

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

## Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-11
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13-14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19-20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	21
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	22
Statement of Revenues, Expenses, and Changes in Net Assets	H	23
Statement of Cash Flows	I	24
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	25
Statement of Changes in Fiduciary Net Assets	K	26
Notes to Financial Statements		27-36
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		38
Notes to Required Supplementary Information - Budgetary Reporting		39
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	44
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 <u>Government Auditing Standards</u>		45-46
Schedule of Findings		47-49



Gary E. Horton CPA

PO Box 384  
Clarion, IA 50525-0384  
(515)532-6681 Phone  
(515) 532-2405 Fax  
[BETCO@mchsi.com](mailto:BETCO@mchsi.com) E-mail

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, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of South 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 October 2, 2006, 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 38 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, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4, 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 2, 2006

**South Hamilton Community Schools  
Management Discussion & Analysis  
FY 2005-2006**

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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

**Financial Highlights**

- General Fund revenues increased from \$5,480,072 in fiscal year 2005 to \$5,631,363 in fiscal year 2006, while General Fund expenditures also increased from \$5,540,230 in FY 2005 to \$5,766,798 in FY 2006. This indicates that the District's General Fund balance decreased from \$413,705 at the end of FY2005 to \$278,375 at the end of FY2006, a decrease of \$135,330.
- The increase in General Fund revenues can be attributed to an increase in local property tax revenues and state revenue in FY2006. The increase in 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 4.95% in FY 2006, down from 6.86% 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 District-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 2005 and FY 2006.

#### Condensed Statement of Net Assets

	Governmental		Business-type		Total		Total Percentage Change 2005-06
	Activities		Activities		School District		
	2005	2006	2005	2006	2005	2006	
Current and other assets	\$4,234,726	\$4,168,020	\$7,289	\$21,129	\$4,242,015	\$4,189,149	-1.2%
Capital assets	\$6,209,114	\$6,347,259	\$15,549	\$18,323	\$6,224,663	\$6,365,582	2.3%
<b>Total Assets</b>	<b>\$10,443,840</b>	<b>\$10,515,279</b>	<b>\$22,838</b>	<b>\$39,452</b>	<b>\$10,466,678</b>	<b>\$10,554,731</b>	0.8%
Long-term debt outstanding	\$3,829,302	\$3,638,694	\$0	\$0	\$3,829,302	\$3,638,694	-5.0%
Other liabilities	\$3,208,209	\$3,272,067	\$6,990	\$8,262	\$3,215,199	\$3,280,329	2.0%
<b>Total liabilities</b>	<b>\$7,037,511</b>	<b>\$6,910,761</b>	<b>\$6,990</b>	<b>\$8,262</b>	<b>\$7,044,501</b>	<b>\$6,919,023</b>	-1.8%
Net Assets							
Invested in capital assets, net of related debt	\$2,478,344	\$2,767,879	\$15,549	\$18,323	\$2,493,893	\$2,786,202	11.7%
Restricted	\$557,575	\$567,667	\$0	\$0	\$557,575	\$567,667	1.8%
Unrestricted	\$370,410	\$268,972	\$299	\$12,867	\$370,709	\$281,839	-24.0%
<b>TOTAL NET ASSETS</b>	<b>\$3,406,329</b>	<b>\$3,604,518</b>	<b>\$15,848</b>	<b>\$31,190</b>	<b>\$3,422,177</b>	<b>\$3,635,708</b>	6.2%

The District's overall financial position is stable as evidenced by a growth in total net assets of 6.2% from FY05 to FY06.

Changes in net assets. The following table represents a comparison of FY2005 and FY2006.

*Changes in Net Assets.*

	Governmental Activities		Business-type Activities		Total School District		Percent Change
	2005	2006	2005	2006	2005	2006	
<b>Revenues</b>							
Program Revenues							
Charges for services	\$575,794	\$497,658	\$191,385	\$193,401	\$767,179	\$691,059	-9.9%
Operating Grants & Contributions	\$595,786	\$635,071	\$146,075	\$185,529	\$741,861	\$820,600	10.6%
Capital Grants & Contributions	\$42,338	\$0			\$42,338	\$0	-100%
General Revenues							
Property taxes & other taxes	\$2,887,007	\$3,065,020			\$2,887,007	\$3,065,020	6.2%
Unrestricted state aid	\$2,506,134	\$2,655,978			\$2,506,134	\$2,655,978	6.0%
Other	\$34,896	\$73,379	\$56	\$113	\$34,952	\$73,492	110.0%
<b>Total Revenues</b>	<b>\$6,641,955</b>	<b>\$6,927,106</b>	<b>\$337,516</b>	<b>\$379,043</b>	<b>\$6,979,471</b>	<b>\$7,306,149</b>	<b>4.7%</b>
<b>Expenses</b>							
Instruction	\$4,007,122	\$4,184,601			\$4,007,122	\$4,184,601	4.4%
Pupil & Instructional Svcs	\$324,510	\$327,394			\$324,510	\$327,394	0.9%
Administrative & Business	\$612,796	\$633,534			\$612,796	\$633,534	3.4%
Maintenance & Operations	\$463,193	\$550,036			\$463,193	\$550,036	18.7%
Transportation	\$338,040	\$339,081			\$338,040	\$339,081	0.3%
Non-instructional Programs	\$0	\$0	\$333,042	\$369,719	\$333,042	\$369,719	11.0%
Other	\$632,563	\$688,253			\$632,563	\$688,253	8.8%
<b>Total Expenses</b>	<b>\$6,378,224</b>	<b>\$6,722,899</b>	<b>\$333,042</b>	<b>\$369,719</b>	<b>\$6,711,266</b>	<b>\$7,092,618</b>	<b>5.6%</b>
Excess (deficiency) before special item	\$263,731	\$204,207	\$4,474	\$9,324	\$268,205	\$213,531	-20.4%
Transfers		(6,018)		6,018			
<b>Increase (decrease) in net assets</b>	<b>\$263,731</b>	<b>\$198,189</b>	<b>\$4,474</b>	<b>\$15,342</b>	<b>\$268,205</b>	<b>\$213,531</b>	<b>-20.4%</b>

**Governmental Activities**

Revenues for governmental activities were \$6,927,106 while expenses amounted to \$6,722,899.

The local option sales tax revenue was up from \$322,463 in FY2005 to \$372,253 in FY2006. This is due to the school infrastructure local option sales and service tax continuing strong 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		
	2005	2006	% Change	2005	2006	% Change
Instruction	\$4,007,122	\$4,184,601	4.4%	\$3,056,339	\$3,288,673	7.6%
Pupil & Instructional Services	\$324,510	\$327,394	0.9%	\$324,510	\$327,394	0.9%
Administrative & Business	\$612,796	\$633,534	3.4%	\$612,796	\$633,534	3.4%
Maintenance & Operations	\$463,193	\$550,036	18.7%	\$462,738	\$548,792	18.6%
Transportation	\$338,040	\$339,081	0.3%	\$338,040	\$335,525	0.7%
Non-instructional Programs	\$0	\$0	0.0%	\$0	\$0	0.0%
Other	\$632,563	\$688,253	8.8%	\$369,883	\$456,252	23.4%
<b>TOTAL</b>	<b>\$6,378,224</b>	<b>\$6,722,899</b>	<b>5.4%</b>	<b>\$5,164,306</b>	<b>\$5,590,170</b>	<b>8.2%</b>

- The cost of all governmental activities this year was \$6,722,899.
- The portion of the cost financed by users of the District’s programs was \$497,658, 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 \$635,071.
- The net cost portion of governmental activities was financed with \$2,604,467 in property tax, \$2,655,978 in unrestricted state aid, \$372,253 in local option sales tax, \$88,300 income surtax, and \$38,697 in interest income.

**Business-Type Activities**

Revenues of the District’s business-type activities totaled \$379,043 while expenses \$369,719. 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 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 \$844,373, down from last year's ending fund balances of \$970,416.

### **Governmental Fund Highlights**

- The General Fund balance decreased from \$413,705 in FY05 to \$278,375 in FY06. Expenditures continued to increase at a faster pace than revenues.
- The Capital Projects Fund balance continued increased due to the strength of the Hamilton County Local Option Sales and Service Tax for School Infrastructure. The FY2005 balance was \$343,093 and the FY2006 balance was \$465,659.
- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from \$124,080 in FY2005 to \$9,974 in FY2006. This was due to increased expenditures related to a the installation of new baseball lights, a bus purchase, a new storage shed, and several other projects.

### **Business-Type Fund Highlights**

- The School Nutrition Fund and Ag Technology Enterprise Fund balance increased \$18,955. The reasons for this increase were due primarily to a federal grant and the strength of the food service program.

## **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 2006, the District had invested \$6,365,582, 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 2.3 percent from last year. (See exhibit below).

During the year ended June 30, 2006 the District completed construction of a \$200,000 band room addition, installed baseball field lighting for \$151,000, purchased a \$52,000 bus and acquired \$96,000 of computers using a lease purchase contract.

#### *Capital Assets (net of depreciation)*

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2005 to 2006
	2005	2006	2005	2006	2005	2006	
Land	\$39,301	\$39,301			\$39,301	\$39,301	0%
Construction in progress	\$103,928	\$0			\$103,928	\$0	-100%
Buildings & Other Improvements	\$5,713,190	\$5,884,294			\$5,713,190	\$5,884,294	3%
Equipment & Furniture	\$352,695	\$423,664	\$15,549	\$18,323	\$368,244	\$441,987	20%
<b>TOTAL</b>	<b>\$6,209,114</b>	<b>\$6,347,259</b>	<b>\$15,549</b>	<b>\$18,323</b>	<b>\$6,224,663</b>	<b>\$6,365,582</b>	<b>2.3%</b>

#### **Long-Term Debt**

At year-end, the district had \$3,495,000 in general obligation bonds outstanding. This represents a decrease of 5.5% 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 computers and 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 was not able to enter a sharing agreement with the neighboring school district that they had conversations with during the previous years. However, this led to an influx of a significant number of open enrolled students for the beginning of the 2006-07 school year.

### **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, 2006

	Governmental Activities	Business Type Activities	Total	Component Unit South Hamilton Community School District Foundation
	\$	\$	\$	\$
<b>Assets</b>				
Cash and cash equivalents	1,165,796	2,520	1,168,316	171,322
Receivables:				
Property tax:				
Delinquent	34,068	-	34,068	-
Succeeding year	2,719,422	-	2,719,422	-
Accounts	1,147	2,281	3,428	-
Accrued interest:				
Accrued interest	58	-	58	2,615
Interfund receivable/payable	10,323	(10,323)	-	
Due from other governments	237,206	15,259	252,465	-
Inventories	-	11,392	11,392	-
Capital assets, net of accumulated depreciation	6,347,259	18,323	6,365,582	-
<b>Total assets</b>	<b>10,515,279</b>	<b>39,452</b>	<b>10,554,731</b>	<b>173,937</b>
<b>Liabilities</b>				
Accounts payable	56,255	267	56,522	-
Salaries and benefits payable	465,623	2,455	468,078	-
Accrued interest payable	30,767	-	30,767	-
Deferred revenue:				
Succeeding year property tax	2,719,422	-	2,719,422	-
Other	-	5,540	5,540	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	245,000	-	245,000	-
Capital leases	41,434	-	41,434	-
Termination benefits	59,314	-	59,314	-
Portion due after one year:				
General obligation bonds payable	3,250,000	-	3,250,000	-
Capital leases	42,946	-	42,946	-
<b>Total liabilities</b>	<b>6,910,761</b>	<b>8,262</b>	<b>6,919,023</b>	<b>-</b>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total	Component Unit South Hamilton Community School District Foundation
	\$	\$	\$	\$
<b>Net assets</b>				
Invested in capital assets, net of related debt	2,767,879	18,323	2,786,202	-
Restricted for:				
Gifted and talented program	49,675	-	49,675	-
Physical plant and equipment levy	9,974	-	9,974	-
Other special revenue purposes	42,359	-	42,359	-
Capital projects local option sales tax	465,659	-	465,659	-
Unrestricted	<u>268,972</u>	<u>12,867</u>	<u>281,839</u>	<u>173,937</u>
<b>Total net assets</b>	<u><u>3,604,518</u></u>	<u><u>31,190</u></u>	<u><u>3,635,708</u></u>	<u><u>173,937</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	2,728,846	250,065	260,051	-
Special instruction	588,247	24,956	53,648	-
Other instruction	867,508	221,393	85,815	-
	4,184,601	496,414	399,514	-
Support services:				
Student services	127,515	-	-	-
Instructional staff services	199,879	-	-	-
Administration services	633,534	-	-	-
Operation and maintenance of plant services	550,036	1,244	-	-
Transportation services	339,081	-	3,556	-
	1,850,045	1,244	3,556	-
Other expenditures:				
Facilities acquisition	98,477	-	-	-
Long-term debt interest	179,784	-	1,950	-
AEA flowthrough	230,051	-	230,051	-
Depreciation (unallocated)*	179,941	-	-	-
	688,253	-	232,001	-
Total governmental activities	6,722,899	497,658	635,071	-
Business type activities:				
Non-instructional programs:				
Food service operations	354,640	181,935	185,529	-
Agri. science tech. student construction	15,079	11,466	-	-
Total business type activities	369,719	193,401	185,529	-
Total primary government	7,092,618	691,059	820,600	-
Component Units:				
South Hamilton Community				
School District Foundation	14,718	5,357	56,936	-
Total	7,107,336	696,416	877,536	-
<b>General Revenues:</b>				
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				
Transfers				
Total general revenues and transfers				

**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			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
(2,218,730)	-	(2,218,730)	-
(509,643)	-	(509,643)	-
(560,300)	-	(560,300)	-
<u>(3,288,673)</u>	<u>-</u>	<u>(3,288,673)</u>	<u>-</u>
(127,515)	-	(127,515)	-
(199,879)	-	(199,879)	-
(633,534)	-	(633,534)	-
(548,792)	-	(548,792)	-
(335,525)	-	(335,525)	-
<u>(1,845,245)</u>	<u>-</u>	<u>(1,845,245)</u>	<u>-</u>
(98,477)	-	(98,477)	-
(177,834)	-	(177,834)	-
-	-	-	-
(179,941)	-	(179,941)	-
(456,252)	-	(456,252)	-
<u>(5,590,170)</u>	<u>-</u>	<u>(5,590,170)</u>	<u>-</u>
-	12,824	12,824	-
-	(3,613)	(3,613)	-
-	9,211	9,211	-
(5,590,170)	9,211	(5,580,959)	-
-	-	-	47,575
<u>(5,590,170)</u>	<u>9,211</u>	<u>(5,580,959)</u>	<u>47,575</u>
2,102,528	-	2,102,528	-
356,970	-	356,970	-
144,969	-	144,969	-
88,300	-	88,300	-
372,253	-	372,253	-
2,655,978	-	2,655,978	-
38,697	113	38,810	4,083
34,682	-	34,682	-
5,794,377	113	5,794,490	4,083
(6,018)	6,018	-	-
<u>5,788,359</u>	<u>6,131</u>	<u>5,794,490</u>	<u>4,083</u>
198,189	15,342	213,531	51,658
3,406,329	15,848	3,422,177	122,279
<u>3,604,518</u>	<u>31,190</u>	<u>3,635,708</u>	<u>173,937</u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General Fund	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	659,033	403,856	9,698	87,075	1,159,662
Receivables:					
Property tax:					
Delinquent	25,074	-	4,677	4,317	34,068
Succeeding year	2,024,012	-	356,160	339,250	2,719,422
Accounts	259	-	-	888	1,147
Accrued interest	-	-	-	58	58
Interfund receivable	-	-	-	10,323	10,323
Due from other governments	163,985	73,221	-	-	237,206
<b>Total assets</b>	<b>2,872,363</b>	<b>477,077</b>	<b>370,535</b>	<b>441,911</b>	<b>4,161,886</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	24,122	11,418	-	16,697	52,237
Salaries and benefits payable	465,623	-	-	-	465,623
Deferred revenue:					
Succeeding year property tax	2,024,012	-	356,160	339,250	2,719,422
Other	80,231	-	-	-	80,231
Total liabilities	<b>2,593,988</b>	<b>11,418</b>	<b>356,160</b>	<b>355,947</b>	<b>3,317,513</b>
Fund balances:					
Reserved for:					
Gifted and talented program	49,675	-	-	-	49,675
Debt service	-	-	14,375	-	14,375
Unreserved reported in:					
General Fund	228,700	-	-	-	228,700
Special Revenue Funds	-	-	-	85,964	85,964
Capital Projects Fund	-	465,659	-	-	465,659
Total fund balances	<b>278,375</b>	<b>465,659</b>	<b>14,375</b>	<b>85,964</b>	<b>844,373</b>
<b>Total liabilities and fund balances</b>	<b>2,872,363</b>	<b>477,077</b>	<b>370,535</b>	<b>441,911</b>	<b>4,161,886</b>

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

June 30, 2006

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	844,373
 <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.	6,347,259
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	80,231
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.	(30,767)
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.	2,116
Long-term liabilities, including bonds payable, capital leases and termination benefits payable, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(3,638,694)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>3,604,518</u></u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,009,748	370,576	357,060	329,882	3,067,266
Tuition	236,917	-	-	-	236,917
Other	95,599	16,864	1,950	198,442	312,855
State sources	3,130,537	1,677	-	-	3,132,214
Federal sources	158,562	-	-	-	158,562
Total revenues	<u>5,631,363</u>	<u>389,117</u>	<u>359,010</u>	<u>528,324</u>	<u>6,907,814</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,675,743	-	-	90,481	2,766,224
Special instruction	588,247	-	-	-	588,247
Other instruction	665,084	-	-	201,182	866,266
	<u>3,929,074</u>	<u>-</u>	<u>-</u>	<u>291,663</u>	<u>4,220,737</u>
Support services:					
Student services	106,426	-	-	21,089	127,515
Instructional staff services	142,533	-	-	30,216	172,749
Administration services	570,533	-	51,191	-	621,724
Operation and maintenance of plant services	504,710	-	-	31,633	536,343
Transportation services	283,471	-	-	67,519	350,990
	<u>1,607,673</u>	<u>-</u>	<u>51,191</u>	<u>150,457</u>	<u>1,809,321</u>
Other expenditures					
Facilities acquisition	-	214,112	-	253,021	467,133
Long-term debt:					
Principal	-	-	277,040	-	277,040
Interest and fiscal charges	-	-	178,287	-	178,287
AEA flowthrough	230,051	-	-	-	230,051
	<u>230,051</u>	<u>214,112</u>	<u>455,327</u>	<u>253,021</u>	<u>1,152,511</u>
Total expenditures	<u>5,766,798</u>	<u>214,112</u>	<u>506,518</u>	<u>695,141</u>	<u>7,182,569</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(135,435)</u>	<u>175,005</u>	<u>(147,508)</u>	<u>(166,817)</u>	<u>(274,755)</u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Other financing sources (uses):					
Proceeds from capital leases	-	-	-	95,650	95,650
Refunding bonds issued	-	-	3,250,000	-	3,250,000
Bond premium	-	-	30,229	-	30,229
Payment to bond escrow agent	-	-	(3,227,273)	-	(3,227,273)
Sales of materials and equipment	105	-	-	-	105
Operating transfers in	-	-	98,094	-	98,094
Operating transfers out	-	(52,439)	-	(45,655)	(98,094)
Total other financing sources (uses)	<u>105</u>	<u>(52,439)</u>	<u>151,050</u>	<u>49,995</u>	<u>148,711</u>
Net change in fund balances	(135,330)	122,566	3,542	(116,822)	(126,044)
Fund balances beginning of year	<u>413,705</u>	<u>343,093</u>	<u>10,833</u>	<u>202,786</u>	<u>970,417</u>
Fund balances end of year	<u><u>278,375</u></u>	<u><u>465,659</u></u>	<u><u>14,375</u></u>	<u><u>85,964</u></u>	<u><u>844,373</u></u>

## 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, 2006

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		(126,044)
<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. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	419,806	
Depreciation expense	<u>(281,661)</u>	138,145
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		(3,769)
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.		3,497,040
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.		(1,497)
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		39,218
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		(3,345,650)
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>746</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>198,189</u></u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2006

	Enterprise Funds			Governmental Activities - Internal Service Fund
	School Nutrition	Nonmajor Enterprise Fund	Total	
	\$	\$	\$	\$
<b>Assets</b>				
Cash and cash equivalents	2,520	-	2,520	6,134
Accounts receivable	513	1,768	2,281	-
Due from other governments	15,259	-	15,259	-
Inventories	5,692	5,700	11,392	-
Capital assets, net of accumulated depreciation	18,323	-	18,323	-
<b>Total assets</b>	<u>42,307</u>	<u>7,468</u>	<u>49,775</u>	<u>6,134</u>
<b>Liabilities</b>				
Accounts payable	-	267	267	4,018
Interfund payable	-	10,323	10,323	-
Salaries and benefits payable	2,455	-	2,455	-
Deferred revenue	5,540	-	5,540	-
<b>Total liabilities</b>	<u>7,995</u>	<u>10,590</u>	<u>18,585</u>	<u>4,018</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	18,323	-	18,323	-
Unrestricted	15,989	(3,122)	12,867	2,116
<b>Total net assets</b>	<u>34,312</u>	<u>(3,122)</u>	<u>31,190</u>	<u>2,116</u>

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

Year ended June 30, 2006

	Enterprise Funds			Governmental Activities - Internal Service Fund
	School Nutrition	Nonmajor Enterprise Fund	Total	
	\$	\$	\$	\$
Operating revenue:				
Local sources:				
Charges for service	181,935	11,466	193,401	37,423
Operating expenses:				
Salaries	110,007	-	110,007	-
Benefits	57,926	-	57,926	36,677
Purchased services	2,068	-	2,068	-
Supplies	181,395	15,079	196,474	-
Depreciation	3,244	-	3,244	-
	<u>354,640</u>	<u>15,079</u>	<u>369,719</u>	<u>36,677</u>
Operating gain (loss)	<u>(172,705)</u>	<u>(3,613)</u>	<u>(176,318)</u>	<u>746</u>
Non-operating revenue:				
State sources	3,938	-	3,938	-
Federal sources	181,591	-	181,591	-
Interest income	113	-	113	-
Total non-operating revenue	<u>185,642</u>	<u>-</u>	<u>185,642</u>	<u>-</u>
Gain (loss) before contributions and transfers	12,937	(3,613)	9,324	746
Capital contributions	<u>6,018</u>	<u>-</u>	<u>6,018</u>	<u>-</u>
Change in net assets	18,955	(3,613)	15,342	746
Net assets beginning of year	<u>15,357</u>	<u>491</u>	<u>15,848</u>	<u>1,370</u>
Net assets end of year	<u><u>34,312</u></u>	<u><u>(3,122)</u></u>	<u><u>31,190</u></u>	<u><u>2,116</u></u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2006

	Enterprise Funds			Governmental Activities - Internal Service Fund
	School Nutrition	Nonmajor Enterprise Fund	Total	
	\$	\$	\$	
<b>Cash flows from operating activities:</b>				
Cash received from sale of lunches and breakfasts	184,465	-	184,465	-
Cash received from sale of services and equipment	-	11,217	11,217	-
Cash received from sale of services to other funds	-	-	-	37,423
Cash payments to employees for services	(167,834)	-	(167,834)	(40,694)
Cash payments to suppliers for goods or services	(163,977)	(13,659)	(177,636)	-
Net cash provided by (used by) operating activities	<u>(147,346)</u>	<u>(2,442)</u>	<u>(149,788)</u>	<u>(3,271)</u>
<b>Cash flows from non-capital financing activities:</b>				
State grants received	3,938	-	3,938	-
Federal grants received	152,035	-	152,035	-
Net cash provided by non-capital financing activities	<u>155,973</u>	<u>-</u>	<u>155,973</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>				
Loans from other funds	<u>(8,000)</u>	<u>2,442</u>	<u>(5,558)</u>	<u>-</u>
<b>Cash flows from investing activities:</b>				
Interest on investments	<u>113</u>	<u>-</u>	<u>113</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	740	-	740	(3,271)
Cash and cash equivalents at beginning of year	<u>1,780</u>	<u>-</u>	<u>1,780</u>	<u>9,405</u>
Cash and cash equivalents at end of year	<u><u>2,520</u></u>	<u><u>-</u></u>	<u><u>2,520</u></u>	<u><u>6,134</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>				
Operating gain (loss)	(172,705)	(3,613)	(176,318)	746
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:				
Commodities used	19,443	-	19,443	-
Depreciation	3,244	-	3,244	-
Decrease (increase) in inventories	1,219	1,700	2,919	-
Decrease (increase) in accounts receivable	(99)	(249)	(348)	-
(Decrease) increase in accounts payable	-	(280)	(280)	(4,017)
(Decrease) increase in salaries and benefits payable	99	-	99	-
(Decrease) increase in deferred revenue	1,453	-	1,453	-
Net cash used in operating activities	<u>(147,346)</u>	<u>(2,442)</u>	<u>(149,788)</u>	<u>(3,271)</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006, the District received \$19,433 of federal commodities.

During the year ended June 30, 2006 the Nutrition Fund received \$6,008 of equipment from other funds.

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Fund

June 30, 2006

	Private Purpose Trust Scholarship <u>\$</u>
<b>Assets</b>	
Cash and pooled investments	37,163
Accrued interest receivable	<u>321</u>
<b>Total Assets</b>	37,484
<b>Liabilities</b>	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u><u>37,484</u></u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund

Year ended June 30, 2006

	Private Purpose Trust Scholarship <u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	10,977
Interest	<u>876</u>
Total additions	<u>11,853</u>
Deductions:	
Support services:	
Supplies	1,709
Scholarships awarded	<u>8,200</u>
	<u>9,909</u>
Change in net assets	1,944
Net assets beginning of year	<u>35,540</u>
Net assets end of year	<u><u>37,484</u></u>

# SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2006

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

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

The District's Nonmajor proprietary fund is the Agricultural Science Technology Student Construction Fund. This 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 flexible benefit 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, 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. 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, 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.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3 as amended by Statement Number 40.

**3. Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Nonmajor Governmental Fund: Student Activity Fund	Enterprise: Agri. Science Tech. Student Construction	10,323

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

**4. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
		\$
Debt Service Fund	Nonmajor Governmental Funds: Physical Plant and Equipment Levy Fund	45,655
Debt Service Fund	Capital Projects Fund	52,439

These transfers moved revenues from the funds statutorily required to collect the resources to the fund statutorily required to expend the resources.

**5. 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
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Construction in progress	103,928	-	103,928	-
Land	39,301	-	-	39,301
	<u>143,229</u>	<u>-</u>	<u>103,928</u>	<u>39,301</u>

Capital assets being depreciated:				
Buildings	7,880,518	199,287	-	8,079,805
Improvements other than buildings	352,152	151,758	-	503,910
Furniture and equipment	<u>1,570,030</u>	<u>172,689</u>	<u>61,233</u>	<u>1,681,486</u>
Total capital assets being deprec.	<u>9,802,700</u>	<u>523,734</u>	<u>61,233</u>	<u>10,265,201</u>
Less accumulated depreciation for:				
Buildings	2,269,006	160,289	-	2,429,295
Improvements other than buildings	250,474	19,652	-	270,126
Furniture and equipment	<u>1,217,335</u>	<u>101,720</u>	<u>61,233</u>	<u>1,257,822</u>
Total accumulated depreciation	<u>3,736,815</u>	<u>281,661</u>	<u>61,233</u>	<u>3,957,243</u>
Total capital assets being depreciated, net	<u>6,065,885</u>	<u>242,073</u>	<u>-</u>	<u>6,307,958</u>
Governmental activities capital assets, net	<u>6,209,114</u>	<u>242,073</u>	<u>103,928</u>	<u>6,347,259</u>
	Balance			Balance End
	Beginning of			of Year
	Year	Increases	Decreases	
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	116,558	6,018	-	122,576
Less accumulated depreciation	<u>101,009</u>	<u>3,244</u>	<u>-</u>	<u>104,253</u>
Business type activities capital assets, net	<u>15,549</u>	<u>2,774</u>	<u>-</u>	<u>18,323</u>
Depreciation expense was charged to the following functions:				\$
Governmental activities:				
Instruction:				
Regular				2,586
Other				1,242
Support Services:				
Instructional staff services				27,130
Administration services				11,810
Operation and maintenance of plant services				19,193
Transportation				<u>39,759</u>
				101,720
Unallocated depreciation				<u>179,941</u>
Total depreciation expense – governmental activities				<u>281,661</u>
Business type activities:				
Food services				<u>3,244</u>

## 6. 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
	\$	\$	\$	\$	\$
General obligation bonds	3,700,000	3,250,000	3,455,000	3,495,000	245,000
Capital leases	30,770	95,650	42,040	84,380	41,434
Termination benefits	98,532	59,314	98,532	59,314	59,314
<b>Total</b>	<b>3,829,302</b>	<b>3,404,964</b>	<b>3,595,572</b>	<b>3,638,694</b>	<b>345,748</b>

### Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of continuous service to the District 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.

Early retirement benefits are equal to 100% of 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.

Early retirement benefits will be paid in three equal installments during the year following the retirement.

At June 30, 2006, the District has obligations to four participants with a total liability of \$59,314. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$98,532.

### General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2007	5.75	245,000	161,160	406,160
2008	4.00	270,000	124,478	394,478
2009	4.00	280,000	113,737	393,737
2010	4.00	295,000	102,538	397,538
2011	4.00	300,000	90,737	390,737
2012-2016	4.00-3.75	1,720,000	270,003	1,990,003
2017	3.80	385,000	14,600	399,600
		<u>3,495,000</u>	<u>877,253</u>	<u>4,372,253</u>

### Capital Leases

The District has leased copy machines and computers under capital leases. The following is a schedule of future minimum lease payments under the capital leases, together with the net present value of the minimum lease payments as of June 30, 2006.

	Year Ending June 30,	Amount
		\$
	2007	45,631
	2008	45,631
	2009	<u>1,837</u>
Minimum Lease Payments		93,099
Less Amount Representing Interest		<u>8,719</u>
Present Value of Minimum Lease Payments		<u>84,380</u>

### Bond Refunding

On December 1, 2005, the District issued \$3,250,000 of general obligation refunding bonds with interest rates ranging between 4.00% to 3.80%. The District issued the bonds to advance refund \$3,220,000 of the outstanding February, 1998 general obligation bonds with interest rates of 5.75% to 4.75%. The District used the net proceeds to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1998 bonds. As a result, that portion of the 1998 bonds is considered defeased, and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$3,220,000 at June 30, 2006.

The advance refunding reduced total debt service payments over the next ten years by \$136,853. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$108,140.

## **7. Pension and Retirement Benefits**

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

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 \$205,609, \$203,581 and \$197,089 respectively, equal to the required contributions for each year.

## **8. 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.

## **9. 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 \$230,051 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.

## **10. Deficit Net Assets**

At June 30, 2006 the District had a \$3,122 deficit net assets in the Enterprise, Agricultural Science Technology Student Construction Fund.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH 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	
	\$	\$	\$		\$	\$
<b>Revenues:</b>						
Local sources	3,617,038	193,514	3,810,552	3,833,499	3,833,499	(22,947)
State sources	3,132,214	3,938	3,136,152	3,194,214	3,194,214	(58,062)
Federal sources	158,562	181,591	340,153	208,000	208,000	132,153
Total revenues	<u>6,907,814</u>	<u>379,043</u>	<u>7,286,857</u>	<u>7,235,713</u>	<u>7,235,713</u>	<u>51,144</u>
<b>Expenditures:</b>						
Instruction	4,220,737	15,080	4,235,817	4,721,362	4,721,362	485,545
Support services	1,809,321	510	1,809,831	1,828,663	1,828,663	18,832
Non-instructional programs	-	354,129	354,129	367,457	367,457	13,328
Other expenditures	1,152,511	-	1,152,511	1,235,491	1,235,491	82,980
Total expenditures	<u>7,182,569</u>	<u>369,719</u>	<u>7,552,288</u>	<u>8,152,973</u>	<u>8,152,973</u>	<u>600,685</u>
Excess (deficiency) of revenues over (under) expenditures	(274,755)	9,324	(265,431)	(917,260)	(917,260)	651,829
Other financing sources (uses) net	<u>148,711</u>	<u>6,018</u>	<u>154,729</u>	<u>-</u>	<u>-</u>	<u>154,729</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	(126,044)	15,342	(110,702)	(917,260)	(917,260)	806,558
Balance beginning of year	<u>970,417</u>	<u>15,848</u>	<u>986,265</u>	<u>1,542,612</u>	<u>1,542,612</u>	<u>(556,347)</u>
Balance end of year	<u><u>844,373</u></u>	<u><u>31,190</u></u>	<u><u>875,563</u></u>	<u><u>625,352</u></u>	<u><u>625,352</u></u>	<u><u>250,211</u></u>

## SOUTH 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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides 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, 2006

Assets	Special Revenue Funds				Total \$
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trusts	
	\$	\$	\$	\$	
Cash and pooled investments	31,213	24,489	16,462	14,911	87,075
Receivables:					
Property tax:					
Delinquent	2,418	-	1,899	-	4,317
Succeeding year	185,001	-	154,249	-	339,250
Accounts	-	888	-	-	888
Accrued interest	-	-	-	58	58
Interfund receivable	-	10,323	-	-	10,323
<b>Total assets</b>	<b>218,632</b>	<b>35,700</b>	<b>172,610</b>	<b>14,969</b>	<b>441,911</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Accounts payable	-	8,310	8,387	-	16,697
Deferred revenue:					
Succeeding year property tax	185,001	-	154,249	-	339,250
Total liabilities	185,001	8,310	162,636	-	355,947
Fund balances:					
Unreserved fund balance reported in:					
Special Revenue Funds	33,631	27,390	9,974	14,969	85,964
<b>Total liabilities and fund balances</b>	<b>218,632</b>	<b>35,700</b>	<b>172,610</b>	<b>14,969</b>	<b>441,911</b>

## SOUTH 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	District	
	Levy	Activity	Plant and	Support	
	Fund	Equipment	Trusts		
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	184,909	-	144,973	-	329,882
Other	5,688	191,323	1,115	316	198,442
Total revenues	<u>190,597</u>	<u>191,323</u>	<u>146,088</u>	<u>316</u>	<u>528,324</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	89,481	-	-	1,000	90,481
Other instruction	-	201,182	-	-	201,182
Support services:					
Student services	21,089	-	-	-	21,089
Instructional staff services	30,216	-	-	-	30,216
Operation and maintenance of plant services	26,133	-	5,500	-	31,633
Transportation services	15,851	-	51,668	-	67,519
Other expenditures:					
Facilities acquisition	-	-	253,021	-	253,021
Total expenditures	<u>182,770</u>	<u>201,182</u>	<u>310,189</u>	<u>1,000</u>	<u>695,141</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,827</u>	<u>(9,859)</u>	<u>(164,101)</u>	<u>(684)</u>	<u>(166,817)</u>
Other financing sources (uses):					
Proceeds from capital leases	-	-	95,650	-	95,650
Operating transfers out	-	-	(45,655)	-	(45,655)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>49,995</u>	<u>-</u>	<u>49,995</u>
Net change in fund balance	7,827	(9,859)	(114,106)	(684)	(116,822)
Fund balances beginning of year	<u>25,804</u>	<u>37,249</u>	<u>124,080</u>	<u>15,653</u>	<u>202,786</u>
Fund balances end of year	<u>33,631</u>	<u>27,390</u>	<u>9,974</u>	<u>14,969</u>	<u>85,964</u>

## SOUTH 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>
Dramatics	1,764	1,754	2,563	955
FFA	1,734	22,687	21,535	2,886
Technology club	120	-	-	120
Student council	1,329	14,626	14,559	1,396
National Honor Society	(70)	207	17	120
Spanish club	286	-	-	286
Yearbook	10,746	11,149	20,263	1,632
Hamilton holidays	9,258	3,710	3,916	9,052
Athletics	(6,441)	71,754	70,525	(5,212)
Concessions	(1,328)	40,152	38,598	226
District Football	1,397	-	400	997
Class of 2005	319	-	146	173
Class of 2006	-	2,305	1,650	655
Swing choir	97	631	534	194
H.S. band	329	171	-	500
Elementary vocal	260	100	99	261
K-6 student council	6,904	3,451	8,332	2,023
M.S. band	1,064	-	-	1,064
7-8 student council	3,506	877	98	4,285
Springbrook trip	-	1,115	1,115	-
Prom	5,396	16,204	16,634	4,966
Interest	579	430	198	811
Total	<u>37,249</u>	<u>191,323</u>	<u>201,182</u>	<u>27,390</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			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	3,067,266	2,885,750	2,917,977	2,926,734
Tuition	236,917	319,458	317,993	242,237
Other	312,855	300,947	297,132	299,095
State sources	3,132,214	2,921,344	2,590,845	2,626,993
Federal sources	158,562	178,751	152,129	127,868
	<u>6,907,814</u>	<u>6,606,250</u>	<u>6,276,076</u>	<u>6,222,927</u>
Expenditures:				
Instruction:				
Regular instruction	2,766,224	2,490,516	2,399,336	2,355,673
Special instruction	588,247	620,431	824,936	748,384
Other instruction	866,266	802,457	616,770	609,615
Support services:				
Student services	127,515	133,739	127,009	125,868
Instructional staff services	172,749	182,771	175,952	191,710
Administration services	621,724	600,986	585,665	522,457
Operation and maintenances of plant services	536,343	451,596	423,233	400,197
Transportation services	350,990	285,321	335,534	325,810
Non-instructional programs	-	-	5,337	6,650
Other expenditures:				
Facilities acquisition	467,133	260,552	113,523	143,350
Long-term debt:				
Principal	277,040	228,476	211,655	202,542
Interest and other charges	178,287	188,023	196,715	197,214
AEA flowthrough	230,051	218,517	217,041	228,996
	<u>7,182,569</u>	<u>6,463,385</u>	<u>6,232,706</u>	<u>6,058,466</u>

Gary E. Horton CPA

PO Box 384

Clarion, IA 50525-0384

(515)532-6681 Phone

(515) 532-2405 Fax

[BETCO@mchsi.com](mailto:BETCO@mchsi.com) E-mail

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, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 2, 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 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 06-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, 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 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 2, 2006

SOUTH 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.

SOUTH 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: 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	2,110

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.

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: No transactions requiring board approval that had not been approved by the board were noted.

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.

06-II-I Certified Annual Report: The Certified Annual Report was not due at the completion of the audit.

06-II-J Deficit Balances: The Student Activity Fund has several accounts with deficit balances and the Agri. Technology Science Enterprise Fund had a deficit net assets of \$3,122 at June 30, 2006.

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

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

Conclusion: Response accepted.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

06-II-K 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. The interest rate on the certificate was 3.60%, and required minimum rate was 5.00%

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

District Response: We have already done this.

Conclusion: Response accepted.