

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

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Independent Auditor's Report

To the Board of Education of
South Hamilton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of South Hamilton Community School District, Jewell, Iowa, 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 District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of South Hamilton Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2005, on our consideration of South Hamilton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 37 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. 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 South Hamilton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

October 3, 2005

**South Hamilton Community Schools
Management Discussion & Analysis
FY 2004-2005**

Management of the South Hamilton Community School District provides this Management's Discussion and Analysis of the South Hamilton Community School District. This narrative overview analysis of the financial activities of the South Hamilton Community School District is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues increased from \$5,406,297 in fiscal year 2004 to \$5,480,072 in fiscal year 2005, while General Fund expenditures increased from \$5,350,648 in FY 2004 to \$5,540,230 in FY 2005. This indicates that the District's General Fund balance decreased from \$474,163 at the end of FY2004 to \$413,705 at the end of FY2005, a decrease of \$60,658.
- The increase in General Fund expenditures is due primarily to the increased cost of the negotiated salary and benefits package for employees above and beyond new money generated through the state funding formula.
- The district's solvency ratio declined to 6.86% in FY 2005, down from 8.42% the previous year.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's food service program and Ag Technology enterprise program are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

The District's governmental funds include the General Fund; Special Revenue Funds; Debt Service Fund and Capital Projects Fund.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements.

The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, school nutrition and the Ag Technology Enterprise fund.

The District uses *internal service* funds, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District currently has one internal service fund, the Flexible Benefit Account.

- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, these assets include outside donations for scholarships for individual students, which are reported in the Private Purpose Trust Fund.

The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

The following table represents a condensed statement of net assets for the FY 2004 and FY 2005.

Condensed Statement of Net Assets

	Governmental		Business-type		Total		Total Percentage Change 2004-05
	Activities		Activities		School District		
	2004	2005	2004	2005	2004	2005	
Current and other assets	\$4,333,699	\$4,234,726	(\$873)	\$7,289	\$4,332,826	\$4,242,015	-2.1%
Capital assets	\$6,222,779	\$6,209,114	\$18,291	\$15,549	\$6,241,070	\$6,224,663	-0.3%
Total Assets	\$10,556,478	\$10,443,840	\$17,418	\$22,838	\$10,573,896	\$10,466,678	-1.0%
Long-term debt outstanding	\$3,959,246	\$3,829,302	\$0	\$0	\$3,959,246	\$3,829,302	-3.4%
Other liabilities	\$3,454,634	\$3,208,209	\$6,044	\$6,990	\$3,460,678	\$3,215,199	-7.1%
Total liabilities	\$7,413,880	\$7,037,511	\$6,044	\$6,990	\$7,419,924	\$7,044,501	-5.3%
Net Assets							
Invested in capital assets, net of related debt	\$2,309,280	\$2,478,344	\$18,291	\$15,549	\$2,327,571	\$2,493,893	7.1%
Restricted	\$321,713	\$557,575	\$0	\$0	\$321,713	\$557,575	73.3%
Unrestricted	\$511,605	\$370,410	(\$6,917)	\$299	\$504,688	\$370,709	-26.5%
TOTAL NET ASSETS	\$3,142,598	\$3,406,329	\$11,374	\$15,848	\$3,153,972	\$3,422,177	8.5%

The District's financial position is very stable as evidenced by a growth in total net assets of only 8.5% from FY04 to FY05.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$235,862 or 73% over the prior year. The increase was primarily a result of local option sales taxes that were collected in fiscal year 2005, but were not spent.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$133,979, or 27%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Changes in net assets. The following table represents a comparison of FY2004 and FY2005.

Changes in Net Assets.

	Governmental Activities		Business-type Activities		Total School District		Percent Change
	2004	2005	2004	2005	2004	2005	
Revenues							
Program Revenues							
Charges for services	\$593,132	\$575,794	\$186,022	\$191,385	\$779,154	\$767,179	-1.5%
Operating Grants & Contributions	557,331	\$595,786	100,582	\$146,075	\$657,913	\$741,861	12.8%
Capital Grants & Contributions	-	\$42,338	-	-	-	\$42,338	
General Revenues					-	-	
Property taxes & other taxes	\$2,941,298	\$2,887,007	-	-	\$2,941,298	\$2,887,007	-1.8%
Unrestricted state aid	\$2,184,366	\$2,506,134	-	-	\$2,184,366	\$2,506,134	14.7%
Other	\$23,883	\$34,896	\$12	\$56	\$23,895	\$34,952	46.3%
Total Revenues	\$6,300,010	\$6,641,955	\$286,616	\$337,516	\$6,586,626	\$6,979,471	6.0%
Expenses							
Instruction	\$3,844,138	\$4,007,122	-	-	\$3,844,138	\$4,007,122	4.2%
Pupil & Instructional Svcs	\$337,870	\$324,510	-	-	\$337,870	\$324,510	-4.0%
Administrative & Business	\$551,574	\$612,796	-	-	\$551,574	\$612,796	11.1%
Maintenance & Operations	\$433,087	\$463,193	-	-	\$433,087	\$463,193	7.0%
Transportation	\$323,543	\$338,040	-	-	\$323,543	\$338,040	4.5%
Non-instructional Programs	\$5,337	\$-	\$301,711	\$333,042	\$307,048	\$333,042	8.5%
Other	\$651,594	\$632,563	-	-	\$651,594	\$632,563	-2.9%
Total Expenses	\$6,147,143	\$6,378,224	\$301,711	\$333,042	\$6,448,854	\$6,711,266	4.1%

Increase (decrease) in net assets

\$152,867 \$263,731 \$(15,095) \$4,474 \$137,772 \$268,205

Governmental Activities

Revenues for governmental activities were \$6,641,955 while expenses amounted to \$6,378,224. In a difficult budget year, the District did an excellent job of managing expenditures to work within available revenues.

The local option sales tax revenue was up significantly from \$864 in FY2004 to \$322,463 in FY2005. This is due to the school infrastructure local option sales and service tax being implemented in Hamilton County.

The following table presents the cost of the District’s major governmental activities: instruction, support services, non-instructional programs and other expenses.

Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2004	2005	% Change	2004	2005	% Change
Instruction	\$3,844,138	\$4,007,122	4.2%	\$2,980,522	\$3,123,236	4.8%
Pupil & Instructional Services	\$337,870	\$324,510	-4.1%	\$337,870	\$324,510	-4.0%
Administrative & Business	\$551,574	\$612,796	11.1%	\$486,171	\$545,899	12.3%
Maintenance & Operations	\$433,087	\$463,193	7.0%	\$431,541	\$462,738	7.2%
Transportation	\$323,543	\$338,040	4.5%	\$321,476	\$338,040	5.2%
Non-instructional Programs	\$5,337	\$-	-100.0%	\$5,337	\$-	-100.0%
Other	\$651,594	\$632,563	-2.9%	\$433,763	\$369,883	-14.7%
TOTAL	\$6,147,143	\$6,378,224	3.8%	\$4,996,680	\$5,164,306	3.4%

- The cost of all governmental activities this year was \$6,377,865.
- The portion of the cost financed by users of the District’s programs was \$575,794, which represents tuition from other schools, charges to other schools for shared employees, revenues from extra-curricular student activities and student registration fees.
- The federal and state government (and private contributors) subsidized certain programs with grants and contributions totaling \$638,463.
- The net cost portion of governmental activities was financed with \$2,472,664 in property tax, \$2,506,134 in unrestricted state aid, \$322,463 in local option sales tax, \$91,880 income surtax, and \$29,263 in interest income.

Business-Type Activities

Revenues of the District's business-type activities totaled \$337,516 while expenses \$333,042. The District's business-type activities include the School Nutrition Fund and the Ag Technology Enterprise Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

Deficits in both the School Nutrition Fund and the Ag Technology Enterprise Fund are noted. The cost of health insurance for food service employees continue to be a major factor in the increased expenditures in this program. The cost of raw materials, particularly steel, has been the primary reason for increased expenditures in the Ag Technology program. The district will be monitoring revenues and expenditures and making adjustments as necessary to increase revenues or reduce expenditures.

Financial Analysis of the District's Funds

As previously noted, the South Hamilton Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The strong financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$970,417, well above last year's ending fund balances of \$827,352.

Governmental Fund Highlights

- The General Fund balance decreased from \$474,163 in FY04 to \$413,705 in FY05.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$213,138 in FY2004 to \$124,080 in FY2005. This was due to increased expenditures related to a band room addition.
- The Capital Projects Fund balance increased significantly due to the Hamilton County Local Option Sales and Service Tax for School Infrastructure.

Business-Type Fund Highlights

- The School Nutrition Fund and Ag Technology Enterprise Fund balance increased \$4,474. The reasons for this increase were due primarily to a federal grant.

The district's financial health is solid and stable. Student enrollment is stable as are staffing patterns. Facility conditions are also excellent. School nutrition and Ag technology enterprise funds are operating at a deficit and are being closely monitored.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the cash basis. Over the course of the year, it was not necessary for the District to amend its certified budget.

The District has not amended its budget for several years because we prepare the initial budget using the maximum expenditures that the District could have based on projected revenues and carryover balances. Actual expenditures are controlled during the year using a line item budget that bases expenditures on projected revenues for the year.

School districts have two levels of budgetary control. One form of budgetary control exists through the “certified budget”, which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the “unspent (maximum) authorized budget” and pertains only to the General Fund of the District. The maximum authorized budget is the total “spending authority” in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the “actual General Fund cash”. It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

Capital Asset and Debt Administration

Capital Assets

By the end of fiscal 2005, the District had invested \$6,224,663, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers and audio-visual equipment, transportation equipment, and administrative offices. This amount represents a net decrease of .26% from last year. (See exhibit below). Depreciation expense for the year was approximately \$258,679. No significant changes in capital assets occurred during the fiscal year.

Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2004	2005	2004	2005	2004	2005	2004-05
	Land	\$39,301	\$39,301			\$39,301	\$39,301
Construction in progress		\$103,928			\$-	\$103,928	
Buildings & Other Improvements	\$5,777,805	\$5,713,190			\$5,777,805	\$5,713,190	-1%
Equipment & Furniture	\$405,673	\$352,695	\$18,291	\$15,549	\$423,964	\$368,244	-13%
TOTAL	\$6,222,779	\$6,209,114	\$18,291	\$15,549	\$6,241,070	\$6,224,663	-0.26%

In June 2005 the District started construction on a band room addition. At June 30, 2005 \$103,928 of the costs incurred on the project are reported in the above table as construction in progress and the District had committed another \$82,200 to complete the construction.

Long-Term Debt

At year-end, the district had \$3,700,000 in general obligation bonds outstanding. This represents a decrease of 5.6% percent from last year. This debt is related to a \$5,000,000 bond issue approved by the voters on December 2, 1997 for the new elementary school building.

Additional debt service expenditures are related to lease agreements on copy machines.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The board anticipates a number of physical plant and grounds issues that will need to be addressed, such as paving of the north high school parking lot, roof repair and replacement (elementary gym), the purchase of a new bus, the installation of lights for the baseball field, and tuckpointing of the middle/high school.
- The district is experiencing an influx of open enrollment applications. This is due to sharing talks with a neighbor not leading to a sharing agreement.
- The board anticipates that there will be an increase in valuation within the district due to the installation of a new ethanol plant in the district.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Susan L. Headley, Board Secretary or Lyle Schwartz, Superintendent
South Hamilton Community Schools
315 Division Street
Jewell, IA 50130

BASIC FINANCIAL STATEMENTS

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total	Component Unit South Hamilton Community School District Foundation
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	1,341,143	1,780	1,342,923	121,717
Receivables:				
Property tax:				
Delinquent	28,490	-	28,490	-
Succeeding year	2,616,133	-	2,616,133	-
Accounts	405	1,933	2,338	-
Accrued interest	134	-	134	562
Interfund receivable/payable	15,881	(15,881)	-	-
Due from other governments	232,540	5,146	237,686	-
Inventories	-	14,311	14,311	-
Capital assets, net of accumulated depreciation	6,209,114	15,549	6,224,663	-
Total assets	10,443,840	22,838	10,466,678	122,279
Liabilities				
Accounts payable	122,787	547	123,334	-
Salaries and benefits payable	440,019	2,356	442,375	-
Accrued interest payable	29,270	-	29,270	-
Deferred revenue:				
Succeeding year property tax	2,616,133	-	2,616,133	-
Other	-	4,087	4,087	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	235,000	-	235,000	-
Capital leases	9,042	-	9,042	-
Early retirement	98,532	-	98,532	-
Portion due after one year:				
General obligation bonds payable	3,465,000	-	3,465,000	-
Capital leases	21,728	-	21,728	-
Total liabilities	7,037,511	6,990	7,044,501	-

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total	Component Unit South Hamilton Community School District Foundation
	\$	\$	\$	\$
Net assets				
Invested in capital assets, net of related debt	2,478,344	15,549	2,493,893	-
Restricted for:				
Gifted and talented program	37,500	-	37,500	-
Physical plant and equipment levy	124,080	-	124,080	-
Other special revenue purposes	52,902	-	52,902	-
Capital projects local option sales tax	343,093	-	343,093	-
Unrestricted	370,410	299	370,709	122,279
Total net assets	<u>3,406,329</u>	<u>15,848</u>	<u>3,422,177</u>	<u>122,279</u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	2,583,544	269,426	253,659	-
Special instruction	620,431	48,833	35,587	-
Other instruction	803,147	190,183	86,198	-
	<u>4,007,122</u>	<u>508,442</u>	<u>375,444</u>	<u>-</u>
Support services:				
Student services	133,739	-	-	-
Instructional staff services	190,771	-	-	-
Administration services	612,796	66,897	-	-
Operation and maintenance of plant services	463,193	455	-	-
Transportation services	338,040	-	-	-
	<u>1,738,539</u>	<u>67,352</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	59,340	-	-	42,338
Long-term debt interest	186,171	-	1,825	-
AEA flowthrough	218,517	-	218,517	-
Depreciation (unallocated)*	168,535	-	-	-
	<u>632,563</u>	<u>-</u>	<u>220,342</u>	<u>42,338</u>
Total governmental activities	<u>6,378,224</u>	<u>575,794</u>	<u>595,786</u>	<u>42,338</u>
Business type activities:				
Non-instructional programs:				
Food service operations	321,237	172,883	146,075	-
Agri. science tech. student construction	11,805	18,502	-	-
Total business type activities	<u>333,042</u>	<u>191,385</u>	<u>146,075</u>	<u>-</u>
Total primary government	<u>6,711,266</u>	<u>767,179</u>	<u>741,861</u>	<u>42,338</u>
Component Units:				
South Hamilton Community School District Foundation	15,832	-	15,441	-
Total	<u>6,727,098</u>	<u>767,179</u>	<u>757,302</u>	<u>42,338</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

*This amount excludes the depreciation that is included in the direct expenses of the various programs.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
(2,060,459)	-	(2,060,459)	-
(536,011)	-	(536,011)	-
(526,766)	-	(526,766)	-
<u>(3,123,236)</u>	<u>-</u>	<u>(3,123,236)</u>	<u>-</u>
(133,739)	-	(133,739)	-
(190,771)	-	(190,771)	-
(545,899)	-	(545,899)	-
(462,738)	-	(462,738)	-
(338,040)	-	(338,040)	-
<u>(1,671,187)</u>	<u>-</u>	<u>(1,671,187)</u>	<u>-</u>
(17,002)	-	(17,002)	-
(184,346)	-	(184,346)	-
-	-	-	-
(168,535)	-	(168,535)	-
<u>(369,883)</u>	<u>-</u>	<u>(369,883)</u>	<u>-</u>
<u>(5,164,306)</u>	<u>-</u>	<u>(5,164,306)</u>	<u>-</u>
-	(2,279)	(2,279)	-
-	6,697	6,697	-
-	4,418	4,418	-
<u>(5,164,306)</u>	<u>4,418</u>	<u>(5,159,888)</u>	<u>-</u>
-	-	-	(391)
<u>(5,164,306)</u>	<u>4,418</u>	<u>(5,159,888)</u>	<u>(391)</u>
1,923,666	-	1,923,666	-
404,254	-	404,254	-
144,744	-	144,744	-
91,880	-	91,880	-
322,463	-	322,463	-
2,506,134	-	2,506,134	-
29,263	56	29,319	1,884
5,633	-	5,633	-
<u>5,428,037</u>	<u>56</u>	<u>5,428,093</u>	<u>1,884</u>
263,731	4,474	268,205	1,493
<u>3,142,598</u>	<u>11,374</u>	<u>3,153,972</u>	<u>120,786</u>
<u>3,406,329</u>	<u>15,848</u>	<u>3,422,177</u>	<u>122,279</u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	796,020	6,161	529,557	1,331,738
Receivables:				
Property tax:				
Delinquent	21,285	4,672	2,533	28,490
Succeeding year	1,928,855	357,234	330,044	2,616,133
Accounts	285	-	120	405
Accrued interest - ISCAP	81	-	-	81
Accrued interest	-	-	53	53
Interfund receivable	8,000	-	7,881	15,881
Due from other governments	128,770	-	103,770	232,540
	<u>2,883,296</u>	<u>368,067</u>	<u>973,958</u>	<u>4,225,321</u>
Total assets				
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	16,717	-	98,035	114,752
Salaries and benefits payable	440,019	-	-	440,019
Deferred revenue:				
Succeeding year property tax	1,928,855	357,234	330,044	2,616,133
Other	84,000	-	-	84,000
Total liabilities	<u>2,469,591</u>	<u>357,234</u>	<u>428,079</u>	<u>3,254,904</u>
Fund balances:				
Reserved for:				
Gifted and talented program	37,500	-	-	37,500
Debt service	-	10,833	-	10,833
Unreserved reported in:				
General Fund	376,205	-	-	376,205
Special Revenue Funds	-	-	202,786	202,786
Capital Projects Fund	-	-	343,093	343,093
Total fund balances	<u>413,705</u>	<u>10,833</u>	<u>545,879</u>	<u>970,417</u>
	<u>2,883,296</u>	<u>368,067</u>	<u>973,958</u>	<u>4,225,321</u>
Total liabilities and fund balances				

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Balance Sheet - Governmental Funds
 to the Statement of Net Assets

June 30, 2005

	\$
Total fund balances of governmental funds (Exhibit C)	970,417
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	6,209,114
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	84,000
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(29,270)
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	1,370
Long-term liabilities, including bonds payable, capital leases and early retirement, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(3,829,302)</u>
Net assets of governmental activities (Exhibit A)	<u><u>3,406,329</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2005

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,939,361	404,268	542,121	2,885,750
Tuition	319,458	-	-	319,458
Other	121,158	1,825	177,964	300,947
State sources	2,921,344	-	-	2,921,344
Federal sources	178,751	-	-	178,751
Total revenues	<u>5,480,072</u>	<u>406,093</u>	<u>720,085</u>	<u>6,606,250</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	2,490,516	-	-	2,490,516
Special instruction	620,431	-	-	620,431
Other instruction	633,632	-	168,825	802,457
	<u>3,744,579</u>	<u>-</u>	<u>168,825</u>	<u>3,913,404</u>
Support services:				
Student services	133,739	-	-	133,739
Instructional staff services	182,771	-	-	182,771
Administration services	539,029	-	61,957	600,986
Operation and maintenance of plant services	447,768	-	3,828	451,596
Transportation services	274,327	-	10,994	285,321
	<u>1,577,634</u>	<u>-</u>	<u>76,779</u>	<u>1,654,413</u>
Other expenditures:				
Facilities acquisition	-	-	260,552	260,552
Long-term debt:				
Principal	-	228,476	-	228,476
Interest and fiscal charges	-	188,023	-	188,023
AEA flowthrough	218,517	-	-	218,517
	<u>218,517</u>	<u>416,499</u>	<u>260,552</u>	<u>895,568</u>
Total expenditures	<u>5,540,730</u>	<u>416,499</u>	<u>506,156</u>	<u>6,463,385</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(60,658)</u>	<u>(10,406)</u>	<u>213,929</u>	<u>142,865</u>
Other financing sources (uses):				
Sales of materials and equipment	200	-	-	200
Operating transfers in	-	11,046	-	11,046
Operating transfers out	-	-	(11,046)	(11,046)
Total other financing sources (uses)	<u>200</u>	<u>11,046</u>	<u>(11,046)</u>	<u>200</u>
Net change in fund balances	(60,458)	640	202,883	143,065
Fund balances beginning of year	<u>474,163</u>	<u>10,193</u>	<u>342,996</u>	<u>827,352</u>
Fund balances end of year	<u>413,705</u>	<u>10,833</u>	<u>545,879</u>	<u>970,417</u>

See notes to financial statements.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the
Statement of Activities

Year ended June 30, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		143,065
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	242,272	
Depreciation expense	<u>(255,937)</u>	(13,665)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of		1,345
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		228,476
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		1,852
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement		(98,532)
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>1,190</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>263,731</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	Enterprise Funds	Governmental Activities - Internal Service Fund
	Nonmajor Funds	Service Fund
	\$	\$
Assets		
Cash and cash equivalents	1,780	9,405
Accounts receivable	1,933	-
Due from other governments	5,146	-
Inventories	14,311	-
Capital assets, net of accumulated depreciation	15,549	-
	<u>38,719</u>	<u>9,405</u>
Total assets		
Liabilities		
Accounts payable	547	8,035
Interfund payable	15,881	-
Salaries and benefits payable	2,356	-
Deferred revenue	4,087	-
	<u>22,871</u>	<u>8,035</u>
Total liabilities		
Net assets		
Invested in capital assets, net of related debt	15,549	-
Unrestricted	299	1,370
	<u>15,848</u>	<u>1,370</u>
Total net assets		

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2005

	Enterprise Funds Nonmajor Funds \$	Governmental Activities - Internal Service Fund \$
Operating revenue:		
Local sources:		
Charges for service	191,385	37,529
Operating expenses:		
Non-instructional programs:		
Salaries	101,616	-
Benefits	51,145	36,339
Purchased services	1,751	-
Supplies	175,511	-
Depreciation	2,742	-
Other	277	-
	333,042	36,339
Operating gain (loss)	(141,657)	1,190
Non-operating revenue:		
State sources	4,014	-
Federal sources	142,061	-
Interest income	56	-
Total non-operating revenue	146,131	-
Change in net assets	4,474	1,190
Net assets beginning of year	11,374	180
Net assets end of year	15,848	1,370

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Enterprise Funds	Governmental Activities - Internal Service Fund
	Nonmajor Funds	Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	173,010	-
Cash received from sale of services and equipment	17,803	-
Cash received from sale of services to other funds	-	37,529
Cash payments to employees for services	(147,969)	(32,376)
Cash payments to suppliers for goods or services	(153,403)	-
Net cash provided by (used by) operating activities	<u>(110,559)</u>	<u>5,153</u>
Cash flows from non-capital financing activities:		
State grants received	4,014	-
Federal grants received	114,546	-
Net cash provided by non-capital financing activities	<u>118,560</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Loans from other funds	<u>(6,905)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>56</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	1,152	5,153
Cash and cash equivalents at beginning of year	<u>628</u>	<u>4,252</u>
Cash and cash equivalents at end of year	<u><u>1,780</u></u>	<u><u>9,405</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(141,657)	1,190
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	22,369	-
Depreciation	2,742	-
Decrease (increase) in inventories	1,310	-
Decrease (increase) in accounts receivable	(969)	-
(Decrease) increase in accounts payable	457	3,963
(Decrease) increase in salaries and benefits payable	4,792	-
(Decrease) increase in deferred revenue	397	-
Net cash used in operating activities	<u>(110,559)</u>	<u>5,153</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$22,369 of federal commodities.

See notes to financial statements.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Fund

June 30, 2005

	Private Purpose Trust Scholarship <u> </u> \$
Assets	
Cash and pooled investments	35,282
Accrued interest receivable	<u>258</u>
Total Assets	35,540
Liabilities	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>35,540</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

Year ended June 30, 2005

	Private Purpose Trust Scholarship \$
Additions:	
Local sources:	
Gifts and contributions	6,950
Interest	802
Total additions	<u>7,752</u>
Deductions:	
Support services:	
Supplies	376
Scholarships awarded	9,450
	<u>9,826</u>
Change in net assets	(2,074)
Net assets beginning of year	<u>37,614</u>
Net assets end of year	<u><u>35,540</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

South Hamilton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Jewell, Ellsworth, Randall and Stanhope, Iowa and the predominately agricultural territory in a portion of Boone and Hamilton Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, South Hamilton Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The South Hamilton Community School District Foundation is included in the financial statements as a discretely presented component unit.

The South Hamilton Community School District Foundation was established to maintain, develop, increase and extend the facilities and services of the South Hamilton Community School District, and to provide broader education service opportunities to its students, staff, faculty and the residents of the South Hamilton Community School District. Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

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

The District has two proprietary enterprise funds. The School Nutrition Fund is used to account for the food service operations of the District and the Agricultural Science Technology Student Construction Fund is used to account for student construction projects held for resale.

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's employee benefit cafeteria plan.

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

The Private-Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the

timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004, through June 30, 2005, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received. Proprietary fund inventories include \$1,600 of completed goods held for resale.

Capital Assets – Capital assets, which include property, furniture and equipment are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	25,000
Improvements other than buildings	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
	\$
Diversified Portfolio	23,278

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Special Revenue: Student Activity Fund	Enterprise: Agri. Science Tech. Student Construction	7,881
General Fund	Enterprise: School Nutrition	8,000

The interfund receivable/payable balances are for cash flow purposes.

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
		\$
Debt Service Fund	Special Revenue: Physical Plant and Equipment Levy Fund	11,046

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
			\$	\$	\$	\$
2004-05A	6/30/04	6/30/05	-	81	-	-

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005, is as follows:

<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
\$	\$	\$	\$
-	-	-	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
	%	%
2004-05A	3.000	2.463

6. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	-	103,928	-	103,928
Land	39,301	-	-	39,301
	<u>39,301</u>	<u>103,928</u>	<u>-</u>	<u>143,229</u>
Capital assets being depreciated:				
Buildings	7,794,553	85,965	-	7,880,518
Improvements other than buildings	334,197	17,955	-	352,152
Furniture and equipment	1,535,606	34,424	-	1,570,030
Total capital assets being deprec.	<u>9,664,356</u>	<u>138,344</u>	<u>-</u>	<u>9,802,700</u>
Less accumulated depreciation for:				
Buildings	2,112,535	156,471	-	2,269,006
Improvements other than buildings	238,410	12,064	-	250,474
Furniture and equipment	1,129,933	87,402	-	1,217,335
Total accumulated depreciation	<u>3,480,878</u>	<u>255,937</u>	<u>-</u>	<u>3,736,815</u>
Total capital assets being depreciated, net	<u>6,183,478</u>	<u>(117,593)</u>	<u>-</u>	<u>6,065,885</u>
Governmental activities capital assets, net	<u>6,222,779</u>	<u>(13,665)</u>	<u>-</u>	<u>6,209,114</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	116,558	-	-	116,558
Less accumulated depreciation	<u>98,267</u>	<u>2,742</u>	<u>-</u>	<u>101,009</u>
Business type activities capital assets, net	<u>18,291</u>	<u>(2,742)</u>	<u>-</u>	<u>15,549</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	2,586
Other	690
Support Services:	
Instructional staff services	8,000
Administration services	11,810
Operation and maintenance of plant services	11,597
Transportation	52,719
	<u>87,402</u>

Unallocated depreciation	<u>168,535</u>
Total depreciation expense – governmental activities	<u>255,937</u>
Business type activities:	
Food services	<u>2,742</u>

7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	3,920,000	-	220,000	3,700,000	235,000
Capital leases	39,246	-	8,476	30,770	9,042
Early retirement	-	98,532	-	98,532	98,532
Total	<u>3,959,246</u>	<u>98,532</u>	<u>228,476</u>	<u>3,829,302</u>	<u>342,574</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on the difference between the B.A. Lane Step 2 Salary in the last year of employment and the employee's position on the salary schedule in the last year of employment.

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2006	5.75	235,000	174,672	409,672
2007	5.75	245,000	161,160	406,160
2008	4.25	260,000	147,072	407,072
2009	4.30	270,000	136,022	406,022
2010	4.40	285,000	124,412	409,412
2011-2015	4.50-4.70	1,630,000	418,236	2,048,236
2016-2017	4.75	<u>775,000</u>	<u>55,574</u>	<u>830,574</u>
		<u>3,700,000</u>	<u>1,217,148</u>	<u>4,917,148</u>

Capital Leases

The District has leased two copy machines under a capital lease. The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2005.

	Year Ending June 30,	Amount
		\$
	2006	11,022
	2007	11,022
	2008	11,022
	2009	1,837
Minimum Lease Payments		<u>34,903</u>
Less Amount Representing Interest		<u>4,133</u>
Present Value of Minimum Lease Payments		<u>30,770</u>

8. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$203,581, \$197,089 and \$190,822 respectively, equal to the required contributions for each year.

9. Risk Management

South Hamilton Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$218,517 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Construction Commitment

The District has entered into contracts totaling \$167,700 for a band room addition. As of June 30, 2005 costs of \$85,500 had been incurred against the contract. The balance remaining at June 30, 2005 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	3,393,164	190,869	3,584,033	3,466,804	3,466,804	117,229
State sources	2,920,943	4,014	2,924,957	2,949,580	2,949,580	(24,623)
Federal sources	192,562	136,915	329,477	297,000	297,000	32,477
Total receipts	<u>6,506,669</u>	<u>331,798</u>	<u>6,838,467</u>	<u>6,713,384</u>	<u>6,713,384</u>	<u>125,083</u>
Disbursements:						
Instruction	3,941,117	-	3,941,117	4,318,274	4,318,274	377,157
Support services	1,654,304	-	1,654,304	2,056,106	2,056,106	401,802
Non-instructional programs	1,595	323,741	325,336	334,791	334,791	9,455
Other expenditures	810,424	-	810,424	848,848	848,848	38,424
Total disbursements	<u>6,407,440</u>	<u>323,741</u>	<u>6,731,181</u>	<u>7,558,019</u>	<u>7,558,019</u>	<u>826,838</u>
Excess (deficiency) of receipts over (under) disbursements	99,229	8,057	107,286	(844,635)	(844,635)	951,921
Other financing sources (uses) net	<u>2,405</u>	<u>(6,905)</u>	<u>(4,500)</u>	<u>500</u>	<u>500</u>	<u>(5,000)</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	101,634	1,152	102,786	(844,135)	(844,135)	946,921
Balance beginning of year	<u>1,230,104</u>	<u>628</u>	<u>1,230,732</u>	<u>1,395,543</u>	<u>1,395,543</u>	<u>(164,811)</u>
Balance end of year	<u><u>1,331,738</u></u>	<u><u>1,780</u></u>	<u><u>1,333,518</u></u>	<u><u>551,408</u></u>	<u><u>551,408</u></u>	<u><u>782,110</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	6,506,669	99,581	6,606,250
Expenditures	6,407,440	55,945	6,463,385
Net	99,229	43,636	142,865
Other financing sources (uses) net	2,405	(2,205)	200
Beginning fund balances	1,230,104	(402,752)	827,352
Ending fund balances	1,331,738	(361,321)	970,417

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	331,798	5,718	337,516
Expenditures	323,741	9,301	333,042
Net	8,057	(3,583)	4,474
Other financing sources (uses) net	(6,905)	6,905	-
Beginning fund balances	628	10,746	11,374
Ending fund balances	1,780	14,068	15,848

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend its budget during the year.

OTHER SUPPLEMENTARY INFORMATION

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds					Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trusts	Capital Projects	
	\$	\$	\$	\$	\$	\$
Cash and pooled investments	28,770	32,929	207,935	15,600	244,323	529,557
Receivables:						
Property tax:						
Delinquent	862	-	1,671	-	-	2,533
Succeeding year	185,000	-	145,044	-	-	330,044
Accounts	-	120	-	-	-	120
Accrued interest	-	-	-	53	-	53
Interfund receivable	-	7,881	-	-	-	7,881
Due from other governments	-	-	-	-	103,770	103,770
Total assets	214,632	40,930	354,650	15,653	348,093	973,958
Liabilities & Fund Balances						
Liabilities:						
Accounts payable	3,828	3,681	85,526	-	5,000	98,035
Deferred revenue:						
Succeeding year property tax	185,000	-	145,044	-	-	330,044
Total liabilities	188,828	3,681	230,570	-	5,000	428,079
Fund balances:						
Unreserved fund balance reported in:						
Special Revenue Funds	25,804	37,249	124,080	15,653	-	202,786
Capital Projects Funds	-	-	-	-	343,093	343,093
Total fund balances	25,804	37,249	124,080	15,653	343,093	545,879
Total liabilities and fund balances	214,632	40,930	354,650	15,653	348,093	973,958

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2005

	Special Revenue Funds					Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trusts	Capital Projects	
	\$	\$	\$	\$	\$	
Revenues:						
Local sources:						
Local tax	74,909	-	144,749	-	322,463	542,121
Other	910	164,084	10,539	296	2,135	177,964
Total revenues	<u>75,819</u>	<u>164,084</u>	<u>155,288</u>	<u>296</u>	<u>324,598</u>	<u>720,085</u>
Expenditures:						
Current:						
Instruction:						
Other instruction	-	168,825	-	-	-	168,825
Support services:						
Administration services	61,957	-	-	-	-	61,957
Operation and maintenance of plant services	3,828	-	-	-	-	3,828
Transportation services	10,994	-	-	-	-	10,994
Other expenditures:						
Facilities acquisition	-	-	233,300	-	27,252	260,552
Total expenditures	<u>76,779</u>	<u>168,825</u>	<u>233,300</u>	<u>-</u>	<u>27,252</u>	<u>506,156</u>
Excess (deficiency) of revenues over (under) expenditures	(960)	(4,741)	(78,012)	296	297,346	213,929
Other financing sources (uses):						
Operating transfers out	-	-	(11,046)	-	-	(11,046)
Net change in fund balance	(960)	(4,741)	(89,058)	296	297,346	202,883
Fund balances beginning of year	<u>26,764</u>	<u>41,990</u>	<u>213,138</u>	<u>15,357</u>	<u>45,747</u>	<u>342,996</u>
Fund balances end of year	<u>25,804</u>	<u>37,249</u>	<u>124,080</u>	<u>15,653</u>	<u>343,093</u>	<u>545,879</u>

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2005

	School Nutrition \$	Agri Science Tech. Student Constr. \$	Total \$
Assets			
Cash and cash equivalents	1,780	-	1,780
Accounts receivable	414	1,519	1,933
Due from other governments	5,146	-	5,146
Inventories	6,911	7,400	14,311
Capital assets, net of accumulated depreciation	15,549	-	15,549
Total assets	<u>29,800</u>	<u>8,919</u>	<u>38,719</u>
Liabilities			
Accounts payable	-	547	547
Interfund payable	8,000	7,881	15,881
Salaries and benefits payable	2,356	-	2,356
Deferred revenue	4,087	-	4,087
Total liabilities	<u>14,443</u>	<u>8,428</u>	<u>22,871</u>
Net assets			
Invested in capital assets, net of related debt	15,549	-	15,549
Unrestricted	(192)	491	299
Total net assets	<u><u>15,357</u></u>	<u><u>491</u></u>	<u><u>15,848</u></u>

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2005

	School Nutrition	Agri. Science Tech. Student Constr.	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for service	172,883	18,502	191,385
Operating expenses:			
Non-instructional programs:			
Salaries	101,616	-	101,616
Benefits	51,145	-	51,145
Purchased services	1,751	-	1,751
Supplies	163,706	11,805	175,511
Depreciation	2,742	-	2,742
Other	277	-	277
	<u>321,237</u>	<u>11,805</u>	<u>333,042</u>
Operating gain (loss)	<u>(148,354)</u>	<u>6,697</u>	<u>(141,657)</u>
Non-operating revenue:			
State sources	4,014	-	4,014
Federal sources	142,061	-	142,061
Interest income	56	-	56
Total non-operating revenue	<u>146,131</u>	<u>-</u>	<u>146,131</u>
Change in net assets	(2,223)	6,697	4,474
Net assets beginning of year	<u>17,580</u>	<u>(6,206)</u>	<u>11,374</u>
Net assets end of year	<u><u>15,357</u></u>	<u><u>491</u></u>	<u><u>15,848</u></u>

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2005

	School Nutrition \$	Agri. Science Tech. Constr. \$	Total \$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	173,010	-	173,010
Cash received from sale of services and equipment	-	17,803	17,803
Cash payments to employees for services	(147,969)	-	(147,969)
Cash payments to suppliers for goods or services	(142,505)	(10,898)	(153,403)
Net cash provided by (used by) operating activities	<u>(117,464)</u>	<u>6,905</u>	<u>(110,559)</u>
Cash flows from non-capital financing activities:			
State grants received	4,014	-	4,014
Federal grants received	114,546	-	114,546
Net cash provided by non-capital financing activities	<u>118,560</u>	<u>-</u>	<u>118,560</u>
Cash flows from capital and related financing activities:			
Loans from other funds	-	(6,905)	(6,905)
Cash flows from investing activities:			
Interest on investments	56	-	56
Net increase (decrease) in cash and cash equivalents	1,152	-	1,152
Cash and cash equivalents at beginning of year	628	-	628
Cash and cash equivalents at end of year	<u>1,780</u>	<u>-</u>	<u>1,780</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:			
Operating gain (loss)	(148,354)	6,697	(141,657)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	22,369	-	22,369
Depreciation	2,742	-	2,742
Decrease (increase) in inventories	860	450	1,310
Decrease (increase) in accounts receivable	(270)	(699)	(969)
(Decrease) increase in accounts payable	-	457	457
(Decrease) increase in salaries and benefits payable	4,792	-	4,792
(Decrease) increase in deferred revenue	397	-	397
Net cash used in operating activities	<u>(117,464)</u>	<u>6,905</u>	<u>(110,559)</u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance End of Year</u>
Dramatics	2,008	2,043	2,287	1,764
FFA	2,025	19,175	19,466	1,734
Technology club	120	-	-	120
Student council	413	16,037	15,121	1,329
National Honor Society	(5)	89	154	(70)
Spanish club	286	-	-	286
Yearbook	10,821	12,715	12,790	10,746
Hamilton holidays	8,004	1,803	549	9,258
Athletics	1,992	58,092	66,525	(6,441)
Concessions	1,924	27,700	30,952	(1,328)
District Football	600	1,000	203	1,397
Class of 2005	-	1,694	1,375	319
Class of 2004	88	-	88	-
Swing choir	97	-	-	97
H.S. band	329	1,350	1,350	329
Elementary vocal	260	88	88	260
K-6 student council	7,415	1,777	2,288	6,904
M.S. band	1,064	-	-	1,064
7-8 student council	2,711	880	85	3,506
Springbrook trip	-	1,995	1,995	-
Prom	1,481	17,374	13,459	5,396
Interest	357	272	50	579
 Total	 <u>41,990</u>	 <u>164,084</u>	 <u>168,825</u>	 <u>37,249</u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,885,750	2,917,977	2,926,734	2,821,068
Tuition	319,458	317,993	242,237	391,906
Other	300,947	297,132	299,095	190,584
State sources	2,921,344	2,590,845	2,626,993	2,541,434
Federal sources	178,751	152,129	127,868	85,658
Total revenues	6,606,250	6,276,076	6,222,927	6,030,650
Expenditures:				
Instruction:				
Regular instruction	2,490,516	2,399,336	2,355,673	2,380,974
Special instruction	620,431	824,936	748,384	655,011
Other instruction	802,457	616,770	609,615	549,407
Support services:				
Student services	133,739	127,009	125,868	150,042
Instructional staff services	182,771	175,952	191,710	175,094
Administration services	600,986	585,665	522,457	530,273
Operation and maintenances of plant services	451,596	423,233	400,197	383,411
Transportation services	285,321	335,534	325,810	306,274
Non-instructional programs	-	5,337	6,650	6,486
Other expenditures:				
Facilities acquisition	260,552	113,523	143,350	105,972
Long-term debt:				
Principal	228,476	211,655	202,542	187,056
Interest and other charges	188,023	196,715	197,214	210,563
AEA flowthrough	218,517	217,041	228,996	227,200
Total expenditures	6,463,385	6,232,706	6,058,466	5,867,763

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
South Hamilton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of South Hamilton Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 3, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Hamilton Community 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 the 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 Part I of the accompanying Schedule of Findings.

A material weakness is a reportable 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, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Hamilton Community 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, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of South Hamilton Community School District and other parties to whom South Hamilton Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of South Hamilton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

October 3, 2005

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

05-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to increase monitoring activities to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

05-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget: Disbursements for the year ended June 30, 2005, did not exceed the amounts budgeted.

05-II-C Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

05-II-E Business Transactions: We noted the following transaction between the District and District officials or employees.

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
		\$
Dave Carlson, board member, substitute bus driver	Bus driver	2,401

This transaction does not appear to be a conflict of interest because, as allowed by the Code of Iowa, the employment was part time and temporary and the amount paid was not over \$2,500.

05-II-F Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.

05-II-G Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.

05-II-H Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

05-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

05-II-J Certified Annual Report (CAR): The CAR was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

05-II-K Deficit Balances: The Student Activity Fund has several accounts with deficit balances at June 30, 2005.

Recommendation: The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

District Response: We are working on ways to eliminate these deficits.

Conclusion: Response accepted.

05-II-L Interest Rate on Certificates of Deposit: We noted one certificate of deposit, in the Private Purpose Trust Fund, that had an interest rate below the minimum rate set by the State of Iowa.

Recommendation: The District should contact the bank to get the rate adjusted.

District Response: We have already done this.

Conclusion: Response accepted.