

**HANFORD ELEMENTARY  
SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2006**

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**OF KINGS COUNTY**

**HANFORD, CALIFORNIA**

**JUNE 30, 2006**

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**GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dennis Hill	President	2008
Lupe Hernandez	Vice President	2006
Timothy Revious	Clerk	2008
Robert A. Garcia	Member	2006
Jeff Garner	Member	2006

**ADMINISTRATION**

Rebecca J. Presley	Superintendent
Nancy White	Assistant Superintendent Fiscal Services

# HANFORD ELEMENTARY SCHOOL DISTRICT

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Hanford Elementary School District  
Hanford, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hanford Elementary School District (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2005-06*, issued by the California Education Audit Appeals Panel as regulations. 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 that 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, each major fund, and the aggregate remaining fund information of the Hanford Elementary School District, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006, on our consideration of the District's internal control over financial reporting and on 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 conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison information on page 51, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. 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. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The unaudited supplementary information listed in the table of contents, the Combining Statements - Non-Major Governmental Funds, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vavrinek, Trine, Day & Co., LLP

Fresno, California  
October 20, 2006



# Hanford Elementary School District

## HANFORD ELEMENTARY SCHOOL DISTRICT KINGS COUNTY

### MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

#### INTRODUCTION

714 N. White Street  
P.O. Box 1067  
Hanford, CA 93232

(559) 585-3600

**Superintendent**  
Rebecca J. Presley

**Governing Board**  
Robert A. Garcia  
Jeff Garner  
Lupe Hernandez  
Dennis Hill  
Timothy L. Revious

The Hanford Elementary School District's goal is to provide, in an atmosphere of care and concern, an opportunity for every student to recognize and fully develop his/her particular academic, technical, physical and social skills. Hanford Elementary School District students graduate prepared to continue on to high school.

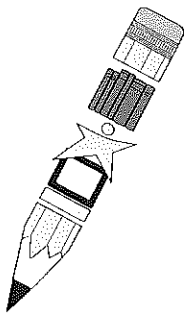
The Management Discussion and Analysis of Hanford Elementary School District's financial statements provide an overall review of the District's financial activities for the fiscal year ended June 30, 2006. This analysis will look at the District's financial performance as a whole. The management discussion and analysis should be reviewed in conjunction with the auditor's transmittal letter, notes to the basic financial statements and the basic governmental wide financial statements to enhance the understanding of the District's financial performance.

The Hanford Elementary School District is a medium-sized rural school district offering instruction to students from kindergarten through eighth grade. During the 2005-06 school year, the District operated eight elementary schools, two junior high schools, and one community day school on the traditional August through June schedule, for the instruction of approximately 5,500 students.

#### USING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

- This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.
- The Management Discussion and Analysis Statement is provided to assist our citizens, taxpayers and investors in reviewing the District's finances and to show the District's accountability for the money it receives.

*In Relentless  
Pursuit  
of Knowledge*



# HANFORD ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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### FINANCIAL HIGHLIGHTS

The Hanford Elementary School District's Government-wide Statement of Net Assets illustrates total net assets of \$29 million, the result of assets of \$48 million minus liabilities of \$19 million.

- General Revenues accounted for \$34.8 million or 60 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$23.1 million or 39 percent of total revenues of \$58.2 million.
- The District had \$47 million in expenses related to governmental activities.
- The General Fund reported a positive fund balance of \$3,246,947.

### STUDENT ENROLLMENT & DEMOGRAPHIC TRENDS

- The School District has an enrollment of approximately 5,500 students for the current 2005-06 school year, with enrollment projected to increase slightly in the immediate future.
- In addition to tracking enrollment, the District also watches actual Average Daily Attendance (ADA). The ADA is typically lower than a District's enrollment, although the two terms are often (though incorrectly) used interchangeably. The anticipated 2006-07 ADA for the District is 5,273. The ratio of actual attendance to enrollment summarizes the District's changes and efforts to increase attendance. Figure 1 summarizes a historical analysis of the District's enrollment to actual positive attendance ratios.

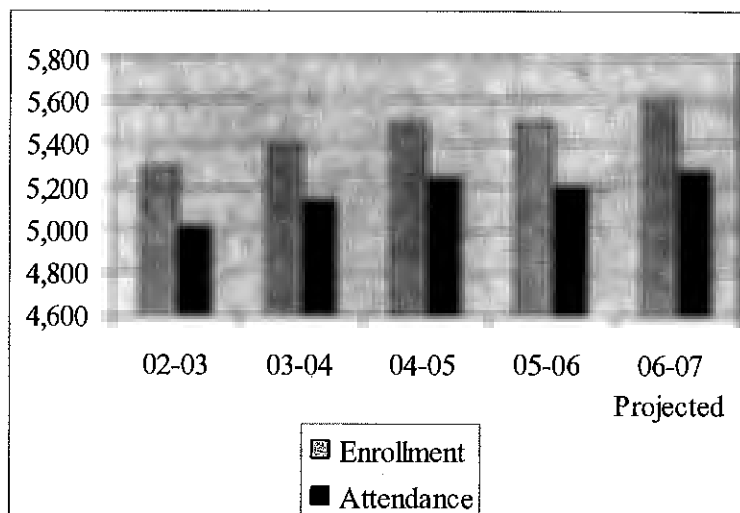


Figure 1. District Enrollment to Actual Attendance Ratios

# HANFORD ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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- School districts have traditionally placed great importance on the accurate projection of student enrollment for the ensuing budget year, due to the broad range of funding and programs impacted by this number. These impacts range from the very basic funding for California school districts which calculates the number of days attended by the enrolled students times a unique "base revenue limit amount" (in most districts, this is between \$4,000 and \$6,000 per ADA; for 2005-06 the School District revenue Limit amount is approximately \$5,004.97), to how much a particular special program will receive, to the amount of one-time monies a district may receive. Increased ADA is intended to generate additional dollars to help offset normal inflationary costs of operating the business of education, and related growth cost for the additional enrollment.

### REPORTING THE DISTRICT AS A WHOLE

- THE STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" "The Statement of Net Assets and the Statement of Activities" reports information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Hanford Elementary School District's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors, such as property tax base, current property tax laws, student enrollment, and facility conditions in arriving at their conclusion regarding the overall health of the District.

- FUND FINANCIAL FUNDS

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various provisions. The District's three types of funds, governmental, proprietary, and fiduciary use different accounting approaches as further described in the notes to the financial statements.

- GOVERNMENTAL FUNDS

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called

# HANFORD ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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modified accrual accounting. Governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's program. The Relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the notes to the financial statements.

Governmental funds include most of the major funds of the District. A more detailed discussion of Governmental funds follows.

- PROPRIETARY FUNDS

Proprietary funds use the same basis of accounting as business-type activities, therefore the statements will essentially match. Our District has only one such Internal Service Fund – the Self-Insurance Employee Benefits – Dental Fund.

- FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs. The District uses an agency fund to account for resources held for student activities and groups. These funds include Student Body funds for the two junior high schools.

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

- NOTES TO THE FINANCIAL STATEMENTS

The notes provided additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

- THE DISTRICT AS A WHOLE

The "Statement of Net Assets" provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets for fiscal years 2005-06 and 2004-05, respectively.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

Table 1. Net Assets

(Amounts in millions)	Governmental Activities		Difference over/(under)
	2006	2005	
Current and other assets	\$ 13.5	\$ 15.9	\$ (2.4)
Capital assets	34.2	23.9	10.3
<b>Total Assets</b>	<b>47.7</b>	<b>39.8</b>	<b>7.9</b>
Current liabilities	5.9	8.5	(2.6)
Long-term obligations	13.0	13.8	(0.8)
<b>Total Liabilities</b>	<b>18.9</b>	<b>22.3</b>	<b>(3.4)</b>
Net assets			
Invested in capital assets, net of related debt	21.4	10.4	11.0
Restricted	4.3	4.3	-
Unrelated	3.1	2.8	0.3
<b>Total Net Assets</b>	<b>\$ 28.8</b>	<b>\$ 17.5</b>	<b>\$ 11.3</b>

Table 2 shows the changes in net assets for fiscal years 2005-06 and 2004-05, respectively.

Table 2. Changes in Net Assets

(Amounts in millions)	Governmental Activities		Difference over/(under)
	2005-06	2004-05	
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 0.3	\$ 0.4	\$ (0.1)
Operating grants and contributions	12.6	11.2	1.4
Capital grants and contributions	10.4	0.1	10.3
General revenues:			
State revenue limit sources	28.5	27.1	1.4
Property taxes	2.8	2.9	(0.1)
Other general revenues	3.6	4.0	(0.4)
<b>Total Revenues</b>	<b>58.2</b>	<b>45.7</b>	<b>12.5</b>
<b>Expenses</b>			
Instruction related	30.6	28.2	2.4
Student support services	5.9	5.4	0.5
Administration	3.3	3.2	0.1
Maintenance and operations	5.1	5.2	(0.1)
Other	2.1	2.1	-
<b>Total Expenses</b>	<b>47.0</b>	<b>44.1</b>	<b>2.9</b>
<b>Change in Net Assets</b>	<b>\$ 11.2</b>	<b>\$ 1.6</b>	<b>\$ 9.6</b>

# HANFORD ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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### GOVERNMENTAL FUNDS

- The District's Governmental Funds include Special Revenue Funds for Child Development, Deferred Maintenance and Cafeteria, Debt Service Funds for repayments of general obligation bonds, Capital Projects Funds, and most importantly, the General Fund. Figure 2 summarizes District Revenue by source of the District's Governmental Funds. Figure 3 summarize the District's Governmental Expenditures by function.

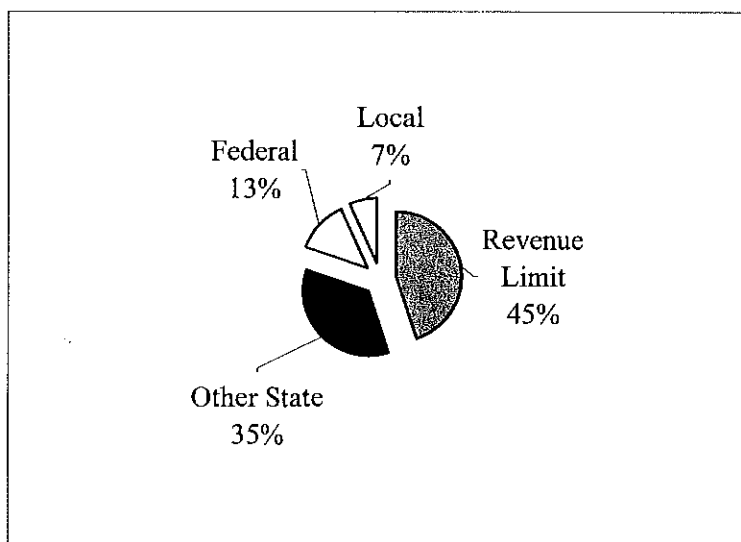


Figure 2. Revenues by Source

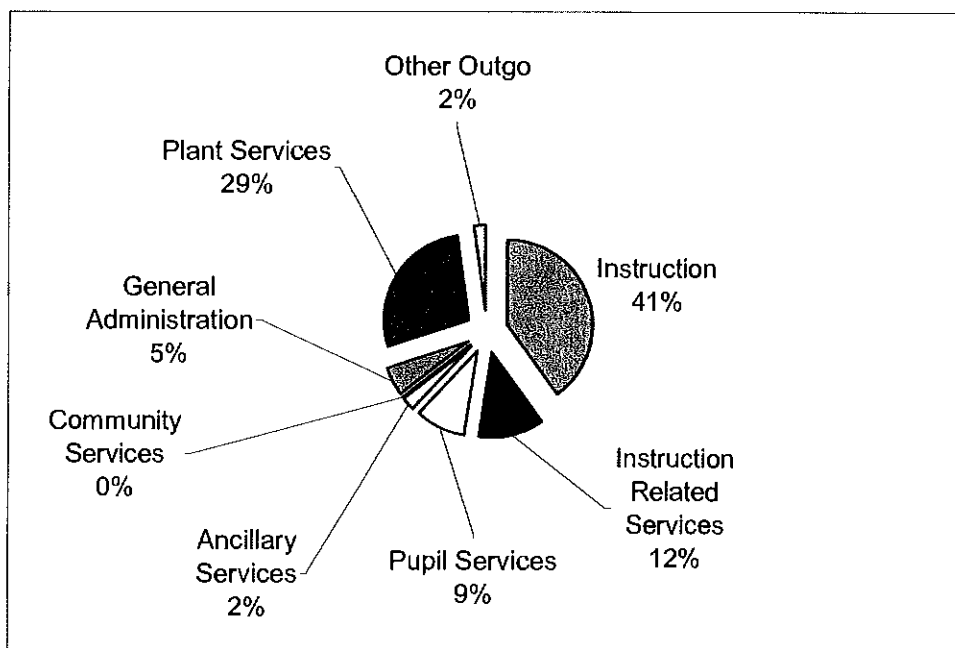


Figure 3. Expenditures by Function

# HANFORD ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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### GENERAL FUND BUDGET INFORMATION

The District's budget is prepared in accordance with California law and is based on the cash basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The District begins the budget process in January of each year, to be completed by June 30. After updating of the forecast for changes in revenue and expenditure assumptions, the operating budget begins at the school level. Each school in the District receives a per pupil allocation augmented with resources for special education students. The schools and departments provide input to the superintendent and to Fiscal Services for their budget needs. The site and department budgets are reviewed monthly to ensure management becomes aware of any significant variations during the year.

- GENERAL FUND BUDGET VARIATIONS

In June of each year, a Budget is adopted by the District's Board of Trustees, effective July 1 through June 30. The Budget is based on year-ending projections from the previous year's budget. As the school year progresses, the Budget is revised and updated, with numerous financial reports made public outlining the revisions. Finally, in August of the following year, the books are closed for the July 1 – June 30 fiscal year, and the results are audited, yielding actual final numbers.

There are several reasons for Budget revisions. Most notable are any salary increases granted by the Board of Trustees for district employees for the original budget does not presume salary increases unless they have already been agreed to in a multi-year contract. Also, any changes in the number of staff and/or staff utilization of health and welfare benefits that vary from the original projections would also yield budget revisions.

The implementation of new instructional or categorical programs can also effect budget projections. For the Hanford Elementary School District, the increased emphasis on closing the achievement gap for all of our students continue to push forward several academic-focused programs that impact expenditures in personnel, instructional materials, outside services and supplies.

The State and Federal budget issues have an impact on the District's budget. As revenues from these two sources change, so do District revenues, since 99% of District revenues come from State and Federal revenue streams.

The final actual numbers of the General Fund that will be certified by February of the next year will be the reflection of the culmination of these several factors.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2006**

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The net difference in fund balance between the final budget and the adopted budget was a decrease of \$1,539,262 and may be summarized as follows:

\$1,073,218 increase in total revenue  
\$2,612,480 increase in total expenditures

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

At June 30, 2005, the District had \$23.9 million in a broad range of capital assets, including land, buildings, and furniture and equipment. At June 30, 2006, the District had \$34.2 million in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions and deductions) of \$10.3 million, or 30 percent, from last year. Table 3 shows the balances for fiscal years 2005-06 and 2004-05.

Table 3. Changes in Net Assets  
(Net of Depreciation)

(Amounts in millions)	Governmental Activities		Difference over/(under)
	2005-06	2004-05	
Land	\$ 2.0	\$ 2.0	\$ -
Buildings and improvements	20.0	20.4	(0.4)
Equipment	0.9	1.0	(0.1)
Construction in Progress	11.3	0.5	10.8
<b>Totals</b>	<b>\$ 34.2</b>	<b>\$ 23.9</b>	<b>\$ 10.3</b>

#### *Construction in Progress included:*

New School - Hamilton	\$ 10,198,272
District Kitchen Modernization	565,632
Jefferson School Cafeteria Remodel	32,780
<b>Total</b>	<b>\$ 10,796,684</b>

#### DEBT

At the end of this year, the District had \$13.0 million in liabilities outstanding versus \$13.7 million last year, a decrease of 5.4 percent. Table 4 summarizes these debts.



**HANFORD ELEMENTARY SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

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Table 4. Outstanding Debt

(Amounts in millions)	Governmental Activities		Difference over/(under)
	2005-06	2004-05	
General obligation bonds	\$ 12.0	\$ 12.5	\$ (0.5)
Capitalized lease obligations	0.8	1.0	(0.2)
Other	0.2	0.2	-
<b>Total</b>	<b>\$ 13.0</b>	<b>\$ 13.7</b>	<b>\$ (0.7)</b>

**FOR THE FUTURE**

The District's system of budgeting and internal controls is well regarded and it will take all of the District's financial abilities to meet the challenges of the future.

- CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Hanford Elementary School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Nancy White, Assistant Superintendent Fiscal Services, Hanford Elementary School District, P. O. Box 1067, Hanford, CA 93232.

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# HANFORD ELEMENTARY SCHOOL DISTRICT

## STATEMENT OF NET ASSETS JUNE 30, 2006

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 8,407,780
Receivables	4,522,652
Prepaid expenses	368,459
Stores inventories	260,443
Nondepreciable capital assets	13,295,973
Depreciable capital assets	34,874,941
Accumulated depreciation	<u>(13,973,150)</u>
<b>Total Assets</b>	<u>47,757,098</u>
<b>LIABILITIES</b>	
Accounts payable	5,518,191
Deferred revenue	410,894
Current portion of long-term obligations	972,140
Noncurrent portion of long-term obligations	<u>12,067,006</u>
<b>Total Liabilities</b>	<u>18,968,231</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	21,367,970
Restricted for:	
Debt service	658,974
Capital projects	1,519,517
Educational programs	705,935
Other activities	1,414,510
Unrestricted	<u>3,121,961</u>
<b>Total Net Assets</b>	<u>\$ 28,788,867</u>

The accompanying notes are an integral part of these financial statements.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction	\$ 23,306,726	\$ -	\$ 3,428,644	\$ 10,454,538
Instruction-related activities:				
Supervision of instruction	2,655,367	-	1,516,707	-
Instructional library, media and technology	480,585	-	30,450	-
School site administration	4,069,020	-	607,327	-
Pupil services:				
Home-to-school transportation	959,886	-	198,197	-
Food services	1,969,821	280,523	1,465,177	-
All other pupil services	3,008,276	-	1,505,176	-
General administration:				
Data processing	302,434	-	6,617	-
All other general administration	2,984,701	14,634	990,668	-
Plant services	5,120,540	-	140,871	-
Ancillary services	1,419,529	-	1,293,156	-
Community services	49,632	-	47,859	-
Interest on long-term obligations	421,350	-	-	-
Other outgo	168,955	-	1,378,225	-
<b>Total Governmental-Type Activities</b>	<b>\$ 46,916,822</b>	<b>\$ 295,157</b>	<b>\$ 12,609,074</b>	<b>\$ 10,454,538</b>
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Miscellaneous				
<b>Subtotal, General Revenues</b>				
<b>Change in Net Assets</b>				
Net Assets - Beginning				
Net Assets - Ending				

The accompanying notes are an integral part of these financial statements.

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**Net (Expenses)  
Revenues and  
Changes in  
Net Assets**

**Governmental  
Activities**

\$	(9,423,544)
	(1,138,660)
	(450,135)
	(3,461,693)
	(761,689)
	(224,121)
	(1,503,100)
	(295,817)
	(1,979,399)
	(4,979,669)
	(126,373)
	(1,773)
	(421,350)
	1,209,270
	<u>(23,558,053)</u>
	1,573,764
	1,191,606
	28,451,089
	277,884
	<u>3,334,950</u>
	<u>34,829,293</u>
	11,271,240
	<u>17,517,627</u>
\$	<u><u>28,788,867</u></u>

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2006**

	<b>General Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 3,956,220	\$ 1,112,279	\$ 1,043,041
Receivables	3,705,054	256,832	-
Due from other funds	66,039	-	-
Prepaid expenses	-	-	-
Stores inventories	229,602	-	-
<b>Total Assets</b>	<b>\$ 7,956,915</b>	<b>\$ 1,369,111</b>	<b>\$ 1,043,041</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	4,299,074	138,754	753,881
Due to other funds	-	-	-
Deferred revenue	410,894	-	-
<b>Total Liabilities</b>	<b>4,709,968</b>	<b>138,754</b>	<b>753,881</b>
<b>FUND BALANCES</b>			
Reserved	940,587	-	-
Unreserved:			
Designated	1,620,000	-	-
Undesignated, reported in:			
General Fund	686,360	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	1,230,357	289,160
<b>Total Fund Balance</b>	<b>3,246,947</b>	<b>1,230,357</b>	<b>289,160</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,956,915</b>	<b>\$ 1,369,111</b>	<b>\$ 1,043,041</b>

The accompanying notes are an integral part of these financial statements.

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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 2,134,218	\$ 8,245,758
552,926	4,514,812
-	66,039
800	800
30,841	260,443
<u>\$ 2,718,785</u>	<u>\$ 13,087,852</u>
189,716	5,381,425
66,039	66,039
-	410,894
<u>255,755</u>	<u>5,858,358</u>
32,546	973,133
357,000	1,977,000
-	686,360
1,414,510	1,414,510
658,974	658,974
-	1,519,517
<u>2,463,030</u>	<u>7,229,494</u>
<u>\$ 2,718,785</u>	<u>\$ 13,087,852</u>

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**HANFORD ELEMENTARY SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006**

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**Amounts Reported for Governmental Activities in the Statement  
of Net Assets are Different Because:**

<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 7,229,494</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 48,170,914	
Accumulated depreciation is	<u>(13,973,150)</u>	
Total capital assets		34,197,764
Expenditures relating to issuance of debt were recognized in modified accrual basis, but should not be recognized in accrual basis.		367,659
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. Internal service fund net assets are:		33,096
Long-term liabilities, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
General obligation bonds	(11,986,448)	
Capital lease obligations	(829,754)	
Compensated absences	(209,352)	
Unamortized premium on bond issue	<u>(13,592)</u>	
Total long-term liabilities		<u>(13,039,146)</u>
<b>Total Net Assets - Governmental Activities</b>		<b><u>\$ 28,788,867</u></b>

The accompanying notes are an integral part of these financial statements.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Capital Facilities Fund	County School Facilities Fund
<b>REVENUES</b>			
Revenue limit sources	\$ 26,259,273	\$ -	\$ -
Federal sources	5,849,109	-	-
Other state sources	9,556,931	-	10,278,758
Other local sources	941,207	1,183,918	175,781
<b>Total Revenues</b>	<u>42,606,520</u>	<u>1,183,918</u>	<u>10,454,539</u>
<b>EXPENDITURES</b>			
Current			
Instruction	23,032,156	-	-
Instruction-related activities:			
Supervision of instruction	2,646,529	-	-
Instructional library, media and technology	480,585	-	-
School site administration	4,071,817	-	-
Pupil Services:			
Home-to-school transportation	531,980	-	-
Food services	1,624	-	-
All other pupil services	2,990,579	-	-
General administration:			
Data processing	302,434	-	-
All other general administration	2,701,814	28,202	-
Plant services	4,532,241	350,155	-
Facility acquisition and construction	66,931	165,646	10,165,379
Ancillary services	1,419,529	-	-
Community services	49,632	-	-
Debt service			
Principal	93,747	75,775	-
Interest and other	49,786	25,794	-
<b>Total Expenditures</b>	<u>42,971,384</u>	<u>645,572</u>	<u>10,165,379</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(364,864)</u>	<u>538,346</u>	<u>289,160</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	27,965	-	-
Transfers out	(220,000)	-	-
Other uses	(168,955)	-	-
<b>Net Financing Sources (Uses)</b>	<u>(360,990)</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(725,854)</u>	<u>538,346</u>	<u>289,160</u>
<b>Fund Balance - Beginning</b>	3,972,801	692,011	-
<b>Fund Balance - Ending</b>	<u>\$ 3,246,947</u>	<u>\$ 1,230,357</u>	<u>\$ 289,160</u>

The accompanying notes are an integral part of these financial statements.

<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 26,259,273
1,735,884	7,584,993
587,673	20,423,362
1,619,528	3,920,434
<u>3,943,085</u>	<u>58,188,062</u>
216,675	23,248,831
6,285	2,652,814
-	480,585
11,438	4,083,255
-	531,980
1,935,836	1,937,460
269	2,990,848
-	302,434
117,611	2,847,627
128,496	5,010,892
642,410	11,040,366
-	1,419,529
-	49,632
545,800	715,322
539,183	614,763
<u>4,144,003</u>	<u>57,926,338</u>
<u>(200,918)</u>	<u>261,724</u>
220,000	247,965
(27,965)	(247,965)
-	(168,955)
<u>192,035</u>	<u>(168,955)</u>
(8,883)	92,769
2,471,913	7,136,725
<u>\$ 2,463,030</u>	<u>\$ 7,229,494</u>

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006**

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<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>92,769</b>
<b>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</b>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.		
This is the amount by which capital outlays exceeds depreciation in the period.		
Capital outlays	\$11,157,082	
Depreciation expense	<u>(904,252)</u>	10,252,830
Loss on disposal of capital assets is reported in the government-wide statement of net assets, but is not recorded in the governmental funds.		
		(6,339)
In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there are no special termination benefits. Vacation used was less than the amounts earned by \$8,428.		
		(8,428)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities:		
General obligation bonds		545,800
Capital lease obligations		169,522
Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:		
Amortization of debt premium	1,133	
Amortization of cost of issuance	<u>(33,625)</u>	
Combined adjustment		(32,492)

The accompanying notes are an integral part of these financial statements.

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2006**

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Interest on long-term obligations in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the result of accrued interest on the general obligation bonds and capital lease obligations.

\$ 225,905

An internal service fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.

31,673

**Change in Net Assets of Governmental Activities**

\$ 11,271,240

The accompanying notes are an integral part of these financial statements.

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
Current Assets	
Deposits and investments	\$ 162,022
Receivables	7,840
Total Assets	<u>169,862</u>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts payable	136,766
Total Current Liabilities	<u>136,766</u>
<b>NET ASSETS</b>	
Unrestricted	33,096
Total Net Assets	<u>\$ 33,096</u>

The accompanying notes are an integral part of these financial statements.

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>OPERATING REVENUES</b>	
Charges to other funds and miscellaneous revenues	\$ 513,024
Total Operating Revenues	<u>513,024</u>
<b>OPERATING EXPENSES</b>	
Professional and contract services	<u>484,251</u>
Total Operating Expenses	<u>484,251</u>
Operating Income (Loss)	<u>28,773</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	<u>2,900</u>
Total Nonoperating Revenues (Expenses)	<u>2,900</u>
<b>Change in Net Assets</b>	<u>31,673</u>
<b>Total Net Assets - Beginning</b>	<u>1,423</u>
<b>Total Net Assets - Ending</b>	<u><u>\$ 33,096</u></u>

The accompanying notes are an integral part of these financial statements.

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from premiums	\$ 497,570
Cash payments for insurance claims	(484,251)
Net Cash Provided (Used) for Operating Activities	13,319
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	2,900
Net Cash Provided (Used) from Investing Activities	2,900
Net increase in cash and cash equivalents	16,219
Cash and cash equivalents - Beginning	145,803
Cash and cash equivalents - Ending	\$ 162,022
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>	
Operating income (loss)	28,773
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Receivables	(7,840)
Accrued liabilities	(7,614)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 13,319

The accompanying notes are an integral part of these financial statements.



**HANFORD ELEMENTARY SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2006**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 21,813
<b>Total Assets</b>	<u>\$ 21,813</u>
 <b>LIABILITIES</b>	
Due to student groups	21,813
<b>Total Liabilities</b>	<u>\$ 21,813</u>

The accompanying notes are an integral part of these financial statements.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Hanford Elementary School District was organized under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates ten schools.

A reporting entity is comprised of the primary government and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Hanford Elementary School District, this includes general operations, food service, and student related activities of the District.

#### Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

#### Other Related Entities

**Joint Powers Agencies** The District is associated with three joint powers agencies. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 17 to the financial statements. These organizations are:

Self-Insured Schools of California (SISC II)  
Self-Insured Schools of California (SISC III)  
Kings County Self-Insured Schools

#### Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

---

### Major Governmental Funds

**General Fund** The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

**Capital Facilities Fund** The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

**County School Facilities Fund** The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following special revenue funds:

**Child Development Fund** The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

**Cafeteria Fund** The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

**Pupil Transportation Equipment Fund** The Pupil Transportation Equipment Fund is used to account for resources committed to the acquisition, rehabilitation, or replacement of equipment used to transport students.

**Special Reserve Fund for Other than Capital Outlay** The Special Reserve Fund for Other than Capital Outlay is used to provide for the accumulation of General Fund monies for general operating purposes.

**Debt Service Funds** The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains the following debt service fund:

**Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

---

**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following internal service fund:

**Internal Service Fund** Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a Self-Insurance Fund for dental coverage that is accounted for in an internal service fund.

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is agency funds.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues of the District and for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

---

**Governmental Funds** All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Proprietary Funds** Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

**Deferred Revenue** Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

---

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

### **Investments**

Investments held at June 30, 2006, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county pools are determined by the program sponsor.

### **Restricted Assets**

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund represents cash and cash equivalents required by State covenants to be set aside by the District for the purpose of satisfying certain requirements of the entitlement.

### **Prepaid Expenditures**

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

### **Stores Inventory**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental column of the statement of net assets.

### Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets as long-term obligations. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

### **Deferred Issuance Costs, Premiums and Discounts**

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

### **Fund Balance Reserves and Designations**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories, and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties and other purposes.

### **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$4,298,936 of restricted net assets, of which \$4,040,277 is restricted by enabling legislation.

### **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are dental premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.



# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Kings bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

### New Accounting Pronouncements

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

In June 2005, the GASB issued GASBS No. 47, *Accounting for Termination Benefits*. GASBS No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASBS No. 47 should be applied simultaneously with the requirements of GASBS No. 45. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, GASBS No. 47 is effective for financial statements for periods beginning after June 15, 2005. Earlier application of GASBS No. 47 is encouraged.

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2006, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 8,407,780
Fiduciary funds	21,813
Total Deposits and Investments	<u>\$ 8,429,593</u>

Deposits and investments as of June 30, 2006, consist of the following:

Cash on hand and in banks	\$ 22,068
Cash with fiscal agent	7,000
Cash in revolving	5,955
Investments	8,394,570
Total Deposits and Investments	<u>\$ 8,429,593</u>

#### Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

**Investment in County Treasury** - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

### General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

### Authorized Under Debt Agreements

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Investment contract	One year	None	None

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

### Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 7,593,178	\$ 7,593,178	\$ -	\$ -	\$ -
Held by Trustee:					
Investment Contract	801,392	801,392	-	-	-
Total	<u>\$ 8,394,570</u>	<u>\$ 8,394,570</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
County Pool	\$ 7,593,178	N/A	\$ -	\$ -	\$ 7,593,178
Held by Trustee:					
Investment Contract	801,392	N/A	-	-	801,392
Total	<u>\$ 8,394,570</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,394,570</u>

N/A - Not applicable

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. Investments in any one issuer that represent five percent or more of the total investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Piper Jaffray	Investment Contract	<u>\$ 801,392</u>

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2006, none of the District's bank balance of \$32,744 was exposed to custodial credit risk.

### Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in an investment contracts of \$801,392, the District has a custodial credit risk exposure of \$801,392 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities.

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2006, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government					
Categorical aid	\$ 741,941	\$ -	\$ 270,591	\$ -	\$ 1,012,532
State Government					
Apportionment	1,719,987	-	-	-	1,719,987
Categorical aid	493,934	-	-	-	493,934
Lottery	195,521	-	-	-	195,521
Other state	-	-	273,727	-	273,727
Local Government					
Interest	4,245	-	-	-	4,245
Other Local Sources	549,426	256,832	8,608	7,840	822,706
Total	<u>\$ 3,705,054</u>	<u>\$ 256,832</u>	<u>\$ 552,926</u>	<u>\$ 7,840</u>	<u>\$ 4,522,652</u>

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>Governmental Activities</b>				
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 1,998,215	\$ 400	\$ -	\$ 1,998,615
Construction in process	500,674	10,796,684	-	11,297,358
Total Capital Assets Not Being Depreciated	<u>2,498,889</u>	<u>10,797,084</u>	<u>-</u>	<u>13,295,973</u>
<b>Capital Assets Being Depreciated</b>				
Land improvements	4,611,190	66,348	-	4,677,538
Buildings and improvements	26,686,693	176,934	-	26,863,627
Furniture and equipment	3,225,837	116,716	8,777	3,333,776
Total Capital Assets Being Depreciated	<u>34,523,720</u>	<u>359,998</u>	<u>8,777</u>	<u>34,874,941</u>
<b>Less Accumulated Depreciation</b>				
Land improvements	3,020,121	158,411	-	3,178,532
Buildings and improvements	7,844,626	538,106	-	8,382,732
Furniture and equipment	2,206,589	207,735	2,438	2,411,886
Total Accumulated Depreciation	<u>13,071,336</u>	<u>904,252</u>	<u>2,438</u>	<u>13,973,150</u>
<b>Governmental Activities Capital Assets, Net</b>	<u><u>\$23,951,273</u></u>	<u><u>\$10,252,830</u></u>	<u><u>\$ 6,339</u></u>	<u><u>\$34,197,764</u></u>

Depreciation expense was charged to the following functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 106,399
Supervision of instruction	2,553
Home-to-school transportation	427,906
Food services	58,415
All other pupil services	17,428
All other general administration	146,385
Plant services	145,166
Total Depreciation Expenses Governmental Activities	<u><u>\$ 904,252</u></u>

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

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**NOTE 5 - INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances at June 30, 2006, are as follows:

	Interfund Receivables	Interfund Payables
General	\$ 66,039	\$ -
Child Development	-	66,039
Total	<u>\$ 66,039</u>	<u>\$ 66,039</u>

**Operating Transfers**

Interfund transfers for the year ended June 30, 2006, consisted of the following:

The General Fund transferred to the Deferred Maintenance Fund for the District match.	\$ 220,000
The Pupil Transportation Fund transferred to the General Fund for a repayment of proceeds.	<u>27,965</u>
Total	<u>\$ 247,965</u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 6 - PREPAID EXPENDITURES**

Prepaid expenditures at June 30, 2006, consisted of the following:

Food service - Non-Major Governmental Funds	\$ 800
Debt issuance costs - Government-Wide Statements	<u>367,659</u>
Total Government-Wide Statements	<u>\$ 368,459</u>



**HANFORD ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2006, consisted of the following:

	General Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$1,376,843	\$138,754	\$ 753,881	\$ 189,716	\$136,766	\$ 2,595,960
Salaries and benefits	1,825,032	-	-	-	-	1,825,032
Federal categorical	300,999	-	-	-	-	300,999
State categorical	1,200	-	-	-	-	1,200
Tax and revenue anticipation note	795,000	-	-	-	-	795,000
Total	<u>\$4,299,074</u>	<u>\$138,754</u>	<u>\$ 753,881</u>	<u>\$ 189,716</u>	<u>\$136,766</u>	<u>\$ 5,518,191</u>

**NOTE 8 - DEFERRED REVENUE**

Deferred revenue at June 30, 2006, consists of the following:

	General Fund
Federal financial assistance	\$ 311,459
State categorical aid	58,544
Other local	40,891
Total	<u>\$ 410,894</u>

**NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)**

At July 1, 2005, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$3,520,000, which matured on July 6, 2005. On July 6, 2005, the District issued \$795,000 Tax and Revenue Anticipation Notes bearing interest at 2.6 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 6, 2006. By June 30, 2006, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. The District has recorded the cash available to make the principal and interest payments as Cash with Fiscal Agent and with the corresponding liability as a current loan.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2006**

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes are as follows:

Issue Date	Rate	Maturity Date	Outstanding			Outstanding June 30, 2006
			July 1, 2005	Additions	Payments	
July 6, 2005	2.60%	July 6, 2006	\$ -	\$ 795,000	\$ -	\$ 795,000
July 6, 2004	1.60%	July 6, 2005	3,520,000	-	3,520,000	-
Total			<u>\$3,520,000</u>	<u>\$ 795,000</u>	<u>\$3,520,000</u>	<u>\$ 795,000</u>

### NOTE 10 - LONG-TERM OBLIGATIONS

#### Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance			Balance June 30, 2006	Due in One Year
	July 1, 2005	Additions	Deductions		
General obligation bonds-1993	\$ 1,377,248	\$ -	\$ 90,800	\$ 1,286,448	\$ 94,889
General obligation bonds-1998	6,940,000	-	150,000	6,790,000	175,000
General obligation bonds-2003	4,215,000	-	305,000	3,910,000	345,000
Unamortized Bond Premium-2003	14,725	-	1,133	13,592	1,133
Accumulated vacation - net	200,924	8,428	-	209,352	209,352
Capital leases	999,276	-	169,522	829,754	146,766
Total	<u>\$13,747,173</u>	<u>\$ 8,428</u>	<u>\$ 716,455</u>	<u>\$ 13,039,146</u>	<u>\$ 972,140</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the Capital leases are made by the Capital Facilities Fund. The accrued vacation will be paid by the fund for which the employee worked.

#### Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds Outstanding June 30, 2006
				Outstanding July 1, 2005	Redeemed	
1993 <sup>1</sup>	2002-2018	5.15-5.8%	<u>\$ 1,750,000</u>	<u>\$ 1,377,248</u>	<u>\$ 90,800</u>	<u>\$ 1,286,448</u>
1998	2001-2024	4.4-5.0%	<u>\$ 7,350,000</u>	<u>\$ 6,940,000</u>	<u>\$ 150,000</u>	<u>\$ 6,790,000</u>
2003	2005-2019	2.0-3.5%	<u>\$ 4,775,000</u>	<u>\$ 4,215,000</u>	<u>\$ 305,000</u>	<u>\$ 3,910,000</u>

<sup>1</sup> Bonds are Capital Appreciation Bonds. No interest payments are due on the bonds until their maturity date at which time, the accreted interest earned on the par value of the bonds are paid in full along with the par value of the bonds.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### Debt Service Requirements to Maturity

#### 1993 Capital Appreciation Bond Issuance

On July 1, 1993, the District issued \$7,500,000 of general obligation bonds in the aggregate. The proceeds from the sale of these bonds were used to finance the acquisition and construction of a new junior high school and for the making of safety improvements to existing school facilities. The bond interest rates range from 5.15 percent to 5.80 percent. A portion of the original 1993 general obligation bond was refunded in 2003 to obtain a lower interest rate.

The annual requirements to amortize the general obligation bonds payable outstanding as of June 30, 2006, are as follows:

<u>Fiscal Year</u>	<u>Accreted Value</u>	<u>Unaccreted Interest</u>	<u>Maturity Value</u>
2007	\$ 94,889	\$ 105,111	\$ 200,000
2008	98,075	121,925	220,000
2009	100,433	139,567	240,000
2010	98,901	151,099	250,000
2011	111,244	188,756	300,000
2012-2016	639,410	1,435,590	2,075,000
2017	143,496	406,504	550,000
Total	<u>\$ 1,286,448</u>	<u>\$ 2,548,552</u>	<u>\$ 3,835,000</u>

#### 1998 General Obligation Bonds

On September 1, 1998, the District issued \$7,350,000 of general obligation bonds in the aggregate. The proceeds from the sale of these bonds are to be used for the acquisition and construction of a new elementary school, the upgrade of classrooms for computer technology to insure internet access, and for safety improvements to existing school facilities. The bond interest rates range from 4.40 percent to 5.00 percent.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The annual requirements to amortize the general obligation bonds payable outstanding as of June 30, 2006, are as follows:

The bonds mature through 2024 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2007	\$ 175,000	\$ 324,191	\$ 499,191
2008	195,000	314,941	509,941
2009	225,000	304,441	529,441
2010	250,000	293,316	543,316
2011	275,000	281,697	556,697
2012-2016	1,770,000	1,183,473	2,953,473
2017-2021	2,255,000	701,289	2,956,289
2022-2024	1,645,000	126,125	1,771,125
Total	<u>\$ 6,790,000</u>	<u>\$ 3,529,473</u>	<u>\$ 10,319,473</u>

### 2003 General Obligation Bonds

The bonds mature through 2019 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2007	\$ 345,000	\$ 108,118	\$ 453,118
2008	335,000	100,899	435,899
2009	330,000	93,005	423,005
2010	320,000	84,880	404,880
2011	315,000	76,549	391,549
2012-2016	1,585,000	245,930	1,830,930
2017-2019	680,000	23,271	703,271
Total	<u>\$ 3,910,000</u>	<u>\$ 732,652</u>	<u>\$ 4,642,652</u>

The bonds were sold at a premium of \$16,991 which will be amortized over the term of the bonds for 15 years at \$1,133 a year. The unamortized premium as of June 30, 2006, amounted to \$13,592. These bonds were originally a part of the 1993 bonds. This portion was refunded in 2003 to obtain a lower interest rate.

The bonds are general obligations of the District, and the Board of Supervisors of the County of Kings has the power and is obligated to levy and collect ad valorem taxes for payments of both principal and interest upon all property located within the Hanford Elementary School District subject to taxation by the District.

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2006, amounted to \$209,352.

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

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**Capital Leases**

The District leases buses and a cafeteria building valued at \$1,481,083 under agreements which provide for title to pass upon expiration of the lease period. The District's liability on lease agreements are summarized below:

	Administration and Library	Buses	Total
Balance, July 1, 2005	\$ 691,527	\$ 307,749	\$ 999,276
Payments	75,775	93,747	169,522
Balance, June 30, 2006	<u>\$ 615,752</u>	<u>\$ 214,002</u>	<u>\$ 829,754</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2007	\$ 179,534
2008	179,534
2009	179,535
2010	101,569
2011	101,569
2012-2013	<u>203,138</u>
Total	944,879
Less: Amount Representing Interest	115,125
Present Value of Minimum Lease Payments	<u>\$ 829,754</u>

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### NOTE 11 - FUND BALANCES

Fund balances with reservations/designations are composed of the following elements:

	General Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Governmental Funds Total	Self Insurance Fund
<b>Reserved</b>						
Revolving cash	\$ 5,050	\$ -	\$ -	\$ 905	\$ 5,955	\$ -
Stores inventory	229,602	-	-	30,841	260,443	-
Prepaid expenditures	-	-	-	800	800	-
Restricted programs	705,935	-	-	-	705,935	-
<b>Total Reserved</b>	<b>940,587</b>	<b>-</b>	<b>-</b>	<b>32,546</b>	<b>973,133</b>	<b>-</b>
<b>Unreserved</b>						
<b>Designated</b>						
Economic uncertainties	1,620,000	-	-	-	1,620,000	-
Other designation	-	-	-	357,000	357,000	-
<b>Total Designated</b>	<b>1,620,000</b>	<b>-</b>	<b>-</b>	<b>357,000</b>	<b>1,977,000</b>	<b>-</b>
<b>Undesignated</b>	<b>686,360</b>	<b>1,230,357</b>	<b>289,160</b>	<b>2,073,484</b>	<b>4,279,361</b>	<b>33,096</b>
<b>Total Unreserved</b>	<b>2,306,360</b>	<b>1,230,357</b>	<b>289,160</b>	<b>2,430,484</b>	<b>6,256,361</b>	<b>33,096</b>
<b>Total</b>	<b>\$3,246,947</b>	<b>\$1,230,357</b>	<b>\$ 289,160</b>	<b>\$ 2,463,030</b>	<b>\$ 7,229,494</b>	<b>\$ 33,096</b>

### NOTE 12 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2006, there were no District major funds that exceeded the budgeted amounts.

### NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits to the following: (1) certificated employees who retire from the District on or after attaining age 55, have served in the District during the last five years and have served a total of at least thirteen years in the District; (2) management/confidential employees who retire from the District on or after attaining age 55, have served in the District during the last five years prior to retirement and have served a total of ten years of full time service in the District. For classified employees who retire from the District on or after attaining age 55, have completed 15 consecutive years of service, and participating in the District group medical insurance program at the time immediately prior to retiring, or prior participation in the group medical insurance program but no longer eligible due to involuntary reduction in hours or 30 years of service. Currently, 37 retirees meet those eligibility requirements.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2006**

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The District pays: (1) the total premium for the health and dental benefits plans for certificated retirees and their dependents until such time as the retiree reaches age 65; (2) 50 percent of the maximum contribution for active classified employees towards the premium for the current District plan for major medical coverage only for the classified retiree and spouse for a period of three years or until reaching age 65, whichever comes first; and (3) an amount equal to that granted active management/confidential employees toward the cost of medical and dental benefits for management/confidential retirees and their eligible dependents, until such time as the retiree reaches age 65. Expenditures for postemployment health care benefits are recognized as retirees report claims. During the year, expenditures of \$321,781 were recognized for retirees' health care benefits.

### **NOTE 14 - RISK MANAGEMENT**

#### **Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2006, the District contracted with Self-Insured Schools of California (SISC II) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### **Workers' Compensation**

For fiscal year 2006, the District participated in the Kings County Self-Insured Schools (KCSIC), an insurance purchasing pool. The intent of KCSIC is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in KCSIC. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in KCSIC. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of KCSIC. Participation in KCSIC is limited to districts that can meet KCSIC's selection criteria.

#### **Employee Medical Benefits**

The District has contracted with the Self-Insured Schools of California (SISC II) to provide employee medical and surgical benefits. Self-Insured Schools of California (SISC II) is a shared risk pool comprised of agencies in California. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### Claims Liabilities

The District records an estimated liability for dental claims paid out of the Self-Insurance Fund of the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

### Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from June 30, 2004 to June 30, 2006 (in thousands):

	<u>Dental Care</u>
Liability Balance, June 30, 2004	\$ 99,655
Claims and changes in estimates	<u>44,725</u>
Liability Balance, June 30, 2005	144,380
Claims and changes in estimates	<u>(7,614)</u>
Liability Balance, June 30, 2006	<u>\$ 136,766</u>
Assets available to pay claims at June 30, 2006	<u><u>\$ 169,862</u></u>

### NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

#### STRS

##### Plan Description

The District contributes to the California State Teachers' Retirement System (STRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Blvd., Sacramento, CA 95826.



# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### **Funding Policy**

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2005-2006 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2006, 2005, and 2004, were \$1,546,341, \$1,437,447, and \$1,393,671, respectively, and equal 100 percent of the required contributions for each year.

### **PERS**

#### **Plan Description**

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

#### **Funding Policy**

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2005-2006 was 9.952 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2006, 2005, and 2004, were \$739,592, \$686,395, and \$702,973, respectively, and equal 100 percent of the required contributions for each year.

#### **Social Security**

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security. Contributions made by the District and an employee vest immediately. The District contributes 6.0 percent of an employee's gross earnings. An employee is required to contribute 6.0 percent of his or her gross earnings Social Security.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$846,643 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2006. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

### NOTE 16 - COMMITMENTS AND CONTINGENCIES

#### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

#### Litigation

The District is not currently a party to any legal proceedings.

#### Construction Commitments

As of June 30, 2006, the District had the following commitments with respect to the unfinished capital projects:

	Remaining Construction Commitment	Expected Date of Completion
<u>Capital Projects</u>		
New school - Hamilton	\$ 512,209	10/01/06
District kitchen remodel	205,503	10/01/06
Total remaining construction commitments	<u>\$ 1,229,921</u>	

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

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### NOTE 17 - PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the Self-Insured Schools of California (SISC II), the Self-Insured Schools of California (SISC III), and the Kings County Self-Insured Schools (KCSIS) joint powers authorities (JPAs). The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools, and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

The District has no appointed board members to the governing board of SISC II.

During the year ended June 30, 2006, the District made payment of \$190,461 to SISC II for property and liability insurance.

The District has no appointed board members to the governing board of SISC III.

During the year ended June 30, 2006, the District made payment of \$5,520,861 to SISC III for health insurance.

The District has no appointed board members to the governing board of KCSIS.

During the year ended June 30, 2006, the District made payment of \$385,722 to KCSIS for workers' compensation insurance.

### NOTE 18 - SUBSEQUENT EVENTS

The District issued \$340,000 of Tax and Revenue Anticipation Notes dated July 6, 2006. The notes mature on July 6, 2007, and yield 3.5 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that the total principal and interest due be deposited with the trustee by July 6, 2007.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# HANFORD ELEMENTARY SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual <sup>1</sup> (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable)
				Final to Actual
<b>REVENUES</b>				
Revenue limit sources	\$26,602,211	\$26,291,059	\$ 26,259,273	\$ (31,786)
Federal sources	5,764,716	6,496,736	5,849,109	(647,627)
Other state sources	7,509,407	8,032,231	8,019,915	(12,316)
Other local sources	622,511	752,037	941,207	189,170
<b>Total Revenues</b>	<b>40,498,845</b>	<b>41,572,063</b>	<b>41,069,504</b>	<b>(502,559)</b>
<b>EXPENDITURES</b>				
Current				
Certificated Salaries	18,221,892	18,821,507	18,759,952	61,555
Classified salaries	7,328,156	7,735,079	7,630,368	104,711
Employee benefits	8,506,468	8,640,834	8,300,499	340,335
Books and supplies	1,937,970	2,784,867	2,668,415	116,452
Services and operating expenditures	3,778,385	4,281,352	3,927,074	354,278
Other outgo	(10,533)	106,492	51,345	55,147
Capital outlay	153,883	158,570	157,594	976
Debt service	113,777	113,777	108,076	5,701
<b>Total Expenditures</b>	<b>40,029,998</b>	<b>42,642,478</b>	<b>41,603,323</b>	<b>1,039,155</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>468,847</b>	<b>(1,070,415)</b>	<b>(533,819)</b>	<b>536,596</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	27,965	27,965	27,965	-
Transfers out	(220,000)	(220,000)	(220,000)	-
<b>Net Financing Sources (Uses)</b>	<b>(192,035)</b>	<b>(192,035)</b>	<b>(192,035)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>276,812</b>	<b>(1,262,450)</b>	<b>(725,854)</b>	<b>536,596</b>
<b>Fund Balance - Beginning</b>	<b>3,972,802</b>	<b>3,972,802</b>	<b>3,972,801</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 4,249,614</b>	<b>\$ 2,710,352</b>	<b>\$ 3,246,947</b>	<b>\$ 536,596</b>

<sup>1</sup> On behalf payments are not included in revenues and expenditures in this statement.

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*SUPPLEMENTARY INFORMATION*

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**HANFORD ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Impact Aid	84.041	N/A	\$ 6,040
Carol White Physical Education Grant	84.215F	N/A	467,160
Passed through California Department of Education (CDE):			
No Child Left Behind Act			
Title I, Basic <sup>1</sup>	84.010	13797	1,952,121
Title I, Part A, Program Improvement	84.010	14581	269,074
Title I, Part C, Migrant Education	84.011	13174	171,013
Title II, Part A, Teacher Quality	84.367	14341	387,420
Title II, Part D, Enhancing Education	84.318	14335	81,995
Title III, Limited English Proficiency	84.365	10084	97,889
Title IV, Part A, Safe and Drug Free Schools	84.186	13453	609,568
Title IV, Part B, 21st Century	84.287	14349	1,009,974
Title V, Part A, Innovative Education	84.298A	14354	26,785
ESEA, Arts in Education	84.351C		196,440
Total U.S. Department of Education			<u>5,275,479</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through CDE:			
Medi-Cal Administrative Assistance	93.778	10060	518,946
Medi-Cal	93.778	10013	54,684
Child development - Quality improvement	93.575	13979	912
Total U.S. Department of Health and Human Services			<u>574,542</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
Especially Needy Breakfast	10.553	13526	323,977
National School Lunch	10.555	13755	1,345,301
Meals Supplements - Snack	10.555	13755	65,694
Total U.S. Department of Agriculture			<u>1,734,972</u>
Total Expenditures of Federal Awards			<u>\$ 7,584,993</u>

<sup>1</sup> Tested as a major program

See accompanying note to supplementary information.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2006

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	Second Period Report	Annual Report
<b>ELEMENTARY</b>		
Kindergarten	575.44	576.41
First through third	1,752.44	1,754.19
Fourth through sixth	1,643.97	1,643.58
Seventh and eighth	1,106.65	1,100.57
Opportunity schools	11.47	11.97
Home and hospital	4.06	5.66
Special education	89.53	90.49
Community day school	21.27	22.57
Total	5,204.83	5,205.44
		<u>Hours of Attendance</u>
<b>SUMMER SCHOOL</b>		
7-12 Remedial Instruction		6,912

See accompanying note to supplementary information.

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2006**

Grade Level	1982-83	1986-87	2005-06	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,680	36,000	54,255	180	N/A	Complied
Grades 1 - 3	42,240	50,400	54,105	180	N/A	Complied
Grades 4 - 6	48,224	54,000	57,555	180	N/A	Complied
Grades 7 - 8	48,224	54,000	65,265	180	N/A	Complied

See accompanying note to supplementary information.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2006.

Summarized below are the Form Debt reconciliations between the Unaudited Actual Financial Report, and the audited financial statements:

	<u>Long-Term Obligations</u>
FORM DEBT	
Total Liabilities, June 30, 2006, Unaudited Actuals	\$ 13,030,718
Increase in:	
Compensated absences	<u>8,428</u>
Total Liabilities, June 30, 2006, Audited Financial Statement	<u><u>\$ 13,039,146</u></u>

See accompanying note to supplementary information.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

	(Budget) 2007 <sup>1</sup>	2006 <sup>3</sup>	2005 <sup>3</sup>	2004 <sup>3</sup>
<b>GENERAL FUND</b>				
Revenues	\$ 41,809,619	\$ 41,069,505	\$ 39,870,483	\$ 37,205,890
Other sources and transfers in	250,000	27,965	357,146	82,199
Total Revenues and Other Sources	42,059,619	41,097,470	40,227,629	37,288,089
Expenditures	42,088,854	41,603,324	39,846,281	35,756,268
Other uses and transfers out	225,000	220,000	575,000	340,000
Total Expenditures and Other Uses	42,313,854	41,823,324	40,421,281	36,096,268
INCREASE (DECREASE) IN FUND BALANCE	\$ (254,235)	\$ (725,854)	\$ (193,652)	\$ 1,191,821
ENDING FUND BALANCE	\$ 2,992,712	\$ 3,246,947	\$ 3,972,801	\$ 4,166,453
AVAILABLE RESERVES <sup>2</sup>	\$ 2,556,561	\$ 2,565,019	\$ 2,549,846	\$ 2,950,382
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	6.04%	6.13%	6.31%	8.17%
LONG-TERM OBLIGATIONS	Not Available	\$ 13,039,146	\$ 13,747,173	\$ 14,065,369
AVERAGE DAILY ATTENDANCE AT P-2	5,272	5,205	5,238	5,142

The General Fund balance has decreased by \$919,505 over the past two years. The fiscal year 2006-07 budget projects a further decrease of \$254,235 (7.8 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2006-07 fiscal year. Total long-term obligations decreased by \$1,026,223 over the past two years.

Average daily attendance has increased by 63 over the past two years. Additional growth of 67 ADA is anticipated during fiscal year 2006-07.

<sup>1</sup> Budget 2007 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and Special Reserve for Other than Capital Outlay Fund.

<sup>3</sup> On behalf payments have been excluded from revenues and expenditures in this schedule.

See accompanying note to supplementary information.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2006

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Schedule of Expenditures of Federal Awards**

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

#### **Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

#### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46201.

#### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

#### **Schedule of Financial Trends and Analysis**

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.



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*SUPPLEMENTARY INFORMATION - UNAUDITED*

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**HANFORD ELEMENTARY SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET - UNAUDITED  
JUNE 30, 2006**

	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 219	\$ 676,198	\$ 458,644
Receivables	66,375	296,717	189,834
Prepaid expenses	-	800	-
Stores inventories	-	30,841	-
<b>Total Assets</b>	<b>\$ 66,594</b>	<b>\$ 1,004,556</b>	<b>\$ 648,478</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	555	113,502	75,659
Due to other funds	66,039	-	-
<b>Total Liabilities</b>	<b>66,594</b>	<b>113,502</b>	<b>75,659</b>
<b>Fund Balances:</b>			
Reserved for:			
Revolving cash	-	905	-
Stores inventories	-	30,841	-
Prepaid expenditures	-	800	-
Unreserved:			
Designated	-	357,000	-
Undesignated, reported in:			
Special revenue funds	-	501,508	572,819
Debt service funds	-	-	-
<b>Total Fund Balances</b>	<b>-</b>	<b>891,054</b>	<b>572,819</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 66,594</b>	<b>\$ 1,004,556</b>	<b>\$ 648,478</b>

See accompanying note to supplementary information - unaudited.

<b>Pupil Transportation Fund</b>	<b>Special Reserve Non-Capital Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 81,524	\$ 258,659	\$ 658,974	\$ 2,134,218
-	-	-	552,926
-	-	-	800
-	-	-	30,841
<u>\$ 81,524</u>	<u>\$ 258,659</u>	<u>\$ 658,974</u>	<u>\$ 2,718,785</u>
-	-	-	189,716
-	-	-	66,039
-	-	-	255,755
-	-	-	905
-	-	-	30,841
-	-	-	800
-	-	-	357,000
81,524	258,659	-	1,414,510
-	-	658,974	658,974
<u>81,524</u>	<u>258,659</u>	<u>658,974</u>	<u>2,463,030</u>
<u>\$ 81,524</u>	<u>\$ 258,659</u>	<u>\$ 658,974</u>	<u>\$ 2,718,785</u>

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>REVENUES</b>			
Federal sources	\$ 912	\$ 1,734,972	\$ -
Other state sources	249,889	111,358	193,107
Other local sources	488	389,315	8,631
<b>Total Revenues</b>	<u>251,289</u>	<u>2,235,645</u>	<u>201,738</u>
<b>EXPENDITURES</b>			
Current			
Instruction	216,675	-	-
Instruction-related activities:			
Supervision of instruction	6,285	-	-
School site administration	11,438	-	-
Pupil Services:			
Food services	-	1,935,836	-
All other pupil services	269	-	-
General administration:			
All other general administration	16,622	100,989	-
Plant services	-	-	128,496
Facility acquisition and construction	-	443,744	198,666
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<u>251,289</u>	<u>2,480,569</u>	<u>327,162</u>
<b>Excess (Deficiency) of</b>			
<b>Revenues Over Expenditures</b>	-	(244,924)	(125,424)
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	-	220,000
Transfers out	-	-	-
<b>Net Financing Sources (Uses)</b>	-	-	<u>220,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	(244,924)	94,576
<b>Fund Balance - Beginning</b>	-	1,135,978	478,243
<b>Fund Balance - Ending</b>	<u>\$ -</u>	<u>\$ 891,054</u>	<u>\$ 572,819</u>

See accompanying note to supplementary information - unaudited.

<b>Pupil Transportation Fund</b>	<b>Special Reserve Non-Capital Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	-	\$ -	\$ 1,735,884
-	-	33,319	587,673
2,087	8,485	1,210,522	1,619,528
<u>2,087</u>	<u>8,485</u>	<u>1,243,841</u>	<u>3,943,085</u>
-	-	-	216,675
-	-	-	6,285
-	-	-	11,438
-	-	-	1,935,836
-	-	-	269
-	-	-	117,611
-	-	-	128,496
-	-	-	642,410
-	-	545,800	545,800
-	-	539,183	539,183
-	-	<u>1,084,983</u>	<u>4,144,003</u>
<u>2,087</u>	<u>8,485</u>	<u>158,858</u>	<u>(200,918)</u>
-	-	-	220,000
<u>(27,965)</u>	-	-	<u>(27,965)</u>
<u>(27,965)</u>	-	-	<u>192,035</u>
<u>(25,878)</u>	8,485	158,858	<u>(8,883)</u>
107,402	250,174	500,116	2,471,913
<u>\$ 81,524</u>	<u>\$ 258,659</u>	<u>\$ 658,974</u>	<u>\$ 2,463,030</u>

# HANFORD ELEMENTARY SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance - Unaudited**

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.



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***INDEPENDENT AUDITORS' REPORTS***

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**INDEPENDENT AUDITORS' 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***

Board of Trustees  
Hanford Elementary School District  
Hanford, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanford Elementary School District as of and for the year ended June 30, 2006, which collectively comprise the Hanford Elementary School District's basic financial statements and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Hanford Elementary School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hanford Elementary School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Financial Statement Findings section of the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hanford Elementary School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Fresno, California  
October 20, 2006



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees  
Hanford Elementary School District  
Hanford, California

**Compliance**

We have audited the compliance of Hanford Elementary School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. Hanford Elementary School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Hanford Elementary School District's management. Our responsibility is to express an opinion on Hanford Elementary School District's compliance based on our audit.

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

In our opinion, Hanford Elementary School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of Hanford Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Hanford Elementary School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Vawrink, Trine, Day & Co., LLP*

Fresno, California  
October 20, 2006



**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Board of Trustees  
 Hanford Elementary School District  
 Hanford, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanford Elementary School District as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2005-06*, issued by the California Education Audit Appeals Panel as regulations. 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 that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Hanford Elementary School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Hanford Elementary School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
<b>Attendance Accounting:</b>		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	22	No (see below)
Continuation education	10	Not Applicable
Adult education	9	Not Applicable
Regional occupational centers and programs	6	Not Applicable
<b>Instructional Time:</b>		
School districts	4	Yes
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable
Morgan-Hart Class Size Reduction	7	Not Applicable
<b>Instructional Materials:</b>		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School district bonds	3	Not Applicable
State school facilities funds	1	Yes
Alternative pension plans	2	Not Applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Additional Non classroom-based instruction	1	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

We did not perform testing for independent study because the independent study ADA was under the level that requires testing.

Based on our audit, we found that for the items tested, the Hanford Elementary School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Hanford Elementary School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Hanford Elementary School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Vaurinik, Trine, Day & Co., LLP*

Fresno, California  
October 20, 2006



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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**HANFORD ELEMENTARY SCHOOL DISTRICT**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u> <i>Means good</i>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u> <i>Very common</i>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	
Identification of major programs:	<u>No</u>

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

# HANFORD ELEMENTARY SCHOOL DISTRICT

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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The following finding represents a reportable condition and/or instance of noncompliance related to the financial statements that is required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
20000	Inventory of Equipment

2006-1    20000

### *Equipment Inventory*

#### **Finding**

Although the District has established a fixed assets inventory listing, the listing has not been properly updated for the retirement of assets valued between \$500 and \$5,000, due to the implementation of a new software program and lack of staff to perform physical inventories to update the system. We understand that the District will be performing physical inventories to validate the asset inventory system.

#### **Recommendation**

We recommend that the District perform physical inventories to properly update the computer inventory.

#### **District Response**

The District will update the equipment inventory for items between \$500 and \$5,000 as time permits.

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006**

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There were no findings representing reportable conditions, material weaknesses, nor instances of noncompliance including questioned costs that were required to be reported by OMB Circular A-133.

**HANFORD ELEMENTARY SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006**

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There were no findings representing instances of noncompliance nor questioned costs relating to State program laws and regulations.

# HANFORD ELEMENTARY SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

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Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

### Financial Statement Findings

2005-1    20000

#### *Equipment Inventory*

#### **Finding**

Although the District has established a fixed assets inventory listing, the listing has not been properly updated for the retirement of assets valued between \$500 and \$5,000, due to the implementation of a new software program and lack of staff to perform physical inventories to update the system. We understand that the District will be performing physical inventories to validate the asset inventory system.

#### **Recommendation**

We recommend that the District perform physical inventories to properly update the computer inventory.

#### **Current Status**

Not implemented. See current year findings and recommendations.