

**HANFORD ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2005

HANFORD ELEMENTARY SCHOOL DISTRICT
OF KINGS COUNTY
HANFORD, CALIFORNIA
JUNE 30, 2005

GOVERNING BOARD

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Rebecca J. Presley	Superintendent
Nancy White	Assistant Superintendent Fiscal Services

HANFORD ELEMENTARY SCHOOL DISTRICT

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JUNE 30, 2005

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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, 2005, 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 2004-05 *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed in the California Code of Regulations, Title 5, Section 19810 and following. 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, 2005, and the respective changes in financial positions 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 26, 2005, 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, including the Combining Statements - Non-Major Governmental Funds, is presented for purposes of additional analysis and is 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.

Varinck, Tine, Day & Co., LLP

Fresno, California

October 26, 2005

Hanford Elementary School District

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

HANFORD ELEMENTARY SCHOOL DISTRICT KINGS COUNTY

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

INTRODUCTION

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, 2005. 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 2004-05 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.

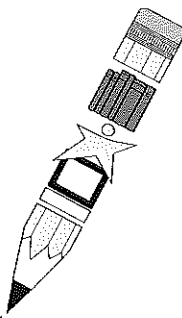
USING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

- 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.

FINANCIAL HIGHLIGHTS

- The Hanford Elementary School District's Government-wide Statement of Net Assets illustrates total net assets of \$18 million, the result of assets of \$40 million minus liabilities of \$22 million.

*In Relentless
Pursuit
of Knowledge*



HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

- General Revenues accounted for \$33.9 million or 74 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$11.7 million or 26 percent of total revenues of \$45.6 million.
- The District had \$44.1 million in expenses related to governmental activities.
- The General Fund reported a positive fund balance of \$3,972,801.

STUDENT ENROLLMENT & DEMOGRAPHIC TRENDS

- The School District has an enrollment of approximately 5,500 students for the current 2004-05 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 2005-06 ADA for the District is 5,208. 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.

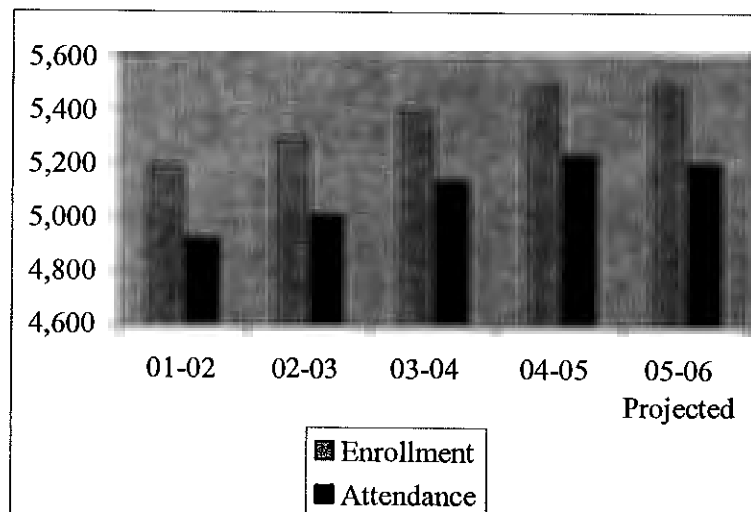


Figure 1. District Enrollment to Actual Attendance Ratios

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

- 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 2004-05 the School District revenue Limit amount is approximately \$4,802.97), 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 modified accrual accounting. Governmental fund statements provide a detailed short-term

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

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 2004-05 and 2003-04, respectively.

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

Table 1. Net Assets

(Amounts in millions)	Governmental Activities		Difference over/(under)
	2005	2004	
Current and other assets	\$ 15.9	\$ 14.8	\$ 1.1
Capital assets	23.9	23.2	0.7
Total Assets	39.8	38.0	1.8
Current liabilities	8.5	7.9	0.6
Long-term debt	13.8	14.1	(0.3)
Total Liabilities	22.3	22.0	0.3
Net assets			
Invested in capital assets, net of related debt	10.4	9.4	1.0
Restricted	4.3	2.8	1.5
Unrelated	2.8	3.8	(1.0)
Total Net Assets	\$ 17.5	\$ 16.0	\$ 1.5

Table 2 shows the changes in net assets for fiscal years 2004-05 and 2003-04, respectively.

Table 2. Changes in Net Assets

(Amounts in millions)	Governmental Activities		Difference over/(under)
	2004-05	2003-04	
Revenues			
Program revenues:			
Charges for services	\$ 0.4	\$ 0.3	\$ 0.1
Operating grants and contributions	11.2	10.5	0.7
Capital grants and contributions	0.1	0.2	(0.1)
General revenues:			
State revenue limit sources	27.1	23.1	4.0
Property taxes	2.9	5.0	(2.1)
Other general revenues	4.0	2.5	1.5
Total Revenues	45.7	41.6	4.1
Expenses			
Instruction related	28.2	25.4	2.8
Student support services	5.4	4.9	0.5
Administration	3.2	2.6	0.6
Maintenance and operations	5.2	4.4	0.8
Other	2.1	2.4	(0.3)
Total Expenses	44.1	39.7	4.4
Change in Net Assets	\$ 1.6	\$ 1.9	\$ (0.3)

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

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.

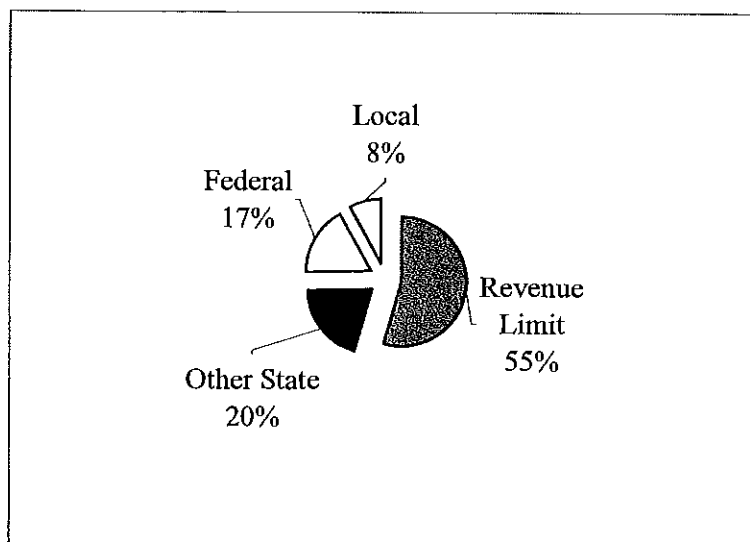


Figure 2. Revenues by Source

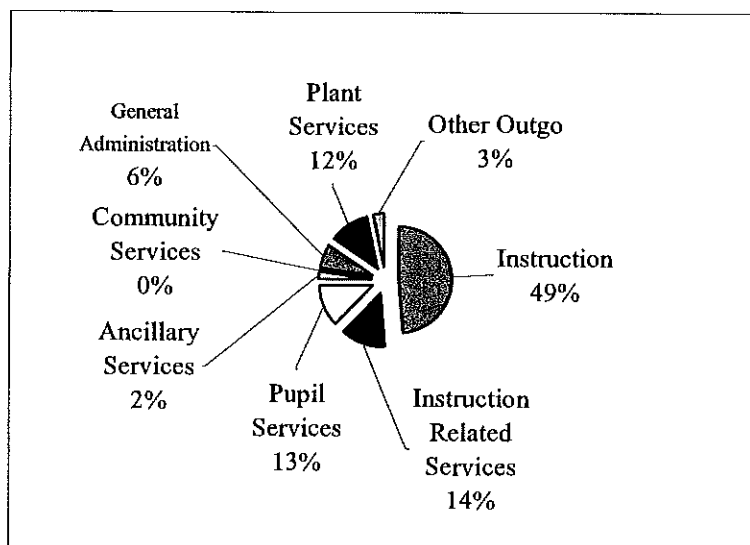


Figure 3. Expenditures by Function

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

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 District is currently faced with the worsening fiscal condition of the State of California and the potential impact of this problem on public education.

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, 2005

The net difference in fund balance between the final budget and the adopted budget was an increase of \$1,941,053 and may be summarized as follows:

\$2,637,056 increase in total revenue

\$4,578,109 increase in total expenditures

\$1,941,053 decrease in fund balance

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of the fiscal year 2003-2004, the District had \$23.2 million invested in land, buildings, equipment, and construction in progress. At June 30, 2005, the District had \$23.9 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 \$.7 million, or 3.2 percent, from last year. Table 3 shows the balances for fiscal years 2004-05 and 2003-04.

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

(Amounts in millions)	Governmental Activities		Difference over/(under)
	2004-05	2003-04	
Land	\$ 2.0	\$ 2.0	\$ -
Buildings and improvements	20.4	20.3	0.1
Equipment	1.0	0.6	0.4
Construction in Progress	0.5	0.3	0.2
Totals	\$ 23.9	\$ 23.2	\$ 0.7

This year's major additions included:

Wilson - Room 501 Modernization	<u>\$ 436,484</u>
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Construction in Progress included:

Plans - New School	\$ 427,872
District Kitchen Modernization	72,802
Total	<u>\$ 500,674</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

DEBT

At the end of this year, the District had \$13.7 million in liabilities outstanding versus \$14.1 million last year, a decrease of 2.26 percent. Table 4 summarizes these debts.

Table 4. Outstanding Debt

(Amounts in millions)	Governmental Activities		Difference over/(under)
	2004-05	2003-04	
General obligation bonds	\$ 12.5	\$ 13.0	\$ (0.5)
Capitalized lease obligations	1.0	0.8	0.2
Other	0.2	0.2	-
Total	\$ 13.7	\$ 14.0	\$ (0.3)

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, 2005

	Governmental Activities
ASSETS	
Deposits and investments	\$ 9,871,460
Receivables	5,345,588
Prepaid expenses	401,684
Stores inventories	237,469
Nondepreciable capital assets	2,498,889
Depreciable capital assets, net of accumulated depreciation	21,452,384
Total Assets	39,807,474
LIABILITIES	
Accounts payable	7,838,910
Deferred revenue	703,764
Current portion of long-term obligations	716,455
Noncurrent portion of long-term obligations	13,030,718
Total Liabilities	22,289,847
NET ASSETS	
Invested in capital assets, net of related debt	10,405,024
Restricted for:	
Debt service	500,116
Capital projects	692,011
Educational programs	1,158,674
Other activities	1,942,428
Unrestricted	2,819,374
Total Net Assets	\$ 17,517,627

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

HANFORD ELEMENTARY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 22,055,378	\$ -	\$ 3,340,377	\$ 131,350
Instruction-related activities:				
Supervision of instruction	1,902,030	-	1,039,173	-
Instructional library, media and technology	425,158	-	48,205	-
School site administration	3,830,338	-	621,856	-
Pupil services:				
Home-to-school transportation	599,494	-	344,835	-
Food services	1,930,300	332,616	1,683,962	-
All other pupil services	2,870,282	-	1,624,245	-
General administration:				
Data processing	272,289	-	4,251	-
All other general administration	2,942,717	17,860	1,330,693	-
Plant services	5,192,958	-	93,284	-
Ancillary services	1,049,845	-	942,117	-
Community services	27,525	-	27,525	-
Interest on long-term debt	824,105	-	-	-
Other outgo	158,378	-	141,608	-
Total Governmental-Type Activities	\$ 44,080,797	\$ 350,476	\$ 11,242,131	\$ 131,350
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				
Subtotal, General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

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

**Governmental
Activities**

\$ (18,583,651)

(862,857)

(376,953)

(3,208,482)

(254,659)

86,278

(1,246,037)

(268,038)

(1,594,164)

(5,099,674)

(107,728)

-

(824,105)

(16,770)

(32,356,840)

1,670,413

1,182,009

27,064,013

261,495

3,759,752

33,937,682

1,580,842

15,936,785

\$ 17,517,627

HANFORD ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2005

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Deposits and investments	\$ 7,261,285	\$ 2,464,372	\$ 9,725,657
Receivables	4,399,953	945,635	5,345,588
Due from other funds	47,135	55,527	102,662
Prepaid expenses	-	400	400
Stores inventories	209,405	28,064	237,469
Total Assets	\$ 11,917,778	\$ 3,493,998	\$ 15,411,776
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	7,191,213	277,412	7,468,625
Due to other funds	50,000	52,662	102,662
Deferred revenue	703,764	-	703,764
Total Liabilities	7,944,977	330,074	8,275,051
FUND BALANCES			
Reserved	1,373,129	29,369	1,402,498
Unreserved:			
Designated	2,100,000	-	2,100,000
Undesignated, reported in:			
General Fund	499,672	-	499,672
Special revenue funds	-	1,942,428	1,942,428
Debt service funds	-	500,116	500,116
Capital projects funds	-	692,011	692,011
Total Fund Balance	3,972,801	3,163,924	7,136,725
Total Liabilities and Fund Balances	\$ 11,917,778	\$ 3,493,998	\$ 15,411,776

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

HANFORD ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2005

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

Total Fund Balance - Governmental Funds		\$ 7,136,725
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	\$ 37,022,609	
Accumulated depreciation is	<u>(13,071,336)</u>	
Total capital assets		23,951,273
Expenditures relating to issuance of debt were recognized in modified accrual basis, but should not be recognized in accrual basis.		401,284
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(225,905)
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:		1,423
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	(12,532,248)	
Capital lease obligations	(999,276)	
Compensated absences	(200,924)	
Unamortized premium on bond issue	<u>(14,725)</u>	
Total long-term liabilities		(13,747,173)
Total Net Assets - Governmental Activities		<u>\$ 17,517,627</u>

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, 2005

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Revenue limit sources	\$25,013,274	\$ -	\$ 25,013,274
Federal sources	6,140,160	1,692,939	7,833,099
Other state sources	8,684,215	741,405	9,425,620
Other local sources	814,911	2,574,735	3,389,646
Total Revenues	40,652,560	5,009,079	45,661,639
EXPENDITURES			
Current			
Instruction	21,806,360	198,559	22,004,919
Instruction-related activities:			
Supervision of instruction	1,893,186	5,301	1,898,487
Instructional library, media and technology	424,771	-	424,771
School site administration	3,844,629	16,198	3,860,827
Pupil Services:			
Home-to-school transportation	898,830	-	898,830
Food services	2,273	1,955,718	1,957,991
All other pupil services	2,864,835	-	2,864,835
General administration:			
Data processing	271,638	-	271,638
All other general administration	2,750,056	231,679	2,981,735
Plant services	4,236,464	257,506	4,493,970
Facility acquisition and construction	170,647	821,326	991,973
Ancillary services	1,049,320	-	1,049,320
Community services	27,525	-	27,525
Other outgo	158,378	-	158,378
Debt service			
Principal	105,071	573,781	678,852
Interest and other	124,375	565,446	689,821
Total Expenditures	40,628,358	4,625,514	45,253,872
Excess (Deficiency) of Revenues Over Expenditures	24,202	383,565	407,767
Other Financing Sources (Uses):			
Transfers in	-	520,000	520,000
Other sources	357,146	-	357,146
Transfers out	(575,000)	-	(575,000)
Net Financing Sources (Uses)	(217,854)	520,000	302,146
NET CHANGE IN FUND BALANCES	(193,652)	903,565	709,913
Fund Balance - Beginning	4,166,453	2,260,359	6,426,812
Fund Balance - Ending	\$ 3,972,801	\$ 3,163,924	\$ 7,136,725

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 FOR THE YEAR ENDED JUNE 30, 2005

Total Net Change in Fund Balances - Governmental Funds **\$ 709,913**
Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, 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 statements of activities.

This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$1,579,611	
Depreciation expense	<u>(861,766)</u>	717,845

Loss on disposal of capital assets is reported in the government-wide statement of net assets, but is not recorded in the governmental funds. (14,431)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets. (357,146)

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 \$4,643. (4,643)

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	500,731
Capital lease obligations	178,121

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, 2005

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when 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.

\$ (101,792)

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.

(15,264)

Change in Net Assets of Governmental Activities

\$ 1,580,842

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, 2005

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 145,803
Total Assets	<u>145,803</u>
LIABILITIES	
Current Liabilities	
Accounts payable	144,380
Total Current Liabilities	<u>144,380</u>
NET ASSETS	
Unrestricted	1,423
Total Net Assets	<u><u>\$ 1,423</u></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, 2005

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges to other funds and miscellaneous revenues	\$ 408,689
Total Operating Revenues	<u>408,689</u>
OPERATING EXPENSES	
Professional and contract services	<u>479,842</u>
Total Operating Expenses	<u>479,842</u>
Operating Income (Loss)	<u>(71,153)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	<u>889</u>
Total Nonoperating Revenues (Expenses)	<u>889</u>
Income (Loss) Before Transfers	<u>(70,264)</u>
Transfers in	<u>55,000</u>
Change in Net Assets	<u>(15,264)</u>
Total Net Assets - Beginning	<u>16,687</u>
Total Net Assets - Ending	<u><u>\$ 1,423</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, 2005

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from premiums	\$ 416,358
Cash payments for insurance claims	(451,181)
Net Cash Provided (Used) for Operating Activities	(34,823)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	55,000
Net Cash Provided (Used) from Noncapital Financing Activities	55,000
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	889
Net Cash Provided (Used) from Investing Activities	889
Net increase in cash and cash equivalents	21,066
Cash and cash equivalents - Beginning	124,737
Cash and cash equivalents - Ending	\$ 145,803
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	(71,153)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Receivables	7,669
Accrued liabilities	28,661
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (34,823)

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

HANFORD ELEMENTARY SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005

	Agency Funds
ASSETS	
Deposits and investments	\$ 40,485
Total Assets	<u><u>\$ 40,485</u></u>
LIABILITIES	
Due to student groups	40,485
Total Liabilities	<u><u>\$ 40,485</u></u>

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

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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, 2005

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.

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.

Capital Projects Funds The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following capital projects funds:

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).

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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 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 enterprise 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, 2005

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. For the District, available means expected to be received within 60 days of fiscal year-end.

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, 2005

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 general long-term debt, 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, 2005, 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.

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, 2005

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 financial statements as long-term debt. 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, 2005

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.

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 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 \$4,293,229 of restricted net assets, of which \$4,043,055 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.

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.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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.

Changes in Accounting Principles

In March 2003, the Governmental Accounting Standards Board (GASB) issued GASBS No. 40, *Deposit and Investment Risk Disclosures an amendment of GASB Statement No. 3*. This Statement addressed common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in the Statement also should be disclosed. As such, the District has made the applicable required disclosures.

New Accounting Pronouncements

In November 2003, GASB issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not. This Statement is effective for periods beginning after December 31, 2004, or during the 2005-06 fiscal year. The District has implemented this pronouncement.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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.

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 December 2004, GASB issued GASBS No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, such as citizens, public interest groups, or the judiciary, can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005. The District has implemented this pronouncement.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2005, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 9,871,460
Fiduciary funds	40,485
Total Deposits and Investments	<u>\$ 9,911,945</u>

Deposits and investments as of June 30, 2005, consist of the following:

Cash on hand and in banks	\$ 40,740
Cash with fiscal agent	7,000
Cash in revolving	5,955
Investments	9,858,250
Total Deposits and Investments	<u>\$ 9,911,945</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.

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.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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 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

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 Treasury that purchases 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.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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	\$ 6,309,070	\$ 6,309,070	\$ -	\$ -	\$ -
Held by Trustee:					
Investment Contract	3,549,180	3,549,180	-	-	-
Total	<u>\$ 9,858,250</u>	<u>\$ 9,858,250</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	Not Required to be Rated	Rating as of Year End		
				AAA	Aa	Unrated
County Pool	\$ 6,309,070	NA	\$ -	\$ -	\$ -	\$ 6,309,070
Held by Trustee:						
Investment Contract	3,549,180	NA	-	-	-	3,549,180
Total	<u>\$ 9,858,250</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,858,250</u>

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:

Issuer	Investment Type	Reported Amount
Piper Jaffray	Investment Contract	<u>\$ 3,549,180</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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, 2005, none of the District's bank balance of \$58,435 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 \$3,549,180, the District has a custodial credit risk exposure of \$3,549,180 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government			
Categorical aid	\$ 1,454,662	\$ 260,916	\$ 1,715,578
State Government			
Apportionment	1,780,992	-	1,780,992
Categorical aid	438,347	394,530	832,877
Lottery	382,620	-	382,620
Other Local Sources	343,332	290,189	633,521
Total	<u>\$ 4,399,953</u>	<u>\$ 945,635</u>	<u>\$ 5,345,588</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,998,215	\$ -	\$ -	\$ 1,998,215
Construction in process	264,928	420,276	184,530	500,674
Total Capital Assets Not Being Depreciated	2,263,143	420,276	184,530	2,498,889
Capital Assets Being Depreciated				
Land improvements	4,558,632	52,558	-	4,611,190
Buildings and improvements	25,983,024	703,669	-	26,686,693
Furniture and equipment	2,685,132	587,638	46,933	3,225,837
Total Capital Assets Being Depreciated	33,226,788	1,343,865	46,933	34,523,720
Less Accumulated Depreciation				
Land improvements	2,863,376	156,745	-	3,020,121
Buildings and improvements	7,317,086	527,540	-	7,844,626
Furniture and equipment	2,061,610	177,481	32,502	2,206,589
Total Accumulated Depreciation	12,242,072	861,766	32,502	13,071,336
Governmental Activities Capital Assets, Net	\$23,247,859	\$ 902,375	\$ 198,961	\$ 23,951,273

Depreciation expense was charged as follows:

Governmental Activities	
Instruction	\$ 22,572
Supervision of instruction	537
Home-to-school transportation	56,354
Food services	10,992
All other general administration	32,458
Plant services	738,853
Total Depreciation Expenses Governmental Activities	\$ 861,766

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2005, are as follows:

	Interfund Receivables	Interfund Payables
General	\$ 47,135	\$ 50,000
Child Development	-	47,135
Pupil Transportation	50,000	-
County School Facilities	-	5,527
Capital Facilities	5,527	-
Total	<u>\$ 102,662</u>	<u>\$ 102,662</u>

Operating Transfers

Interfund transfers for the year ended June 30, 2005, consisted of the following:

The General Fund transferred to the Deferred Maintenance Fund for the District match.	\$ 220,000
The General Fund transferred to the Pupil Transportation Fund for bus replacement.	50,000
The General Fund transferred to the Special Reserve Other than Capital Outlay Fund for instructional supplies.	250,000
The General Fund transferred to the Internal Service Fund to cover excess costs.	55,000
Total	<u>\$ 575,000</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, 2005, consisted of the following:

Food service - Non-major governmental funds	\$ 400
Debt issuance costs - Government-wide statements	401,284
Total Government-Wide Statements	<u>\$ 401,684</u>

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2005, consisted of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 1,807,860	\$ 277,412	\$ 144,380	\$ 2,229,652
State apportionment	38,847	-	-	38,847
Salaries and benefits	1,757,006	-	-	1,757,006
Federal categorical	67,500	-	-	67,500
Tax revenue anticipation note	3,520,000	-	-	3,520,000
Total	<u>\$ 7,191,213</u>	<u>\$ 277,412</u>	<u>\$ 144,380</u>	<u>7,613,005</u>
Unmatured interest				225,905
				<u>\$ 7,838,910</u>

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2005, consists of the following:

	General Fund
Federal financial assistance	\$ 456,448
State categorical aid	247,316
Total	<u>\$ 703,764</u>

NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

At July 1, 2004, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$3,655,000, which matured on July 4, 2004. On July 6, 2004, the District issued \$3,520,000 Tax and Revenue Anticipation Notes bearing interest at 1.6 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 6, 2005. By June 30, 2005, 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 an accounts payable.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2004	Additions	Payments	Outstanding June 30, 2005
July 4, 2003	1.15%	July 4, 2004	\$3,728,709	\$ -	\$3,728,709	\$ -
July 6, 2004	1.60%	July 6, 2005	-	3,520,000	-	3,520,000
Total			<u>\$3,728,709</u>	<u>\$3,520,000</u>	<u>\$3,728,709</u>	<u>\$3,520,000</u>

NOTE 10 - LONG-TERM LIABILITIES

Long-Term Debt Summary

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

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Due in One Year
General obligation bonds-1993	\$ 1,462,979	\$ -	\$ 85,731	\$ 1,377,248	\$ 90,800
General obligation bonds-1998	7,065,000	-	125,000	6,940,000	150,000
General obligation bonds-2003	4,505,000	-	290,000	4,215,000	305,000
Unamortized Bond Premium-2003	15,858	-	1,133	14,725	1,133
Accumulated vacation - net	196,281	200,924	196,281	200,924	-
Capital leases	820,251	357,146	178,121	999,276	169,522
Total	<u>\$14,065,369</u>	<u>\$558,070</u>	<u>\$ 876,266</u>	<u>\$13,747,173</u>	<u>\$ 716,455</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 Outstanding July 1, 2004	Bonds Redeemed	Bonds Outstanding June 30, 2005
1993(a)	2002-2018	5.15-5.8%	\$ 1,750,000	\$ 1,462,979	\$ 85,731	\$ 1,377,248
1998	2001-2024	4.4-5.0%	\$ 7,350,000	\$ 7,065,000	\$ 125,000	\$ 6,940,000
2003	2005-2019	2.0-3.5%	\$ 4,775,000	\$ 4,505,000	\$ 290,000	\$ 4,215,000

(a) 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, 2005

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.

The annual requirements to amortize the general obligation bonds payable outstanding as of June 30, 2005, are as follows:

Fiscal Year	Accreted Value	Unaccreted Interest	Maturity Value
2006	\$ 90,800	\$ 89,200	\$ 180,000
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
2011-2015	612,527	972,473	1,585,000
2016-2017	281,623	768,377	1,050,000
Total	<u>\$ 1,377,248</u>	<u>\$ 2,347,752</u>	<u>\$ 3,725,000</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, 2005

The annual requirements to amortize the general obligation bonds payable outstanding as of June 30, 2005, 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>
2006	\$ 150,000	\$ 332,316	\$ 482,316
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
2011-2015	1,655,000	1,262,314	2,917,314
2016-2020	2,150,000	904,145	3,054,145
2021-2024	2,140,000	126,125	2,266,125
Total	<u>\$ 6,940,000</u>	<u>\$ 3,861,789</u>	<u>\$ 10,801,789</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>
2006	\$ 305,000	\$ 114,618	\$ 419,618
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
2011-2015	1,560,000	293,419	1,853,419
2016-2019	1,020,000	52,331	1,072,331
Total	<u>\$ 4,215,000</u>	<u>\$ 847,270</u>	<u>\$ 5,062,270</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, 2005, amounted to \$14,725.

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, 2005, amounted to \$200,924.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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 & Library	Buses	Total
Balance, July 1, 2004	\$ 764,578	\$ 55,673	\$ 820,251
Additions	-	357,146	357,146
Payments	73,051	105,070	178,121
Balance, June 30, 2005	<u>\$ 691,527</u>	<u>\$ 307,749</u>	<u>\$ 999,276</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2006	\$ 209,646
2007	179,534
2008	179,534
2009	179,535
2010	101,569
2011-2013	304,707
Total	<u>1,154,525</u>
Less: Amount Representing Interest	155,249
Present Value of Minimum Lease Payments	<u>\$ 999,276</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for these buses and cafeteria building.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 11 - FUND BALANCES

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

	General Fund	Non-Major Governmental Funds	Total
Reserved			
Revolving cash	\$ 5,050	\$ 905	\$ 5,955
Stores inventory	209,405	28,064	237,469
Prepaid expenditures	-	400	400
Restricted programs	1,158,674	-	1,158,674
Total Reserved	<u>1,373,129</u>	<u>29,369</u>	<u>1,402,498</u>
Unreserved			
Designated			
Economic uncertainties	1,800,000	-	1,800,000
Other designation	300,000	-	300,000
Total Designated	<u>2,100,000</u>	<u>-</u>	<u>2,100,000</u>
Undesignated	<u>499,672</u>	<u>3,134,555</u>	<u>3,634,227</u>
Total Unreserved	<u>2,599,672</u>	<u>3,134,555</u>	<u>5,734,227</u>
Total	<u>\$ 3,972,801</u>	<u>\$ 3,163,924</u>	<u>\$ 7,136,725</u>

NOTE 12 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2005, there were no District funds that exceeded the budgeted amount.

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, 32 retirees meet those eligibility requirements.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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 \$272,441 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, 2005, 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 2005, 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.

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.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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, 2003 to June 30, 2005 (in thousands):

	Dental Care
Liability Balance, June 30, 2003	\$ 96,196
Claims and changes in estimates	3,459
Liability Balance, June 30, 2004	99,655
Claims and changes in estimates	44,725
Liability Balance, June 30, 2005	\$ 144,380
Assets available to pay claims at June 30, 2005	\$ 145,803

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.

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 2004-2005 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, 2005, 2004, and 2003, were \$1,437,447, \$1,393,671, and \$1,376,291, respectively, and equal 100 percent of the required contributions for each year.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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 2004-2005 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, 2005, 2004, and 2003, were \$686,395, \$702,973, and \$182,644, 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.

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 \$782,076 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2005. 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.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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, 2005.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2005.

Construction Commitments

As of June 30, 2005, the District had the following commitments with respect to the unfinished capital projects:

	Remaining Construction Commitment	Expected Date of Completion
CAPITAL PROJECT		
New school - Hamilton	<u>\$ 9,000,000</u>	<u>12/01/06</u>

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, 2005, the District made payment of \$215,360 to SISC II for property and liability insurance.

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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

During the year ended June 30, 2005, the District made payment of \$4,013,428 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, 2005, the District made payment of \$274,345 to KCSIS for workers' compensation insurance.

NOTE 18 - SUBSEQUENT EVENTS

The District issued \$795,000 of Tax and Revenue Anticipation Notes dated July 6, 2005. The notes mature on July 6, 2006, and yield 2.6 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that principal and interest be deposited with the Fiscal Agent.

REQUIRED SUPPLEMENTARY INFORMATION

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HANFORD ELEMENTARY SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variances -
	(GAAP Basis)		Actual ¹	Favorable
	Original	Final	(GAAP Basis)	(Unfavorable)
				Final
				to Actual
REVENUES				
Revenue limit sources	\$24,853,682	\$24,929,037	\$ 25,013,274	\$ 84,237
Federal sources	5,311,958	7,154,765	6,140,160	(1,014,605)
Other state sources	7,447,135	7,672,194	7,902,138	229,944
Other local sources	529,077	1,022,912	814,911	(208,001)
Total Revenues	38,141,852	40,778,908	39,870,483	(908,425)
EXPENDITURES				
Current				
Certificated Salaries	17,487,314	17,577,099	17,493,306	83,793
Classified salaries	7,046,942	7,268,858	7,072,282	196,576
Employee benefits	7,656,555	7,937,873	7,562,258	375,615
Books and supplies	1,694,567	3,616,004	3,158,713	457,291
Services and operating expenditures	3,442,651	4,564,821	3,696,189	868,632
Other outgo	13,630	75,721	37,568	38,153
Capital outlay	385,687	870,079	717,888	152,191
Debt service	30,111	110,111	108,077	2,034
Total Expenditures	37,757,457	42,020,566	39,846,281	2,174,285
Excess (Deficiency) of Revenues				
Over Expenditures	384,395	(1,241,658)	24,202	1,265,860
Other Financing Sources (Uses):				
Other sources	-	-	357,146	357,146
Transfers out	(270,000)	(585,000)	(575,000)	10,000
Net Financing Sources (Uses)	(270,000)	(585,000)	(217,854)	367,146
NET CHANGE IN FUND BALANCES	114,395	(1,826,658)	(193,652)	1,633,006
Fund Balance - Beginning	4,166,453	4,166,453	4,166,453	-
Fund Balance - Ending	\$ 4,280,848	\$ 2,339,795	\$ 3,972,801	\$ 1,633,006

1 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, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Impact Aid	84.041	N/A	\$ 6,933
Carol White Physical Education Grant [1]	84.215F	N/A	349,574
Passed through California Department of Education (CDE):			
No Child Left Behind Act			
Title I, Basic [1]	84.010	13797	2,560,491
Title I, Part C, Migrant Education	84.011	13174	174,147
Title II, Part A, Teacher Quality [1]	84.367	14341	387,551
Title II, Part A, Enhancing Education	84.318	14335	56,942
Title III, Limited English Proficiency	84.365	10084	90,765
Title IV, Part A, Safe and Drug Free Schools [1]	84.186	13453	928,755
Title IV, Part B, 21st Century [1]	84.287	14349	731,501
Title V, Part A, Innovative Education	84.298A	14354	55,728
CELDT	84.369	14363	13,558
ESEA, Arts in Education	84.351C	[2]	296,114
Total U.S. Department of Education			<u>5,652,059</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Medi-Cal Administrative Assistance	93.778	10060	444,451
Medi-Cal	93.778	10013	43,650
Child development - Quality improvement	93.575	13979	892
Total U.S. Department of Health and Human Services			<u>488,993</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Basic School Breakfast Program	10.553	13525	1,216
Especially Needy Breakfast	10.553	13526	320,070
National School Lunch	10.555	13755	1,302,062
Meals Supplements - Snack	10.555	13755	68,699
Total U.S. Department of Agriculture			<u>1,692,047</u>
Total Expenditures of Federal Awards			<u>\$ 7,833,099</u>

[1] Major program under OMB Circular A-133 guidelines.

[2] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2005

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	596.62	597.06
First through third	1,726.98	1,726.14
Fourth through sixth	1,694.45	1,690.24
Seventh and eighth	1,076.06	1,069.02
Opportunity schools	28.32	29.21
Home and hospital	4.83	6.19
Special education	81.24	82.42
Community day school	29.01	29.64
Total	5,237.51	5,229.92
		Hours of Attendance
SUMMER SCHOOL		
Elementary		6,929

See accompanying note to supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2005

Grade Level	1982-83	1986-87	2004-05	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,680	36,000	50,789	180	N/A	Complied
Grades 1 - 3	42,240	50,400	54,259	180	N/A	Complied
Grades 4 - 6	48,224	54,000	57,729	180	N/A	Complied
Grades 7 - 8	48,224	54,000	59,764	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, 2005**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2005.

See accompanying note to supplementary information.

HANFORD ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

	(Budget) 2006 ¹	2005 ³	2004 ³	2003 ³
GENERAL FUND				
Revenues	\$ 40,577,622	\$ 39,870,483	\$ 37,205,890	\$ 37,552,547
Other sources and transfers in	27,965	357,146	82,199	-
Total Revenues and Other Sources	40,605,587	40,227,629	37,288,089	37,552,547
Expenditures	39,730,914	39,846,281	35,756,268	35,437,828
Other uses and transfers out	220,000	575,000	340,000	1,045,694
Total Expenditures and Other Uses	39,950,914	40,421,281	36,096,268	36,483,522
INCREASE (DECREASE) IN FUND BALANCE	\$ 654,673	\$ (193,652)	\$ 1,191,821	\$ 1,069,025
ENDING FUND BALANCE	\$ 4,627,474	\$ 3,972,801	\$ 4,166,453	\$ 2,974,632
AVAILABLE RESERVES²	\$ 3,099,763	\$ 2,549,846	\$ 2,950,382	\$ 2,832,155
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	7.76%	6.31%	8.17%	7.76%
LONG-TERM DEBT	Not Available	\$ 13,747,173	\$ 14,065,369	\$ 14,458,349
AVERAGE DAILY ATTENDANCE AT P-2	5,317	5,238	5,142	5,016

The General Fund balance has increased by \$998,169 over the past two years. The fiscal year 2005-06 budget projects a further increase of \$654,673 (16.5 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 surpluses in two of the past three years and anticipates incurring an operating surplus during the 2005-06 fiscal year. Total long-term debt has decreased by \$711,176 over the past two years.

Average daily attendance has increased by 222 over the past two years. Additional growth of 79 ADA is anticipated during fiscal year 2005-06.

1 Budget 2006 is included for analytical purposes only and has not been subjected to audit.

2 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.

3 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, 2005

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.

SUPPLEMENTARY INFORMATION - UNAUDITED

HANFORD ELEMENTARY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET - UNAUDITED JUNE 30, 2005

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 398	\$ 879,136	\$ 331,290
Receivables	47,747	284,571	198,764
Due from other funds	-	-	-
Prepaid expenses	-	400	-
Stores inventories	-	28,064	-
Total Assets	\$ 48,145	\$ 1,192,171	\$ 530,054
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	1,010	56,193	51,811
Due to other funds	47,135	-	-
Total Liabilities	48,145	56,193	51,811
Fund Balances:			
Reserved for:			
Revolving cash	-	905	-
Stores inventories	-	28,064	-
Prepaid expenditures	-	400	-
Unreserved:			
Undesignated, reported in:			
Special revenue funds	-	1,106,609	478,243
Debt service funds	-	-	-
Capital projects funds	-	-	-
Total Fund Balances	-	1,135,978	478,243
Total Liabilities and Fund Balances	\$ 48,145	\$ 1,192,171	\$ 530,054

See accompanying note to supplementary information - unaudited.

Pupil Transportation Fund	Special Reserve Non-Capital Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 57,402	\$ 250,174	\$ 445,856	\$ -	\$ 500,116	\$ 2,464,372
-	-	283,203	131,350	-	945,635
50,000	-	5,527	-	-	55,527
-	-	-	-	-	400
-	-	-	-	-	28,064
<u>\$ 107,402</u>	<u>\$ 250,174</u>	<u>\$ 734,586</u>	<u>\$ 131,350</u>	<u>\$ 500,116</u>	<u>\$ 3,493,998</u>
-	-	42,575	125,823	-	277,412
-	-	-	5,527	-	52,662
-	-	42,575	131,350	-	330,074
-	-	-	-	-	905
-	-	-	-	-	28,064
-	-	-	-	-	400
107,402	250,174	-	-	-	1,942,428
-	-	-	-	500,116	500,116
-	-	692,011	-	-	692,011
<u>107,402</u>	<u>250,174</u>	<u>692,011</u>	<u>-</u>	<u>500,116</u>	<u>3,163,924</u>
<u>\$ 107,402</u>	<u>\$ 250,174</u>	<u>\$ 734,586</u>	<u>\$ 131,350</u>	<u>\$ 500,116</u>	<u>\$ 3,493,998</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, 2005**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	\$ 892	\$ 1,692,047	\$ -
Other state sources	234,555	113,064	226,949
Other local sources	409	378,306	2,254
Total Revenues	235,856	2,183,417	229,203
EXPENDITURES			
Current			
Instruction	198,559	-	-
Instruction-related activities:			
Supervision of instruction	5,301	-	-
School site administration	16,198	-	-
Pupil Services:			
Food services	-	1,955,718	-
General administration:			
All other general administration	15,798	105,012	-
Plant services	-	-	40,555
Facility acquisition and construction	-	59,044	211,498
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	235,856	2,119,774	252,053
Excess (Deficiency) of			
Revenues Over Expenditures	-	63,643	(22,850)
Other Financing Sources (Uses):			
Transfers in	-	-	220,000
Net Financing Sources (Uses)	-	-	220,000
NET CHANGE IN FUND BALANCES	-	63,643	197,150
Fund Balance - Beginning	-	1,072,335	281,093
Fund Balance - Ending	\$ -	\$ 1,135,978	\$ 478,243

See accompanying note to supplementary information - unaudited.

Pupil Transportation Fund	Special Reserve Non-Capital Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	-	\$ -	\$ -	\$ -	\$ 1,692,939
-	-	-	131,350	35,487	741,405
1,180	174	1,002,323	-	1,190,089	2,574,735
1,180	174	1,002,323	131,350	1,225,576	5,009,079
-	-	-	-	-	198,559
-	-	-	-	-	5,301
-	-	-	-	-	16,198
-	-	-	-	-	1,955,718
-	-	110,869	-	-	231,679
-	-	216,951	-	-	257,506
-	-	286,892	263,892	-	821,326
-	-	73,050	-	500,731	573,781
-	-	28,519	-	536,927	565,446
-	-	716,281	263,892	1,037,658	4,625,514
1,180	174	286,042	(132,542)	187,918	383,565
50,000	250,000	-	-	-	520,000
50,000	250,000	-	-	-	520,000
51,180	250,174	286,042	(132,542)	187,918	903,565
56,222	-	405,969	132,542	312,198	2,260,359
\$ 107,402	\$ 250,174	\$ 692,011	\$ -	\$ 500,116	\$ 3,163,924

HANFORD ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2005

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.

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, 2005, which collectively comprise the Hanford Elementary School District's basic financial statements and have issued our report thereon dated October 26, 2005. 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 accompanying Schedule of Financial Statement Findings as item 2005-1.

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, Tieme, Day & Co., LLP
Fresno, California
October 26, 2005



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND 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, 2005. 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, 2005.

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.

Vavrinek, Trine, Day & G., LLP
Fresno, California
October 26, 2005



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, 2005, and have issued our report thereon dated October 26, 2005. 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 2004-05 *Standards and Procedures for Audits of California K-12 Local Educational Agencies* prescribed in the California Code of Regulations, Title 5, Section 19810 and following. 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 Controller's Audit Guide	Procedures Performed
Attendance Accounting:		
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
Instructional time and staff development reform program	7	Yes
Instructional Time:		
School districts	4	Yes
County offices of education	3	Not Applicable
Community day schools	9	No (see below)

	Procedures in Controller's Audit Guide	Procedures Performed
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school servicing K-3	4	Not Applicable
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Not Applicable
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	Not Applicable
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

We did not perform testing for Independent Study and Community Day Schools because the ADA reported in each program was below the State recommended testing level.

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, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Varinck, Trine, Day & Co., LLP
Fresno, California
October 26, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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HANFORD ELEMENTARY SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2005

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
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 Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I</u>
<u>84.367</u>	<u>Title II, Teacher Quality</u>
<u>84.287</u>	<u>Title IV, 21st Century</u>
<u>84.186</u>	<u>Title IV, Safe and Drug Free Schools</u>
<u>84.215F</u>	<u>Carol White Physical Education Grant</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, 2005

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

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.

District Response

The District is in the process of updating the equipment inventory system.

HANFORD ELEMENTARY SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

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, 2005

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, 2005

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

2004-1 20000

Property, Plant and Equipment

Finding

Although the District has established a fixed assets inventory listing, the listing has not been properly updated for retirements for 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.

2004-2 30000

Site Cash Collections

Finding

The District is not aware of how much money they should be receiving from each site as no prenumbered form or receipt is issued by the site and forwarded as backup to the District office.

Recommendation

It is important that each site keeps track of the money being sent to the District office and that the District office is always aware of the money they should be receiving (i.e. use of pre-numbered receipts). The site should use prenumbered receipts that would be issued by site personnel immediately upon receiving payment from a parent. The site should use the prenumbered receipts issued since the previous deposit to balance the cash on hand at the time of the current deposit to ensure no funds were misplaced, lost, or stolen. A carbon of the receipts issued should be forwarded to the District office along with the cash to prove all monies received at the site were forwarded to the District office.

HANFORD ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2005

Current Status

Implemented.

2004-3 30000

Cash Collections – District Office

Finding

The District does not immediately log or receipt all funds when received.

Recommendation

It is important that the District restrictively endorses all checks received and log or receipt all cash in their office, until it is ready to be deposited. Although most times when cash is actually received, the person in charge will in turn issue a receipt, it is sporadically practiced at the District. By keeping a log of all cash and checks received, the District will be able to identify any missing cash and/or checks when making their weekly deposit.

Current Status

Implemented.

2004-4 30000

Associated Student Body

John F. Kennedy Junior High

Finding

Prenumbered subreceipts are not used to account for cash collections and therefore, there is no reconciliation between issued receipts and bank deposits.

Recommendation

Prenumbered subreceipts should be issued for all cash collections by teacher, advisors and the site bookkeeper, which would include a specific description of the source of the funds. A carbon of the receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in. The receipts issued to teachers and advisors from the bookkeeper should be totaled and reconciled to the current bank deposit. Obviously, a system to mark the last receipt, which corresponds to a deposit, must be started in order to know which receipts are related to the current bank deposit. The basic premise of a cash receipts system is that the receipts are written at the time the cash is collected and not at the time the deposit is being made. If the receipts are written at this time, the bookkeeper would have no way of knowing if money is misplaced or has been stolen.

HANFORD ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2005

Current Status

Implemented.