	-	-	-	1,232,408
Other	67,323	739	67,437	361,191	496,690
State sources	2,589,346	-	-	-	2,589,346
Federal sources	305,078	-	-	-	305,078
Total revenues	<u>\$ 6,318,476</u>	<u>\$ 446,047</u>	<u>\$ 614,752</u>	<u>\$ 536,801</u>	<u>\$ 7,916,076</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 3,256,428	\$ -	\$ -	\$ 71,800	\$ 3,328,228
Special instruction	563,673	-	-	-	563,673
Other instruction	259,970	-	-	349,838	609,808
	<u>\$ 4,080,071</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 421,638</u>	<u>\$ 4,501,709</u>
Support services:					
Student services	\$ 241,052	\$ -	\$ -	\$ -	\$ 241,052
Instructional staff services	42,547	-	-	81,843	124,390
Administration services	642,442	-	-	-	642,442
Operation and maintenance of plant services	328,468	-	-	-	328,468
Transportation services	320,749	-	-	-	320,749
	<u>\$ 1,575,258</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,843</u>	<u>\$ 1,657,101</u>
Other expenditures:					
Facilities and equipment acquisition	\$ -	\$ -	6,454,934	\$ -	\$ 6,454,934
Long-term debt:					
Principal	-	415,000	-	-	415,000
Interest and fiscal charges	-	433,133	-	-	433,133
AEA flow through	225,531	-	-	-	225,531
	<u>\$ 225,531</u>	<u>\$ 848,133</u>	<u>\$ 6,454,934</u>	<u>\$ -</u>	<u>\$ 7,528,598</u>
Total expenditures	<u>\$ 5,880,860</u>	<u>\$ 848,133</u>	<u>\$ 6,454,934</u>	<u>\$ 503,481</u>	<u>\$ 13,687,408</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 437,616	\$ (402,086)	\$ (5,840,182)	\$ 33,320	\$ (5,771,332)
Other financing sources (uses):					
Transfers (to) from other funds	\$ -	\$ 403,957	\$ (403,957)	\$ -	\$ -
Insurance recoveries	-	-	60,857	-	60,857
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 403,957</u>	<u>\$ (343,100)</u>	<u>\$ -</u>	<u>\$ 60,857</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	\$ 437,616	\$ 1,871	\$ (6,183,282)	\$ 33,320	\$ (5,710,475)
Fund balances beginning of year, as restated	499,462	459,148	8,462,070	172,854	9,593,534
Fund balances end of year	<u>\$ 937,078</u>	<u>\$ 461,019</u>	<u>\$ 2,278,788</u>	<u>\$ 206,174</u>	<u>\$ 3,883,059</u>

HINTON COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds \$ (5,710,475)

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

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

Expenditures for capital assets	\$ 6,245,827	
Depreciation/amortization expense	<u>(235,232)</u>	6,010,595

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. 415,000

The effect of bond issuance costs when new debt is issued, whereas, these amounts are deferred and amortized in the Statement of Activities. (1,984)

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 governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 3,691

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	\$ 27,364	
Other postemployment benefits	<u>(57,400)</u>	<u>(30,036)</u>

Change in net assets of governmental activities \$ 686,791

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENTS OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2011

	School Nutrition	Before and After School Program	Child/Adult Care Food Program	Total
ASSETS:				
Cash and cash equivalents	\$ 55,712	\$ 2,535	\$ 28,776	\$ 87,023
Accounts receivable	-	1,012	3,550	4,562
Inventories	3,080	-	-	3,080
Due from other governments	310	-	-	310
Capital assets, net of accumulated depreciation	<u>37,349</u>	<u>-</u>	<u>-</u>	<u>37,349</u>
Total assets	<u>\$ 96,451</u>	<u>\$ 3,547</u>	<u>\$ 32,326</u>	<u>\$ 132,324</u>
LIABILITIES:				
Accounts payable	\$ 818	\$ 34	\$ 208	\$ 1,060
Salaries and benefits payable	14,171	-	2,897	17,068
Deferred revenue	<u>4,459</u>	<u>-</u>	<u>-</u>	<u>4,459</u>
Total liabilities	<u>\$ 19,448</u>	<u>\$ 34</u>	<u>\$ 3,105</u>	<u>\$ 22,587</u>
NET ASSETS:				
Invested in capital assets	\$ 37,349	\$ -	\$ -	\$ 37,349
Unrestricted	<u>39,654</u>	<u>3,513</u>	<u>29,221</u>	<u>72,388</u>
Total net assets	<u>\$ 77,003</u>	<u>\$ 3,513</u>	<u>\$ 29,221</u>	<u>\$ 109,737</u>
Total liabilities and net assets	<u>\$ 96,451</u>	<u>\$ 3,547</u>	<u>\$ 32,326</u>	<u>\$ 132,324</u>

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -PROPRIETARY FUNDSYEAR ENDED JUNE 30, 2011

	<u>School Nutrition</u>	<u>Before and After School Program</u>	<u>Child/Adult Care Food Program</u>	<u>Total</u>
Operating revenues:				
Local sources:				
Charges for service	\$ 199,217	\$ 18,795	\$ 107,823	\$ 325,835
Operating expenses:				
Non-instructional programs:				
Food service operations:				
Salaries	\$ 96,697	\$ 14,536	\$ 60,776	\$ 172,009
Benefits	22,881	3,694	16,490	43,065
Purchased services	3,574	-	-	3,574
Supplies	161,920	1,943	12,736	176,599
Miscellaneous	2,237	-	558	2,795
Depreciation	<u>5,612</u>	<u>-</u>	<u>-</u>	<u>5,612</u>
Total operating expenses	\$ 292,921	\$ 20,173	\$ 90,560	\$ 403,654
Operating income (loss)	\$ (93,704)	\$ (1,378)	\$ 17,263	\$ (77,819)
Non-operating revenues:				
Interest income	\$ 403	\$ 26	\$ 154	\$ 583
State sources	2,867	-	-	2,867
Federal sources	75,285	-	-	75,285
Food distribution	<u>12,021</u>	<u>-</u>	<u>-</u>	<u>12,021</u>
Total non-operating revenues	\$ 90,576	\$ 26	\$ 154	\$ 90,756
Change in net assets	\$ (3,128)	\$ (1,352)	\$ 17,417	\$ 12,937
Net assets beginning of year	<u>80,131</u>	<u>4,865</u>	<u>11,804</u>	<u>96,800</u>
Net assets end of year	<u>\$ 77,003</u>	<u>\$ 3,513</u>	<u>\$ 29,221</u>	<u>\$ 109,737</u>

HINTON COMMUNITY SCHOOL DISTRICT

STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2011

	<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	\$ 199,723	\$ -	\$ -	\$ 199,723
Cash received from before/after school parent payments	-	18,819	-	18,819
Cash received from child/adult care food program payments	-	-	104,593	104,593
Cash paid to employees for services	(120,223)	(18,230)	(75,998)	(214,451)
Cash paid to suppliers for goods or services	(158,621)	(1,956)	(13,248)	(173,825)
Net cash provided by (used by) operating activities	<u>\$ (79,121)</u>	<u>\$ (1,367)</u>	<u>\$ 15,347</u>	<u>\$ (65,141)</u>
Cash flows from non-capital financing activities:				
State grants received	\$ 2,867	\$ -	\$ -	\$ 2,867
Federal grants received	74,975	-	-	74,975
Net cash provided by non-capital financing activities	<u>\$ 77,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,842</u>
Cash flows from investing activities:				
Interest on investments	\$ 403	\$ 26	\$ 154	\$ 583
Net change in cash and cash equivalents	\$ (876)	\$ (1,341)	\$ 15,501	\$ 13,284
Cash and cash equivalents beginning of year	<u>56,588</u>	<u>3,876</u>	<u>13,275</u>	<u>73,739</u>
Cash and cash equivalents end of year	<u>\$ 55,712</u>	<u>\$ 2,535</u>	<u>\$ 28,776</u>	<u>\$ 87,023</u>
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:				
Operating income (loss)	\$ (93,704)	\$ (1,378)	\$ 17,263	\$ (77,819)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:				
Commodities used	8,334	-	-	8,334
Depreciation	5,612	-	-	5,612
Decrease in inventories	20	-	-	20
(Increase) decrease in accounts receivable	506	24	(3,230)	(2,700)
Increase (decrease) in salaries and benefits payable	(645)	-	1,268	623
Increase (decrease) in accounts payable	756	(13)	46	789
Net cash provided by (used by) operating activities	<u>\$ (79,121)</u>	<u>\$ (1,367)</u>	<u>\$ 15,347</u>	<u>\$ (65,141)</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2011, the District received \$12,021 of federal commodities.

HINTON COMMUNITY SCHOOL DISTRICTSTATEMENTS OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDSJUNE 30, 2011

	<u>Private Purpose Trust</u>	<u>Agency</u>
ASSETS:		
Cash and pooled investments	\$ 34,951	\$ 91
Total assets	<u>\$ 34,951</u>	<u>\$ 91</u>
LIABILITIES:		
Due to others	\$ -	\$ 91
Total liabilities	<u>\$ -</u>	<u>\$ 91</u>
NET ASSETS:		
Reserved for scholarships	\$ 34,951	\$ -
Total net assets	<u>\$ 34,951</u>	<u>\$ -</u>
Total liabilities and net assets	<u>\$ 34,951</u>	<u>\$ 91</u>

HINTON COMMUNITY SCHOOL DISTRICTSTATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDSYEAR ENDED JUNE 30, 2011

	<u>Private Purpose Trust</u>
Additions:	
Local sources:	
Interest income	\$ 86
Total additions	\$ 86
Deductions:	
Support services:	
Scholarships awarded	\$ -
Change in net assets	\$ 86
Net assets beginning of year	<u>34,865</u>
Net assets end of year	<u>\$ 34,951</u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011

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 the following 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 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. Combining schedules are also included for the Capital Project Fund accounts.

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, 2011

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 and other capital assets.

The Debt Service Fund is utilized to account for property tax and other revenues to be used 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, 2011

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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, 2011

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, 2011

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

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 market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 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, 2011

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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. 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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

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.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, expenditures in the non-instructional programs and other expenditures areas exceeded the amounts budgeted.

NOTE 2 - CASH AND POOLED INVESTMENTS:

The District's deposits in banks at June 30, 2011 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, 2011

NOTE 3 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2011 was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 806,888	\$ -	\$ -	\$ 806,888
Construction in progress	<u>1,123,558</u>	<u>6,175,121</u>	<u>-</u>	<u>7,298,679</u>
Total capital assets not being depreciated	<u>\$ 1,930,446</u>	<u>\$ 6,175,121</u>	<u>\$ -</u>	<u>\$ 8,105,567</u>
Capital assets being depreciated:				
Buildings	\$ 4,998,838	\$ -	\$ -	\$ 4,998,838
Improvements other than buildings	1,189,449	53,706	-	1,243,155
Furniture and equipment	<u>1,631,557</u>	<u>17,000</u>	<u>-</u>	<u>1,648,557</u>
Total capital assets being depreciated	<u>\$ 7,819,844</u>	<u>\$ 70,706</u>	<u>\$ -</u>	<u>\$ 7,890,550</u>
Less accumulated depreciation for:				
Buildings	\$ 2,288,542	\$ 105,855	\$ -	\$ 2,394,397
Improvements other than buildings	420,653	32,932	-	453,585
Furniture and equipment	<u>1,036,796</u>	<u>96,445</u>	<u>-</u>	<u>1,133,241</u>
Total accumulated depreciation	<u>\$ 3,745,991</u>	<u>\$ 235,232</u>	<u>\$ -</u>	<u>\$ 3,981,223</u>
Total capital assets being depreciated, net	<u>\$ 4,073,853</u>	<u>\$ (164,526)</u>	<u>\$ -</u>	<u>\$ 3,909,327</u>
Governmental activities capital assets, net	<u>\$ 6,004,299</u>	<u>\$ 6,010,595</u>	<u>\$ -</u>	<u>\$ 12,014,894</u>
Business-type activities:				
Furniture and equipment	\$ 83,522	\$ -	\$ -	\$ 83,522
Less accumulated depreciation	<u>40,561</u>	<u>5,612</u>	<u>-</u>	<u>46,173</u>
Business-type activities capital assets, net	<u>\$ 42,961</u>	<u>\$ (5,612)</u>	<u>\$ -</u>	<u>\$ 37,349</u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 3 - CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 127,120
Special	21,529
Other	<u>23,291</u>
	<u>\$ 171,940</u>

Support services:

Student	\$ 9,207
Instructional staff	4,751
Administration	24,538
Operation and maintenance of plant	12,545
Transportation	<u>12,251</u>
	<u>\$ 63,292</u>

Total depreciation expense - governmental activities \$ 235,232

Business-type activities:

Food service operations	<u>\$ 5,612</u>
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NOTE 4 - INTERFUND TRANSFERS:

During the year ended June 30, 2011, \$301,705 and \$102,252 were transferred from the Statewide Sales, Services and Use Tax 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.

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

NOTE 5 - DUE FROM AND DUE TO OTHER FUNDS:

The detail of interfund receivables and payables at June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Statewide Sales, Services and Use Tax	Debt Service	<u>\$ 5,085</u>

The Statewide Sales, Services and Use Tax Fund financed short-term cash shortages in the Debt Service fund.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 6 - LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2011 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	\$ 570,000	\$ -	\$ 85,000	\$ 485,000	\$ 90,000
General obligation bonds payable	5,900,000	-	205,000	5,695,000	215,000
School infrastructure sales, services and use tax revenue bonds	3,920,000	-	125,000	3,795,000	130,000
Early retirement	177,359	28,664	56,028	149,995	23,734
Net OPEB liability	<u>64,000</u>	<u>57,400</u>	<u>-</u>	<u>121,400</u>	<u>-</u>
Total	<u>\$ 10,631,359</u>	<u>\$ 86,064</u>	<u>\$ 471,028</u>	<u>\$ 10,246,395</u>	<u>\$ 458,734</u>

General Obligation Capital Loan Note - Details of the District's general obligation capital loan note indebtedness as of June 30, 2011 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>
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
2016	3.75%	<u>105,000</u>	<u>3,938</u>	<u>108,938</u>
Total		<u>\$ 485,000</u>	<u>\$ 50,236</u>	<u>\$ 535,236</u>

General Obligation Bonds Payable - Details of the District's general obligation bonds payable indebtedness as of June 30, 2011 are as follows:

Year Ending	<u>General Obligation Bond Dated May 1, 2010</u>			
<u>June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2016	3.75%	245,000	200,038	445,038
Thereafter	3.75-4.60%	<u>4,550,000</u>	<u>1,584,465</u>	<u>6,134,465</u>
Total		<u>\$ 5,695,000</u>	<u>\$ 2,670,340</u>	<u>\$ 8,365,340</u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED):

School Infrastructure Sales, Services and Use Tax Revenue Bonds - Details of the District's statewide sales, services and use tax revenue bonded indebtedness as of June 30, 2011 are as follows:

Year Ending	Bond Issue of July 1, 2004			Bond Issue of December 1, 2009			Total			
	<u>June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012		4.00%	\$ 130,000	\$ 20,040		\$ -	\$ 149,065	\$ 130,000	\$ 169,105	\$ 299,105
2013		4.05%	135,000	14,706		-	149,065	135,000	163,771	298,771
2014		4.15%	140,000	9,067		-	149,065	140,000	158,132	298,132
2015		4.25%	145,000	3,081		-	149,065	145,000	152,146	297,146
2016			-	-	4.25%	150,000	145,878	150,000	145,878	295,878
Thereafter			-	-	4.25-5.00%	<u>3,095,000</u>	<u>1,125,072</u>	<u>3,095,000</u>	<u>1,125,072</u>	<u>4,220,072</u>
Total			<u>\$ 550,000</u>	<u>\$ 46,894</u>		<u>\$3,245,000</u>	<u>\$1,867,210</u>	<u>\$3,795,000</u>	<u>\$1,914,104</u>	<u>\$5,709,104</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 2015 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 \$5,709,104. For the current year, \$224,423 in principal and interest was paid on the bonds and total statewide sales, services and use tax revenues were \$379,596.

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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED):

- 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, 2011.

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 a percentage of the employee's base salary determined by the employee's consecutive years of service. Early retirement benefits currently offered to new retirees consist of a lump sum cash payment; however, health insurance benefits are being provided to two retirees until they reach age 65.

At June 30, 2011, the District had obligations to two participants with a total liability of \$149,995 extending through the year ending June 30, 2019. Early retirement benefits paid during the year ended June 30, 2011 totaled \$56,028. 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.

NOTE 7 - 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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 7 - PENSION AND RETIREMENT BENEFITS:

Plan members are required to contribute 4.50 percent of their annual covered salary and the District is required to contribute 6.95 percent of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$256,604, \$251,699, and \$234,616, respectively, equal to the required contributions for each year.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 79 active and 6 retired members in the plan. Retired 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, 2011, 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	2,900
Adjustment to annual required contribution	<u>(2,500)</u>
Annual OPEB cost	\$ 103,400
Contributions made	<u>(46,000)</u>
Increase in net OPEB obligation	\$ 57,400
Net OPEB obligation beginning on year	<u>64,000</u>
Net OPEB obligation end of year	<u>\$ 121,400</u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED):

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, 2011.

For the year ended June 30, 2011, the District had an implicit contribution of \$46,000 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, 2011 are summarized as follows:

<u>Year Ended</u> <u>June 20,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2010	\$ 103,000	37.9%	\$ 64,000
2011	103,400	44.5%	121,400

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, 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, 2011, 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.

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED):

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.

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 9 - 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 10 - 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 \$225,531 for the year ended June 30, 2011 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, 2011

NOTE 11 - LEASE COMMITMENT:

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

Year Ended <u>June 30,</u>	Lease <u>Payment</u>
2012	\$ 9,747
2013	8,581
2014	<u>5,725</u>
	<u>\$ 24,053</u>

NOTE 12 - CONSTRUCTION COMMITMENTS:

At June 30, 2011, the District had entered into various construction contracts for the construction of a new elementary school and building improvements totaling \$8,070,156. As of June 30, 2011, costs of \$7,052,116 had been incurred against the contracts. The balance of \$1,018,040 remaining at June 30, 2011 will be paid as work on the project progresses.

NOTE 13 - ACCOUNTS CHANGE/RESTATEMENT:

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital <u>Projects</u>	Special Revenue, Physical Plant and Equipment <u>Levy</u>
Balances June 30, 2010, as previously reported	\$ 8,288,892	\$ 173,178
Change in fund type classification per implementation of GASB Statement No. 54	<u>173,178</u>	<u>(173,178)</u>
Balances July 1, 2010, as restated	<u>\$ 8,462,070</u>	<u>\$ -</u>

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, 2011

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Total Actual</u>
Revenues:			
Local sources	\$ 5,021,652	\$ 326,418	\$ 5,348,070
State sources	2,589,346	2,867	2,592,213
Federal sources	<u>305,078</u>	<u>87,306</u>	<u>392,384</u>
Total revenues	<u>\$ 7,916,076</u>	<u>\$ 416,591</u>	<u>\$ 8,332,667</u>
Expenditures/Expenses:			
Instruction	\$ 4,501,709	\$ -	\$ 4,501,709
Support services	1,657,101	-	1,657,101
Non-instructional programs	-	403,654	403,654
Other expenditures	<u>7,528,598</u>	<u>-</u>	<u>7,528,598</u>
Total expenditures/expenses	<u>\$ 13,687,408</u>	<u>\$ 403,654</u>	<u>\$ 14,091,062</u>
(Deficiency) excess of revenues (under) over expenditures	\$ (5,771,332)	\$ 12,937	\$ (5,758,395)
Other financing sources, net	<u>60,857</u>	<u>-</u>	<u>60,857</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures/expenses	\$ (5,710,475)	\$ 12,937	\$ (5,697,538)
Balances beginning of year	<u>9,593,534</u>	<u>96,800</u>	<u>9,690,334</u>
Balances end of year	<u>\$ 3,883,059</u>	<u>\$ 109,737</u>	<u>\$ 3,992,796</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>
\$ 4,863,122	\$ 4,863,122	\$ 484,948
2,957,407	2,957,407	(365,194)
<u>210,500</u>	<u>210,500</u>	<u>181,884</u>
\$ <u>8,031,029</u>	\$ <u>8,031,029</u>	\$ <u>301,638</u>
\$ 7,862,566	\$ 7,862,566	\$ 3,360,857
2,320,308	2,320,308	663,207
30,000	372,565	(31,089)
<u>330,648</u>	<u>7,395,371</u>	<u>(133,227)</u>
\$ <u>10,543,522</u>	\$ <u>17,950,810</u>	\$ <u>3,859,748</u>
\$ <u>(2,512,493)</u>	\$ <u>(9,919,781)</u>	\$ <u>4,161,386</u>

HINTON COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

YEAR ENDED JUNE 30, 2011

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 \$7,407,288.

During the year ended June 30, 2011, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

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

<u>Year Ended</u> <u>June 30,</u>	<u>Actuarial</u> <u>Valuation Date</u>	<u>Actuarial</u> <u>Value of Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued Liability</u> <u>(AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL (UAAL)</u> <u>(b-a)</u>	<u>Funded Ratio</u> <u>(a/b)</u>
2010	July 1, 2009	\$ -	\$ 561	\$ 561	0.0%
2011	July 1, 2009	\$ -	\$ 561	\$ 561	0.0%

See Note 8 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 DISTRICTCOMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDSJUNE 30, 2011ASSETS

	<u>Special Revenue</u>		
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Total</u>
Cash and pooled investments	\$ 53,190	\$ 157,493	\$ 210,683
Receivables:			
Property tax:			
Delinquent	1,677	-	1,677
Succeeding year	164,999	-	164,999
Accounts	605	-	605
Inventories	-	374	374
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 220,471</u>	<u>\$ 157,867</u>	<u>\$ 378,338</u>

LIABILITIES AND FUND BALANCES

Liabilities:			
Accounts payable	\$ -	\$ 7,165	\$ 7,165
Deferred revenue:			
Succeeding year property tax	<u>164,999</u>	<u>-</u>	<u>164,999</u>
Total liabilities	<u>\$ 164,999</u>	<u>\$ 7,165</u>	<u>\$ 172,164</u>
Fund balances:			
Restricted for:			
Management levy purposes	\$ 55,472	\$ -	\$ 55,472
Student activities	<u>-</u>	<u>150,702</u>	<u>150,702</u>
Total fund balances	<u>\$ 55,472</u>	<u>\$ 150,702</u>	<u>\$ 206,174</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 220,471</u>	<u>\$ 157,867</u>	<u>\$ 378,338</u>

HINTON COMMUNITY SCHOOL DISTRICTCOMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES INFUND BALANCES - NONMAJOR GOVERNMENTAL FUNDSYEAR ENDED JUNE 30, 2011

	<u>Special Revenue</u>		
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Total</u>
Revenues:			
Local sources:			
Local tax	\$ 175,610	\$ -	\$ 175,610
Other	8,284	352,907	361,191
Total revenues	<u>\$ 183,894</u>	<u>\$ 352,907</u>	<u>\$ 536,801</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	\$ 71,800	\$ -	\$ 71,800
Other instruction	-	349,838	349,838
	<u>\$ 71,800</u>	<u>\$ 349,838</u>	<u>\$ 421,638</u>
Support services:			
Instructional staff services	\$ 81,843	\$ -	\$ 81,843
	<u>\$ 81,843</u>	<u>\$ -</u>	<u>\$ 81,843</u>
Total expenditures	<u>\$ 153,643</u>	<u>\$ 349,838</u>	<u>\$ 503,481</u>
Excess of revenues over expenditures	\$ 30,251	\$ 3,069	\$ 33,320
Fund balances beginning of year, as restated	<u>25,221</u>	<u>147,633</u>	<u>172,854</u>
Fund balances end of year	<u>\$ 55,472</u>	<u>\$ 150,702</u>	<u>\$ 206,174</u>

HINTON COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET - CAPITAL PROJECT ACCOUNTS

JUNE 30, 2011

ASSETS

	<u>Capital Projects</u>		
	<u>Statewide Sales, Services and Use Tax</u>	<u>Physical Plant and Equipment Levy</u>	<u>Total</u>
Cash and pooled investments	\$ 2,612,229	\$ 175,915	\$ 2,788,144
Receivables:			
Property tax:			
Delinquent	-	1,549	1,549
Succeeding year	-	175,967	175,967
Due from other governments	72,064	-	72,064
Due from other funds	<u>5,085</u>	<u>-</u>	<u>5,085</u>
 Total assets	 <u>\$ 2,689,378</u>	 <u>\$ 353,431</u>	 <u>\$ 3,042,809</u>

LIABILITIES AND FUND BALANCES

Liabilities:			
Accounts payable	\$ 588,054	\$ -	\$ 588,054
Deferred revenue:			
Succeeding year property tax	-	175,967	175,967
Total liabilities	<u>\$ 588,054</u>	<u>\$ 175,967</u>	<u>\$ 764,021</u>
 Fund balances:			
Restricted for:			
Debt service	\$ 121,000	\$ -	\$ 121,000
School infrastructure	1,980,324	-	1,980,324
Physical plant and equipment	-	177,464	177,464
Total fund balances	<u>\$ 2,101,324</u>	<u>\$ 177,464</u>	<u>\$ 2,278,788</u>
 Total liabilities and fund balances	 <u>\$ 2,689,378</u>	 <u>\$ 353,431</u>	 <u>\$ 3,042,809</u>

HINTON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN

FUND BALANCES - CAPITAL PROJECT ACCOUNTS

YEAR ENDED JUNE 30, 2011

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Revenues:			
Local sources:			
Local tax	\$ 379,596	\$ 167,719	\$ 547,315
Other	<u>67,192</u>	<u>245</u>	<u>67,437</u>
Total revenues	<u>\$ 446,788</u>	<u>\$ 167,964</u>	<u>\$ 614,752</u>
Expenditures:			
Other expenditures:			
Facilities and equipment acquisition	<u>\$ 6,393,508</u>	<u>\$ 61,426</u>	<u>\$ 6,454,934</u>
Total expenditures	<u>\$ 6,393,508</u>	<u>\$ 61,426</u>	<u>\$ 6,454,934</u>
(Deficiency) excess of revenues (under) over expenditures	\$ (5,946,720)	\$ 106,538	\$ (5,840,182)
Other financing sources (uses):			
Transfers to other funds	\$ (301,705)	\$ (102,252)	\$ (403,957)
Insurance recoveries	<u>60,857</u>	<u>-</u>	<u>60,857</u>
Total other financing uses	<u>\$ (240,848)</u>	<u>\$ (102,252)</u>	<u>\$ (343,100)</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures	\$ (6,187,568)	\$ 4,286	\$ (6,183,282)
Fund balances beginning of year	<u>8,288,892</u>	<u>173,178</u>	<u>8,462,070</u>
Fund balances end of year	<u>\$ 2,101,324</u>	<u>\$ 177,464</u>	<u>\$ 2,278,788</u>

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND. STUDENT ACTIVITY ACCOUNTS

YEAR ENDED JUNE 30, 2011

ACCOUNT:	Balance Beginning of Year	Revenues and Interfund Transfers	Expenditures	Intrafund Transfers	Balance End of Year
Interest income	\$ 30,580	\$ 1,748	\$ 7,327	\$ (9,285)	\$ 15,716
Middle school	670	726	690	-	706
Hinton spirit store	6,653	229	813	-	6,069
Athletics	4,889	136,857	142,902	4,928	3,772
Birdie fest project	4,296	3,775	6,175	100	1,996
Physics club	277	-	25	-	252
Superintendents office	739	-	223	183	699
Preschool	56	-	-	-	56
Spanish club	2,177	-	-	182	2,359
Soundsational	13,221	30,646	25,766	(836)	17,265
School nurse	428	-	185	170	413
Speech and drama club	(172)	265	143	50	-
Debate	-	726	550	-	176
National Honor Society	173	597	1,007	237	-
Cheerleaders	2,465	13,422	13,220	-	2,667
Drill team	1,371	2,766	3,295	-	842
Special education	767	-	163	41	645
Math club	309	-	275	421	455
Tag club	693	36	90	68	707
FCCLA	1,197	7,940	8,906	2,191	2,422
Instrumental music	4,017	1,554	1,838	-	3,733
Vocal music	1,272	1,812	1,486	-	1,598
Music fund raiser	-	15,438	9,695	-	5,743
Musical	940	-	884	-	56
Elementary music project	90	284	289	-	85
Junior class fund	1,591	12,917	10,094	(1,574)	2,840
Senior class fund	546	-	1,305	1,444	685
Yearbook	4,411	16,028	17,399	287	3,327
High school student council	1,449	3,478	3,339	66	1,654
Middle school student council	1,532	1,999	2,274	42	1,299
Elementary student council	462	1,066	996	309	841
Elementary miscellaneous	1,067	750	1,031	170	956
Sophomore class fund	-	-	-	572	572
Elementary trips	(8)	-	-	8	-
Wings	4,188	-	619	-	3,569
Sixth grade trip	516	838	1,800	553	107
Concession stand	8,257	35,541	17,753	(12,048)	13,997
Soundwaves	2,783	4,649	5,829	150	1,753
Climate culture	7	-	-	185	192
School cents fund	1,869	463	1,674	547	1,205
Music trip student	8,194	10	-	-	8,204
Freshman class fund	-	-	-	431	431
Wrestling cheerleaders	131	5,344	5,300	245	420
Fourth grade project	421	-	-	152	573
Second grade activity	298	-	-	-	298
Pop fund	1,792	2,091	1,778	98	2,203
First grade reading/math	1,322	-	478	310	1,154
Book fair	5,554	8,311	8,878	487	5,474
Play	409	920	339	-	990
Global days of service	4,283	-	4,283	-	-
Kindergarten project	625	-	-	-	625
HCEA	-	100	-	464	564
Hinton School projects	11,373	13,442	3,181	133	21,767
Boys basketball fundraiser	1,238	964	1,982	-	220
Transitional kindergarten	73	-	138	486	421
English co-curricular	488	-	-	-	488
5th grade project	182	-	112	110	180
Reading recovery	976	-	198	300	1,078
D.E.C.A.	3,345	17,927	19,058	598	2,812
Show choir outfits	(135)	7,248	13,579	6,466	-
Playground	167	-	-	-	167
Elementary special education	1,119	-	474	559	1,204
Total	\$ 147,633	\$ 352,907	\$ 349,838	\$ -	\$ 150,702

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
<u>ASSETS</u>				
Cash and pooled investments	\$ 1,294	\$ 48,572	\$ 49,775	\$ 91
Total assets	<u>\$ 1,294</u>	<u>\$ 48,572</u>	<u>\$ 49,775</u>	<u>\$ 91</u>
<u>LIABILITIES</u>				
Due to others	\$ 1,294	\$ 48,572	\$ 49,775	\$ 91
Total liabilities	<u>\$ 1,294</u>	<u>\$ 48,572</u>	<u>\$ 49,775</u>	<u>\$ 91</u>

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS

FOR THE LAST EIGHT YEARS

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 3,292,554	\$ 2,459,916	\$ 2,448,614	\$ 2,336,336	\$ 2,367,963	\$ 2,328,933	\$ 2,215,234	\$ 2,003,123
Tuition	1,232,408	1,081,888	974,514	856,571	698,814	530,560	506,980	399,912
Other	496,690	436,483	429,284	509,357	433,537	398,267	276,356	248,127
State sources	2,589,346	2,256,928	2,778,873	2,648,317	2,293,655	2,430,832	2,335,187	2,098,177
Federal sources	305,078	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	60,857	175,104	-	-	-	-	-	-
Sale of equipment	-	-	-	-	-	950	-	-
Total	<u>\$ 7,976,933</u>	<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	\$ 3,328,228	\$ 3,361,698	\$ 3,400,958	\$ 2,921,517	\$ 2,655,474	\$ 2,312,074	\$ 2,128,669	\$ 2,119,644
Special instruction	563,673	495,854	491,428	513,038	338,170	317,089	361,222	356,586
Other instruction	609,808	610,151	599,331	657,471	505,423	665,312	588,864	532,887
Support services:								
Student services	241,052	230,526	231,566	235,818	247,095	242,045	236,670	167,082
Instructional staff services	124,390	117,002	117,902	110,906	102,357	77,879	120,358	52,312
Administration services	642,442	731,971	719,838	644,820	577,894	537,979	510,388	540,771
Operation and maintenance of plant services	328,468	362,281	356,499	496,992	444,525	375,315	485,129	338,435
Transportation services	320,749	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	6,454,934	1,776,635	302,535	252,206	386,705	638,992	444,990	7,992
Long-term debt:								
Principal	415,000	200,000	120,000	110,000	110,000	255,000	215,000	205,000
Interest and fiscal charges	433,133	205,443	33,080	36,590	40,290	49,758	39,828	28,095
AEA flow through	<u>225,531</u>	<u>221,262</u>	<u>203,703</u>	<u>190,931</u>	<u>180,565</u>	<u>163,821</u>	<u>170,233</u>	<u>157,321</u>
Total	<u>\$13,687,408</u>	<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>



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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 23, 2012. 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 our opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 described in the accompanying Schedule of Findings, 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 I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 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 certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the District and other parties to whom the District may report, including federal awarding agencies and pass-through entities, 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 23, 2012
Sioux City, Iowa

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

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

MATERIAL WEAKNESSES:

I-A-11 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 such as by reviewing 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

YEAR ENDED JUNE 30, 2011

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

I-B-11 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.

HINTON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Statutory Reporting

II-A-11 Certified Budget - Expenditures for the year ended June 30, 2011 exceeded the amended certified budget amounts in the non-instruction and other expenditures functions.

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.

II-B-11 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.

II-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-11 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-E-11 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.

II-F-11 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

II-G-11 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

II-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-I-11 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

YEAR ENDED JUNE 30, 2011

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

- II-J-11 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

- II-K-11 Categorical Funding - No instances of categorical funding being used to supplant rather than supplement other funds were noted.

- II-L-11 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 revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 8,288,892	
Revenues/transfers in:			
Sales tax revenues	\$ 379,596		
Other local revenues	67,192		
Insurance recoveries	60,857	<u>507,645</u>	
		<u>\$ 507,645</u>	
Expenditures/transfers out:			
School infrastructure construction	\$ 6,175,121		
Improvements other than building	16,325		
Supplies and equipment	202,062		
Transfers to debt service	301,705	<u>6,695,213</u>	
Ending balance		<u>\$ 2,101,324</u>	

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.