

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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Gary E. Horton CPA

PO Box 384

Clarion, IA 50525-0384

(515)532-6681 Phone

(515) 532-2405 Fax

BETCO@mchsi.com E-mail

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Northeast Hamilton Community School District, Blairsburg, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Northeast Hamilton Community School District at June 30, 2006, 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 November 16, 2006, on our consideration of Northeast 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 13 and 36 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast 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, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, 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

November 16, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast Hamilton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,557,561 in fiscal 2005 to \$2,771,705 in fiscal 2006, as General Fund expenditures increased from \$2,560,579 in fiscal 2005 to \$2,644,321 in fiscal 2006. The District's General Fund balance increased from \$548,615 in fiscal 2005 to \$676,710 in fiscal 2006, a 23.35% increase.
- The increase in General Fund revenues was attributable in large part to an increase in local tax and state revenue in fiscal 2006. Increases in these sources of revenue offset reductions in both tuition and federal revenue for fiscal 2006. Additionally, in 2005-2006, NEH increased a positive open enrollment balance to 13.3 students, generating additional revenue for the district. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, and to additional resource allocation, such as two portable computer labs. As noted above, increased revenues exceeded increase expenditures in the General Fund by \$128,095.
- This was the second year of collection and distribution of one-cent sales tax dollars; a measure passed by the voters in Hamilton and Wright Counties in February of 2004. For NEH for the year, this revenue amounted to \$161,907. The Board of Education has chosen to save this yearly revenue until a decision, slated for the Spring of 2007, is made on future facilities needs.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Northeast Hamilton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Northeast Hamilton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Northeast Hamilton Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

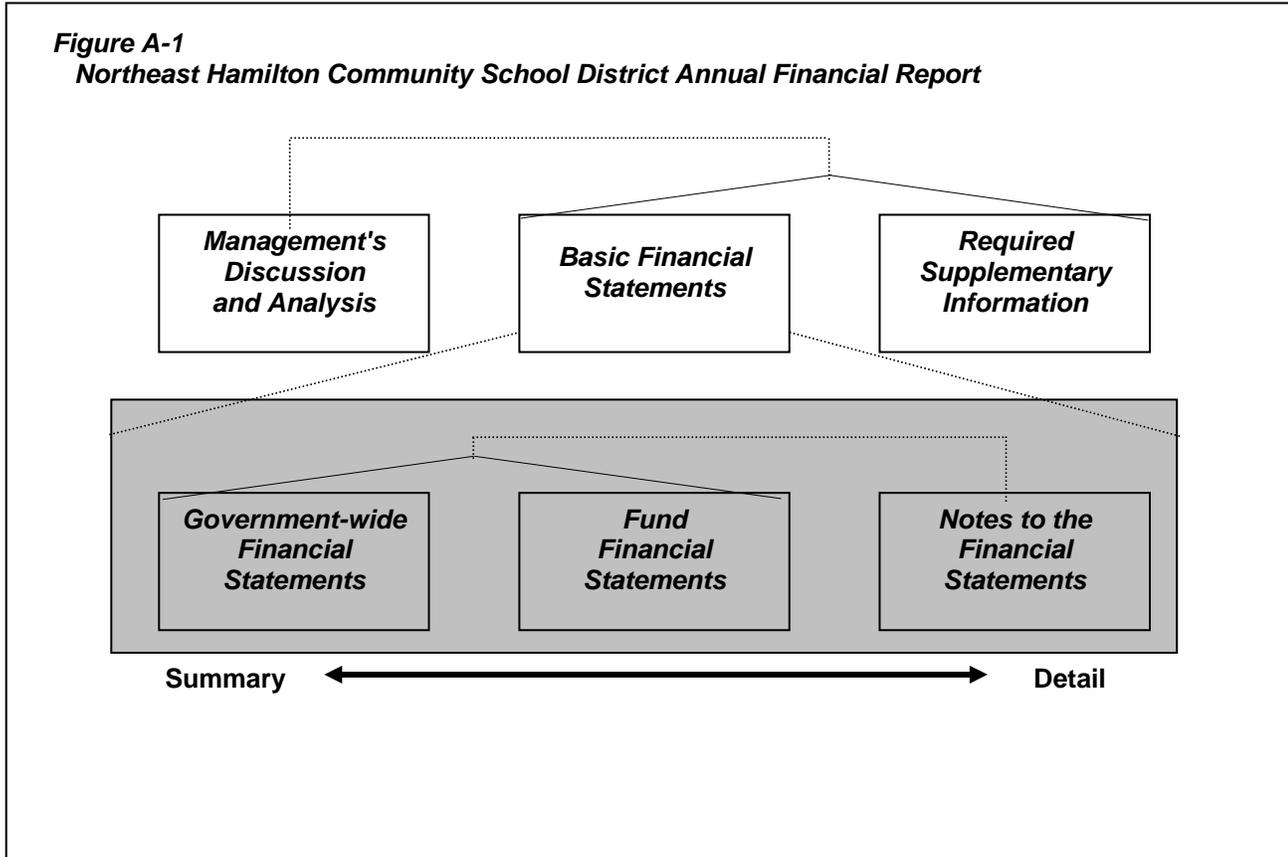


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District would account for outside donations for scholarships for individual students in this fund; there are none currently in the District. The Special Needs Fund is classified as a private purpose trust fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other organizations.
- The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District’s net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3

Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 2,645,423	2,331,695	2,951	12,659	2,648,374	2,344,354	12.97%
Capital assets	946,725	907,252	13,988	17,112	960,713	924,364	3.93%
Total assets	3,592,148	3,238,947	16,939	29,771	3,609,087	3,268,718	10.41%
Long-term liabilities	-	-	-	-	-	-	-
Other Liabilities	1,192,963	1,196,357	1,514	1,317	1,194,477	1,197,674	-0.27%
Total liabilities	1,192,963	1,196,357	1,514	1,317	1,194,477	1,197,674	-.27%
Net Assets							
Invested in capital assets, net of related debt	946,725	907,252	13,988	17,112	960,713	924,364	3.93%
Restricted	677,937	457,124	-	-	677,937	457,124	48.30%
Unrestricted	774,523	678,214	1,437	11,342	775,960	689,556	12.53%
TOTAL NET ASSETS	\$ 2,399,185	2,042,590	15,425	28,454	2,414,610	2,071,044	16.59%

The District's combined net assets increased by nearly 16.59%, or \$343,566, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt.

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 \$220,813 or 48.30% over the prior year. The increase was primarily a result of proceeds from the One-Cent Sales Tax collection, and the dollars that filtered through Hamilton and Wright Counties to the District.

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 – increased approximately \$86,404, or 12.53%.

Figure A-4

Changes in Net Assets from Operating Results

	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2006	2005	2006	2005	2006	2005	2005-2006
Revenues							
Program Revenues							
Charges for services	\$ 374,760	\$ 379,602	\$ 74,795	\$ 82,154	\$ 449,555	\$ 461,756	-2.64%
Operating Grants & Contributions	371,127	327,122	40,360	47,935	411,487	375,057	9.71%
Capital Grants & Contributions	-	24,323	-	-	-	24,323	-100.00%
General Revenues							
Property taxes & other taxes	1,141,628	1,127,638	-	-	1,141,628	1,127,638	1.24%
Income Surtax	233,255	145,962	-	-	233,255	145,962	59.81%
Local Option Sales Tax	154,480	130,723	-	-	154,480	130,723	18.17%
Unrestricted State Grants	985,088	902,386	-	-	985,088	902,386	9.16%
Unrestricted Investment							
Earnings	42,640	16,047	333	217	42,973	16,264	163.11%
Other Revenue	6,887	3,779	-	-	6,887	3,779	82.24%
Total Revenues	\$3,309,865	\$3,057,582	\$115,488	\$130,306	\$3,425,353	\$3,187,888	7.45%
Expenses							
Instruction	1,752,577	1,753,051	-	-	1,752,577	1,753,051	-0.02%
Support Services	1,059,119	928,017	-	-	1,059,119	928,017	14.13%
Non-Instructional Programs	945	1,041	128,517	130,062	129,462	131,103	-1.25%
Other Expenses	140,629	137,079	-	-	140,629	137,079	2.59%
Total Expenses	\$2,953,270	\$2,819,188	\$128,517	\$130,062	\$3,081,787	\$2,949,250	4.49%
Transfers	0	-9,300	0	9,300	0	0	
Change in Net Assets	\$ 356,595	\$ 229,094	\$ -13,029	\$ 9,544	\$ 343,566	\$ 238,638	
Net assets beginning of year	\$2,042,590	\$1,813,496	\$ 28,454	\$ 18,910	\$2,071,044	\$1,832,406	
Net assets end of year	\$2,399,185	\$2,042,590	\$ 15,425	\$ 28,454	\$2,414,610	\$2,071,044	16.59%

Property tax and unrestricted state grants accounted for 62% of the total revenue in FY06. The District's expenses primarily relate to instruction and support services, which accounted for 91% of the total expenses in FY06. Total revenues increased by 7.45%, while total expenses increased by 4.49%. Year-end net assets for FY06, when compared to FY05, increased by \$343,566, or 16.59%.

Governmental Activities

Referring to Figure A-4, revenues for the District's FY06 governmental activities, when compared to FY05, increased \$252,283, or 8.25%. Total governmental expenditures also increased from FY05 to FY06 by 4.76%, or \$134,082. The District was able to attract students, thereby increasing revenue, and was willing to invest that revenue for providing the best possible education for both new and current students.

The following table is included to aid in the analysis of the governmental activities.

Figure A-5

Net Cost of Governmental Activities

	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2006	Net Cost of Services 2005
Instruction	\$ 1,752,577	\$ 1,753,051	\$ 1,123,313	\$ 1,136,734
Support Services	1,059,119	928,017	1,058,515	927,855
Non-instructional Programs	945	1,041	945	1,041
Other Expenses	140,629	137,079	24,610	22,511
TOTAL	\$ 2,953,270	\$ 2,819,188	\$ 2,207,383	\$ 2,088,141

Figure A-5 presents the cost of the District's major governmental activities: instruction, support services, non-instruction programs and other expenses. The table shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

- The cost of all governmental activities this year was \$2,953,270, compared to \$2,819,188 in FY05.
- Some of the cost was financed by the users of the District's programs (\$374,760).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$371,127).
- Most of the District's costs (\$2,207,383), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$1,141,628 in property taxes, and \$985,088 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

Business Type Activities

Revenues for business type activities were \$115,488 for FY06, compared to \$130,306 for FY05. Expenses were \$128,517, compared to \$130,062 for FY05. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income. In both FY06 and FY05, revenues only slightly exceeded expenses. Since expenses exceeded revenues by \$13,029 in FY06, the NEH Board of Directors has decided that an incremental increase in meal prices in FY07 is in order. This may be followed by another increase in the fall of 2007.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental activities funds reported a combined fund balance of \$1,309,503, 28.94% above last year's ending fund balance of \$1,015,587. The primary reason for the increase in combined fund balances in fiscal 2006 is due to Local Option Sales Tax revenue of \$161,907, and a positive difference between revenues and expenses of \$131,298. A rationale for the increases in revenues and expenditures follows.

Governmental Fund Highlights

- The District's improving General Fund financial position is the result of several factors. Growth during the year in local tax revenue (\$104,839) and state sources (\$112,655) were the main reasons for an increase in revenues in the General Fund of \$214,144. The increase in revenues was not offset by the District's increase in General fund liabilities of \$83,742, which were largely incurred due to wage and benefit increases for employees, leaving a total increase in the General Fund of \$128,095.
- The increase in the Local Option Sales Tax account (\$161,907) was due to second year collections from the voter-approved one-cent sales tax in Hamilton and Wright Counties. The money in this account is being saved for future construction options; a decision on facilities renovation or construction is slated for the Spring of 2007.
- The Nonmajor Governmental (Management, Activity, and Physical Plant & Equipment) Funds balance increased slightly (\$3,914) in FY06. A District goal is to utilize the yearly revenue in these accounts without having to access the yearly beginning balance; that goal was achieved in FY06.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$28,454 on June 30, 2005, to \$15,425 by June 30, 2006, representing a decrease of 45.79%. All loans from the General Fund had been paid by the end of FY04, but the payment of these debts, combined with the increasing cost of food, is the cause for the substantial reduction in this account. The Board was forced to increase breakfast prices by 10 cents apiece and lunch prices by 15 cents apiece in February of 2007; an additional increase is planned for August of 2007.

BUDGETARY HIGHLIGHTS

The District's receipts were \$114,410 more than budgeted receipts. The most significant variance resulted from a dramatic reduction in special education general fund expenses, due to a number of students who moved out of the district, and an increase in local option sales tax revenues from fiscal 2005.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditure for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006, the District had invested \$960,713 in a broad range of assets, including school buildings, athletic facilities, and computer and audio-visual equipment (see *Figure A-6*). This amount represents a net increase of \$36,349 or 3.93% from FY05. (More detailed information about capital assets can be found in Note 3 to the financial statements.) The District was able to stay within its means and not accumulate any debt in FY06. Capital assets were purchased as revenue became available and included a new truck, phone system, bleachers, stage curtains, and tele-tower. Facility improvements invested in included meeting room remodeling, new baseball dugouts, replacement of bus barn garage doors, and updating of a girls' restroom.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business--type Activities		Total School District		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2005-06
	Land	42,750	42,750	-	-	42,750	42,750
Construction in progress	0	0	-	-	0	0	-
Buildings	674,201	666,028	-	-	674,201	666,028	1.23%
Equipment & Furniture	229,774	198,474	13,988	17,112	243,762	215,586	13.07%
TOTAL	946,725	907,252	13,988	17,112	960,713	924,364	3.93%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District's total taxable valuation will decrease less than 1% for property tax collected in fiscal 2007. A new wind energy "farm" will go on the tax roles beginning in FY08; even in consideration of incentives and abatements, the District's total taxable valuation is scheduled to increase 8% per year for the next 6 years.
- School financing is highly dependent upon student enrollment. The District's September 2005 enrollment decreased by 34.1 students; certified enrollment in 2006 was reduced by another 20.7 students. Due to the 101% budget guarantee, the District's funding will be stable for fiscal year 2007, but regular program district cost will be reduced significantly in FY08. Depending on legislatively determined allowable growth, it is anticipated that regular program district cost will also be reduced in FY09.
- Open enrolled "in" students are projected to decline over time. However, in FY07, the number of open enrolled "out" students also declined. It is unlikely the District will experience a negative ratio of open enrolled out to open enrolled in students for several years, but it is projected that the gap of "in" to "out" students will narrow.

- In December, 2006, the Facilities Committee, composed of a cross section of District stakeholders, made a recommendation to the Board of Directors to address future facilities needs. This recommendation included the construction of a new K-5 building with a competition gymnasium. The Board will study this recommendation and plans to make a decision on facilities improvements by the fall of 2007.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Roark Horn, Superintendent, Northeast Hamilton Community School District, 606 Illinois Street, Blairsburg, Iowa 50034.

BASIC FINANCIAL STATEMENTS

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	1,277,420	419	1,277,839
Receivables:			
Property tax:			
Delinquent	13,200	-	13,200
Succeeding year	1,159,264	-	1,159,264
Accounts	8,612	322	8,934
Due from other governments	186,927	456	187,383
Inventories	-	1,754	1,754
Capital assets, net of accumulated depreciation	946,725	13,988	960,713
Total assets	3,592,148	16,939	3,609,087
Liabilities			
Accounts payable	33,699	456	34,155
Deferred revenue:			
Succeeding year property tax	1,159,264	-	1,159,264
Other	-	1,058	1,058
Total liabilities	1,192,963	1,514	1,194,477
Net assets			
Invested in capital assets, net of related debt	946,725	13,988	960,713
Restricted for:			
Management levy	137,340	-	137,340
Physical plant and equipment levy	208,772	-	208,772
Other special revenue purposes	38,403	-	38,403
Local option sales tax capital projects	293,422	-	293,422
Unrestricted	774,523	1,437	775,960
Total net assets	2,399,185	15,425	2,414,610

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	1,000,489	211,069	205,486	-
Special instruction	292,186	12,887	15,927	-
Other instruction	459,902	150,200	33,695	-
	<u>1,752,577</u>	<u>374,156</u>	<u>255,108</u>	<u>-</u>
Support services:				
Student services	89,321	-	-	-
Instructional staff services	176,173	-	-	-
Administration services	335,796	-	-	-
Operation and maintenance of plant services	286,637	-	-	-
Transportation services	171,192	604	-	-
	<u>1,059,119</u>	<u>604</u>	<u>-</u>	<u>-</u>
Non-instructional programs	945	-	-	-
Other expenditures:				
Facilities acquisition	15,829	-	18,060	-
AEA flowthrough	97,959	-	97,959	-
Depreciation (unallocated)*	26,841	-	-	-
	<u>140,629</u>	<u>-</u>	<u>116,019</u>	<u>-</u>
Total governmental activities	2,953,270	374,760	371,127	-
Business type activities:				
Non-instructional programs:				
Food service operations	128,517	74,795	40,360	-
Total	<u>3,081,787</u>	<u>449,555</u>	<u>411,487</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
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.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(583,934)	-	(583,934)
(263,372)	-	(263,372)
(276,007)	-	(276,007)
<u>(1,123,313)</u>	<u>-</u>	<u>(1,123,313)</u>
(89,321)	-	(89,321)
(176,173)	-	(176,173)
(335,796)	-	(335,796)
(286,637)	-	(286,637)
(170,588)	-	(170,588)
<u>(1,058,515)</u>	<u>-</u>	<u>(1,058,515)</u>
(945)	-	(945)
2,231	-	2,231
-	-	-
(26,841)	-	(26,841)
<u>(24,610)</u>	<u>-</u>	<u>(24,610)</u>
(2,207,383)	-	(2,207,383)
-	(13,362)	(13,362)
<u>(2,207,383)</u>	<u>(13,362)</u>	<u>(2,220,745)</u>
1,072,220	-	1,072,220
69,408	-	69,408
233,255	-	233,255
154,480	-	154,480
985,088	-	985,088
42,640	333	42,973
6,887	-	6,887
<u>2,563,978</u>	<u>333</u>	<u>2,564,311</u>
356,595	(13,029)	343,566
<u>2,042,590</u>	<u>28,454</u>	<u>2,071,044</u>
<u><u>2,399,185</u></u>	<u><u>15,425</u></u>	<u><u>2,414,610</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General Fund	Capital Projects Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	673,910	262,760	340,750	1,277,420
Receivables:				
Property tax:				
Delinquent	11,820	-	1,380	13,200
Succeeding year	1,083,426	-	75,838	1,159,264
Accounts	8,365	-	247	8,612
Due from other governments	<u>111,121</u>	<u>30,662</u>	<u>45,144</u>	<u>186,927</u>
Total assets	<u><u>1,888,642</u></u>	<u><u>293,422</u></u>	<u><u>463,359</u></u>	<u><u>2,645,423</u></u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	30,693	-	3,006	33,699
Deferred revenue:				
Succeeding year property tax	1,083,426	-	75,838	1,159,264
Other	97,813	-	45,144	142,957
Total liabilities	<u>1,211,932</u>	<u>-</u>	<u>123,988</u>	<u>1,335,920</u>
Fund balances:				
Unreserved reported in:				
General fund	676,710	-	-	676,710
Special revenue funds	-	-	339,371	339,371
Capital projects funds	<u>-</u>	<u>293,422</u>	<u>-</u>	<u>293,422</u>
Total fund balances	<u>676,710</u>	<u>293,422</u>	<u>339,371</u>	<u>1,309,503</u>
Total liabilities and fund balances	<u><u>1,888,642</u></u>	<u><u>293,422</u></u>	<u><u>463,359</u></u>	<u><u>2,645,423</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

	\$
Total fund balances of governmental funds (Exhibit C)	1,309,503
<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.	946,725
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	<u>142,957</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,399,185</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Capital Projects Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,172,734	154,480	188,791	1,516,005
Tuition	212,004	-	-	212,004
Other	48,879	7,427	155,266	211,572
State sources	1,252,229	-	67	1,252,296
Federal sources	85,859	-	18,060	103,919
Total revenues	<u>2,771,705</u>	<u>161,907</u>	<u>362,184</u>	<u>3,295,796</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	975,632	-	57,434	1,033,066
Special instruction	292,186	-	-	292,186
Other instruction	299,689	-	160,213	459,902
	<u>1,567,507</u>	<u>-</u>	<u>217,647</u>	<u>1,785,154</u>
Support services:				
Student services	89,321	-	-	89,321
Instructional staff services	160,362	-	15,811	176,173
Administration services	325,595	-	6,662	332,257
Operation and maintenance of plant services	263,575	-	41,874	305,449
Transportation services	140,002	-	7,348	147,350
	<u>978,855</u>	<u>-</u>	<u>71,695</u>	<u>1,050,550</u>
Non-instructional programs	-	-	945	945
Other expenditures:				
Facilities acquisition	-	-	67,983	67,983
AEA flowthrough	97,959	-	-	97,959
	<u>97,959</u>	<u>-</u>	<u>67,983</u>	<u>165,942</u>
Total expenditures	<u>2,644,321</u>	<u>-</u>	<u>358,270</u>	<u>3,002,591</u>
Excess (deficiency) of revenues over (under) expenditures	127,384	161,907	3,914	293,205
Other financing sources (uses):				
Compensation for loss of fixed assets	711	-	-	711
Net change in fund balances	128,095	161,907	3,914	293,916
Fund balances beginning of year	548,615	131,515	335,457	1,015,587
Fund balances end of year	<u>676,710</u>	<u>293,422</u>	<u>339,371</u>	<u>1,309,503</u>

See notes to financial statements.

NORTHEAST 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, 2006

\$

\$

Net change in fund balances - total governmental funds (Exhibit E)

293,916

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

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

Expenditures for capital assets	108,964	
Depreciation expense	<u>(69,491)</u>	39,473

Income surtaxes not collected for several months after the District's fiscal year ends are n considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.

13,358

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:

Termination benefits		<u>9,848</u>
----------------------	--	--------------

Changes in net assets of governmental activities (Exhibit B)

356,595

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	419
Accounts receivable	322
Due from other governments	456
Inventories	1,754
Capital assets, net of accumulated depreciation	<u>13,988</u>
Total assets	<u>16,939</u>
Liabilities	
Accounts payable	456
Deferred revenue	<u>1,058</u>
Total liabilities	<u>1,514</u>
Net assets	
Invested in capital assets, net of related debt	13,988
Unrestricted	<u>1,437</u>
Total net assets	<u><u>15,425</u></u>

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

Year ended June 30, 2006

	<u>Nonmajor School Nutrition</u> \$
Operating revenue:	
Local sources:	
Charges for service	<u>74,795</u>
Operating expenses:	
Non-instructional programs:	
Salaries	36,931
Benefits	17,851
Purchased services	2,096
Supplies	68,515
Depreciation	<u>2,493</u>
	<u>127,886</u>
Operating gain (loss)	<u>(53,091)</u>
Non-operating revenue (expenses):	
State sources	1,531
Federal sources	38,829
Interest income	333
Loss on disposal of equipment	<u>(631)</u>
Total non-operating revenue	<u>40,062</u>
Change in net assets	(13,029)
Net assets beginning of year	<u>28,454</u>
Net assets end of year	<u><u>15,425</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	74,421
Cash payments to employees for services	(54,812)
Cash payments to suppliers for goods or services	<u>(63,082)</u>
Net cash used by operating activities	<u>(43,473)</u>
Cash flows from non-capital financing activities:	
State grants received	1,531
Federal grants received	<u>31,605</u>
Net cash provided by non-capital financing activities	<u>33,136</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>333</u>
Net increase (decrease) in cash and cash equivalents	(10,004)
Cash and cash equivalents at beginning of year	<u>10,423</u>
Cash and cash equivalents at end of year	<u><u>419</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(53,091)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	6,768
Depreciation	2,493
Decrease (increase) in inventories	275
Decrease (increase) in accounts receivable	(115)
(Decrease) increase in accounts payable	456
(Decrease) increase in deferred revenue	<u>(259)</u>
Net cash used in operating activities	<u><u>(43,473)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$6,768 of federal commodities.

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Private Purpose Trust <u> </u> \$	Agency <u> </u> \$
Assets		
Cash and pooled investments	526	3,035
Liabilities		
Other payables	<u> -</u>	<u> 3,035</u>
Net Assets		
Reserved for student special needs	<u> 526</u>	<u> -</u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	325
Deductions:	
Support services:	
Supplies	<u>224</u>
Change in net assets	101
Net assets beginning of year	<u>425</u>
Net assets end of year	<u><u>526</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

1. Summary of Significant Accounting Policies

Northeast 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 Blairsburg, Kamrar and Williams, Iowa and the predominately agricultural territory in a portion of Hamilton and Wright 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, Northeast 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 Northeast Hamilton Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

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 with special personal needs.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment 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	2,000
Improvements other than buildings	2,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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	25-50 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.

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. The District has no long-term debt at June 30, 2005.

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, 2006 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, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	439,003

The investment is 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. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	42,750	-	-	42,750
Capital assets being depreciated:				
Buildings	1,586,608	31,684	-	1,618,292
Improvements other than buildings	103,444	3,330	-	106,774
Furniture and equipment	652,683	73,950	4,466	722,167
Total capital assets being deprec.	<u>2,342,735</u>	<u>108,964</u>	<u>4,466</u>	<u>2,447,233</u>
Less accumulated depreciation for:				
Buildings	929,527	26,119	-	955,646
Improvements other than buildings	94,497	722	-	95,219
Furniture and equipment	454,209	42,650	4,466	492,393
Total accumulated depreciation	<u>1,478,233</u>	<u>69,491</u>	<u>4,466</u>	<u>1,543,258</u>
Total capital assets being depreciated, net	<u>864,502</u>	<u>39,473</u>	-	<u>903,975</u>
Governmental activities capital assets, net	<u>907,252</u>	<u>39,473</u>	-	<u>946,725</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	82,037	-	1,856	80,181
Less accumulated depreciation	64,925	2,493	1,225	66,193
Business type activities capital assets, net	<u>17,112</u>	<u>(2,493)</u>	<u>631</u>	<u>13,988</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	8,821
Support Services:	
Administration services	3,539
Operation and maintenance of plant services	6,448
Transportation	23,842
	<u>42,650</u>
Unallocated depreciation	26,841
Total depreciation expense – governmental activities	<u>69,491</u>
Business type activities:	
Food services	<u>2,493</u>

4. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Termination benefits	9,848	-	9,848	-	-

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of service to the District, must have twenty years of total teaching experience, must be on the last step of the respective lane on the salary schedule and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education and the board reserves the right to disallow any application that is not in the best interest of the District.

Early retirement benefits are equal to 25% of the employee's base salary in effect during the employee's last year of employment.

Early retirement benefits will be paid in two equal installments beginning in July following the start of retirement with the second payment no later than seven months thereafter.

At June 30, 2006, the District has no obligations for early retirement benefits. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$9,848.

5. 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, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$87,646, \$84,225 and \$77,056 respectively, equal to the required contributions for each year.

6. Risk Management

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

7. 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 \$97,959 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Revenues:						
Local sources	1,939,581	75,128	2,014,709	1,881,494	1,881,494	133,215
State sources	1,252,296	1,531	1,253,827	1,283,380	1,283,380	(29,553)
Federal sources	103,919	38,829	142,748	132,000	132,000	10,748
Total revenues	<u>3,295,796</u>	<u>115,488</u>	<u>3,411,284</u>	<u>3,296,874</u>	<u>3,296,874</u>	<u>114,410</u>
Expenditures:						
Instruction	1,785,154	-	1,785,154	2,160,006	2,160,006	374,852
Support services	1,050,550	-	1,050,550	1,486,906	1,486,906	436,356
Non-instructional programs	945	128,517	129,462	175,835	175,835	46,373
Other expenditures	165,942	-	165,942	381,114	381,114	215,172
Total expenditures	<u>3,002,591</u>	<u>128,517</u>	<u>3,131,108</u>	<u>4,203,861</u>	<u>4,203,861</u>	<u>1,072,753</u>
Excess (deficiency) of revenues over (under) expenditures	293,205	(13,029)	280,176	(906,987)	(906,987)	1,187,163
Other financing sources (uses) net	<u>711</u>	<u>-</u>	<u>711</u>	<u>-</u>	<u>-</u>	<u>711</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	293,916	(13,029)	280,887	(906,987)	(906,987)	1,187,874
Balance beginning of year	<u>1,015,587</u>	<u>28,454</u>	<u>1,044,041</u>	<u>973,532</u>	<u>973,532</u>	<u>70,509</u>
Balance end of year	<u><u>1,309,503</u></u>	<u><u>15,425</u></u>	<u><u>1,324,928</u></u>	<u><u>66,545</u></u>	<u><u>66,545</u></u>	<u><u>1,258,383</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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 GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides 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

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds			Total
	Management	Student	Plant and	
	Levy	Activity Fund	Equipment	
	\$	\$	\$	\$
Cash and pooled investments	136,763	38,526	165,461	340,750
Receivables:				
Property tax:				
Delinquent	577	-	803	1,380
Succeeding year	25,000	-	50,838	75,838
Accounts	-	247	-	247
Due from other governments	-	-	45,144	45,144
Total assets	162,340	38,773	262,246	463,359
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	-	370	2,636	3,006
Deferred revenue:				
Succeeding year property tax	25,000	-	50,838	75,838
Other	-	-	45,144	45,144
Total liabilities	25,000	370	98,618	123,988
Fund balances:				
Unreserved reported in:				
Special revenue funds	137,340	38,403	163,628	339,371
Total liabilities and fund balances	162,340	38,773	262,246	463,359

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity Fund	Plant and Equipment Levy	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	49,942	-	138,849	188,791
Other	3,906	149,628	1,732	155,266
State sources	28	-	39	67
Federal sources	-	-	18,060	18,060
Total revenues	<u>53,876</u>	<u>149,628</u>	<u>158,680</u>	<u>362,184</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	18,980	-	38,454	57,434
Other instruction	-	148,554	11,659	160,213
Support services:				
Instructional staff services	1,575	-	14,236	15,811
Administration services	6,662	-	-	6,662
Operation and maintenance of plant services	16,614	-	25,260	41,874
Transportation services	7,348	-	-	7,348
Non-instructional programs	945	-	-	945
Other expenditures:				
Facilities acquisition	-	-	67,983	67,983
Total expenditures	<u>52,124</u>	<u>148,554</u>	<u>157,592</u>	<u>358,270</u>
Excess (deficiency) of revenues over (under) expenditures	1,752	1,074	1,088	3,914
Fund balances beginning of year	<u>135,588</u>	<u>37,329</u>	<u>162,540</u>	<u>335,457</u>
Fund balances end of year	<u><u>137,340</u></u>	<u><u>38,403</u></u>	<u><u>163,628</u></u>	<u><u>339,371</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
Student council	857	6,695	6,440	1,112
Student commons	1,654	18,689	19,439	904
Fall play (drama)	1,629	896	1,443	1,082
Swing choir	638	9,909	10,537	10
Band	3,777	8,934	9,646	3,065
Instrument rent & ins.	1,195	-	149	1,046
Yearbook	1,808	9,292	7,237	3,863
Future farmers of america	4,321	10,429	9,389	5,361
Family and consumer science club	1,779	1,050	1,445	1,384
Fall cheerleaders	619	3,125	2,942	802
Drill team	461	-	-	461
Spanish club	1,087	386	213	1,260
Class of 2004	250	-	1	249
Class of 2006	487	290	777	-
Class of 2007	900	1,954	2,300	554
Class of 2008	1,478	2,834	1,845	2,467
Class of 2009	-	1,841	961	880
After prom party	663	3,495	3,396	762
Athletics	770	40,080	39,000	1,850
District football	76	270	346	-
Football donations	7,026	15,919	21,047	1,898
Boys basketball donations	520	3,915	2,475	1,960
Baseball donations	106	1,384	1,444	46
Boys track donations	246	389	342	293
Golf donations	-	313	120	193
Softball donations	11	-	(3)	14
Girls basketball donations	1,341	3,952	3,781	1,512
Volleyball donation	268	3,113	3,035	346
Interest on investment	3,902	227	-	4,129
Earth day	688	-	-	688
Fifth grade Iowa trip	335	-	-	335
June 30, 2005 accruals	(1,563)	-	(1,563)	-
June 30, 2006 accruals	-	247	370	(123)
Total	37,329	149,628	148,554	38,403

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2006

	<u>Spirit Club</u>
	\$
Balance beginning of year	-
Additions:	
Collections	39,151
Deductions:	
Miscellaneous	<u>36,116</u>
Balance end of year	<u><u>3,035</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,516,005	1,404,323	1,392,025	1,432,834
Tuition	212,004	233,379	97,437	93,575
Other	211,572	162,270	126,656	135,933
State sources	1,252,296	1,139,668	908,056	930,755
Federal sources	103,919	89,840	85,950	88,258
Total revenues	<u>3,295,796</u>	<u>3,029,480</u>	<u>2,610,124</u>	<u>2,681,355</u>
Expenditures:				
Instruction:				
Regular instruction	1,033,066	1,021,015	960,410	912,751
Special instruction	292,186	367,483	353,349	329,105
Other instruction	459,902	347,561	279,106	238,741
Support services:				
Student services	89,321	84,538	75,941	86,799
Instructional staff services	176,173	86,869	79,631	121,447
Administration services	332,257	325,582	280,503	347,473
Operation and maintenance of plant services	305,449	253,704	266,533	283,553
Transportation services	147,350	203,364	154,817	134,744
Non-instructional programs	945	10,341	1,492	-
Other expenditures:				
Facilities acquisition	67,983	108,615	79,763	146,281
AEA flowthrough	97,959	90,245	90,554	94,292
Total expenditures	<u>3,002,591</u>	<u>2,899,317</u>	<u>2,622,099</u>	<u>2,695,186</u>

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Northeast Hamilton Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 16, 2006. 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 Northeast 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 06-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast 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, 2006 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 Northeast Hamilton Community School District and other parties to whom Northeast Hamilton Community School District may report.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Northeast 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

November 16, 2006

NORHTEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

06-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.

NORHTEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- 06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, did not exceed the amounts budgeted.
- 06-II-B 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.
- 06-II-C 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.
- 06-II-D Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Janet Greufe, school board secretary/treasurer, spouse is owner of Greufe Construction	Repairs	975
Kathy Pruisman, board member, brother-in-law is owner of Designer Decks and More	Repairs	2,611
Tim Mechaelsen, board member, brother is owner of D T Construction & Woodworking	Dugout construction	4,500

In accordance with an Attorney General's opinion dated November 9, 1976, the transaction with the spouse of the board secretary does not appear to represent a conflict of interest.

Recommendation: The District should use caution and consult with its attorney before entering into any business agreements with board members, school officials or employees and their relatives.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

- 06-II-E 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.
- 06-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.
- 06-II-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.
- 06-II-H 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.

NORHTEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

06-II-I Certified Annual Report (CAR): The Certified Annual Report was certified to the Iowa Department of Education timely.