

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of South Hamilton Community School District, Jewell, Iowa, as of and for the year ended June 30, 2007, 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, 2007, 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 January 7, 2008, on our consideration of South Hamilton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 37 through 38 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, 2006, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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

January 7, 2008

**South Hamilton Community Schools
Management Discussion & Analysis
FY 2006-2007**

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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues increased from \$5,631,363 in fiscal year 2006 to \$6,534,242 in fiscal year 2007, while General Fund expenditures also increased from \$5,766,798 in FY 2006 to \$6,576,613 in FY 2007. This indicates that the District's General Fund balance decreased from \$278,375 at the end of Fiscal year 2006 to \$237,923 at the end of FY2007, a decrease of \$40,452.
- The increase in General Fund revenues can be attributed to an increase in local property tax revenues and state revenue in FY2007, as well as increased revenue from an influx of students who open enrolled into the district. 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 and also due to a number of teachers who were hired due to the increase in open enrolled students.
- The district's solvency ratio declined to 3.54% in FY 2007, down from 4.95% 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 2006 and FY 2007.

Condensed Statement of Net Assets

	Governmental		Business-type		Total		Total Percentage Change 2006-07
	Activities		Activities		School District		
	2006	2007	2006	2007	2006	2007	
Current and other assets	\$4,168,020	\$4,602,366	\$21,129	\$44,146	\$4,189,149	\$4,646,512	10.92%
Capital assets	\$6,347,259	\$6,274,867	\$18,323	\$16,350	\$6,365,582	\$6,291,217	-1.17%
Total Assets	\$10,515,279	\$10,877,233	\$39,452	\$60,496	\$10,554,731	\$10,937,729	3.63%
Long-term debt outstanding	\$3,638,694	\$3,342,776	\$0	\$0	\$3,638,694	\$3,342,776	-8.13%
Other liabilities	\$3,272,067	\$3,388,942	\$8,262	\$11,192	\$3,280,329	\$3,400,134	3.65%
Total liabilities	\$6,910,761	\$6,731,718	\$8,262	\$11,192	\$6,919,023	\$6,742,910	-2.55%
Net Assets							
Invested in capital assets, net of related debt	\$2,767,879	\$2,980,417	\$18,323	\$16,350	\$2,786,202	\$2,996,767	7.56%
Restricted	\$567,667	\$885,304	\$0	\$0	\$567,667	\$885,304	55.95%
Unrestricted	\$268,972	\$279,794	\$12,867	\$32,954	\$281,839	\$312,748	10.97%
TOTAL NET ASSETS	\$3,604,518	\$4,145,515	\$31,190	\$49,304	\$3,635,708	\$4,194,819	15.38%

The District's overall financial position is stable as evidenced by a growth in total net assets of 15.38% from FY06 to FY07.

Changes in net assets. The following table represents a comparison of FY2006 and FY2007.

Changes in Net Assets.

	Governmental Activities		Business-type Activities		Total School District		Percent Change
	2006	2007	2006	2007	2006	2007	
Revenues							
Program Revenues							
Charges for services	\$497,658	\$1,003,722	\$193,401	\$216,966	\$691,059	\$1,220,688	76.64%
Operating Grants & Contributions	\$635,071	\$746,475	\$185,529	\$235,186	\$820,600	\$981,661	19.63%
Capital Grants & Contributions	\$0	\$7,885			\$0	\$7,885	100.00%
General Revenues							
Property taxes & other taxes	\$3,065,020	\$3,278,612			\$3,065,020	\$3,278,612	6.97%
Unrestricted state aid	\$2,655,978	\$2,727,758			\$2,655,978	\$2,727,758	2.70%
Other	\$73,379	\$171,729	\$113	\$158	\$73,492	\$171,887	133.89%
Total Revenues	\$6,927,106	\$7,936,181	\$379,043	\$452,310	\$7,306,149	\$8,388,491	14.81%
Expenses							
Instruction	\$4,184,601	\$4,845,043			\$4,184,601	\$4,845,043	15.78%
Pupil & Instructional Svcs	\$327,394	\$314,092			\$327,394	\$314,092	-4.06%
Administrative & Business	\$633,534	\$608,283			\$633,534	\$608,283	-3.99%
Maintenance & Operations	\$550,036	\$609,372			\$550,036	\$609,372	10.79%
Transportation	\$339,081	\$359,570			\$339,081	\$359,570	6.04%
Non-instructional Programs	\$0	\$0	\$369,719	\$435,584	\$369,719	\$435,584	17.81%
Other	\$688,253	\$657,436			\$688,253	\$657,436	-4.48%
Total Expenses	\$6,722,899	\$7,393,796	\$369,719	\$435,584	\$7,092,618	\$7,829,380	10.39%
Excess (deficiency) before transfers	\$204,207	\$542,385	\$9,324	\$16,726	\$213,531	\$559,111	161.84%
Transfers	\$(6,018)	\$(1,388)	\$6,018	\$1,388			
Increase (decrease) in net assets	\$198,189	\$540,997	\$15,342	\$18,114	\$213,531	\$559,111	161.84%

Governmental Activities

Revenues for governmental activities were \$7,936,181 while expenses amounted to \$7,393,796.

The local option sales tax revenue was up from \$372,253 in FY2006 to \$448,790 in FY2007. 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		
	2006	2007	% Change	2006	2007	% Change
Instruction	\$4,184,601	\$4,845,043	15.78%	\$3,288,673	\$3,345,154	1.72%
Pupil & Instructional Services	\$327,394	\$314,092	-4.06%	\$327,394	\$314,092	-4.06%
Administrative & Business	\$633,534	\$608,283	-3.99%	\$633,534	\$608,283	-3.99%
Maintenance & Operations	\$550,036	\$609,372	10.79%	\$548,792	\$608,135	10.81%
Transportation	\$339,081	\$359,570	6.04%	\$335,525	\$359,570	7.17%
Non-instructional Programs	\$0	\$0	0.0%	\$0	\$0	0.0%
Other	\$688,253	\$657,436	-4.48%	\$456,252	\$400,480	-12.22%
TOTAL	\$6,722,899	\$7,393,796	9.98%	\$5,590,170	\$5,635,714	0.82%

- The cost of all governmental activities this year was \$7,393,796.
- The portion of the cost financed by users of the District’s programs was \$1,003,722, 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 \$746,475.
- The net cost portion of governmental activities was financed with \$2,719,353 in property tax, \$2,727,758 in unrestricted state aid, \$448,790 in local option sales tax, \$110,469 income surtax, and \$45,322 in interest income.

Business-Type Activities

Revenues of the District’s business-type activities totaled \$452,310 while expenses totaled \$435,584. 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.

Business-type revenues and expenses increased \$73,267 and \$65,865, respectively, from fiscal year 2006. These increases were generated by an additional 100 open enrollment in students for fiscal year 2007; that were participating in the school lunch program.

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 \$1,143,123, up from last year's ending fund balances of \$844,373.

Governmental Fund Highlights

- The General Fund balance decreased from \$278,375 in FY06 to \$237,923 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 FY2006 balance was \$465,659 and the FY2007 balance was \$739,027.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$9,974 in FY2065 to \$7,990 in FY2007. This fund balance remains relatively low as the funds are expended for a wide variety of projects to maintain and improvement grounds and facilities.

Business-Type Fund Highlights

- The School Nutrition Fund net assets balance increased 19,447 from 2006 to 2007 and Ag Technology Enterprise Fund net assets balance decreased \$1,333 from 2006 to 2007.

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.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs functional area. Expenditures were higher in this area, than anticipated when the budget was completed, due to an additional 100 open enrollment in students that participated in the school food service program for fiscal year 2007.

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 the fiscal year 2007, the District had invested \$6,291,217, 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 1.17 percent from last year. (See exhibit below).

Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2006 to 2007
	2006	2007	2006	2007	2006	2007	
Land	\$39,301	\$39,301			\$39,301	\$39,301	0.0%
Construction in progress	\$0	\$0			\$0	\$0	0.0%
Buildings & Other Improvements	\$5,884,294	\$5,779,401			\$5,884,294	\$5,779,401	-1.78%
Equipment & Furniture	\$423,664	\$456,165	\$18,323	\$16,350	\$441,987	\$472,515	6.91%
TOTAL	\$6,347,259	\$6,274,867	\$18,323	\$16,350	\$6,365,582	\$6,291,217	-1.17%

Long-Term Debt

At year-end, the district had \$3,250,000 in general obligation bonds outstanding. This represents a decrease of 7.0% 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. There were some additional open enrollments for the 2007-08 school year. In addition, a number of staff members were hired to work with all students, including the new ones. This additional expense will be monitored to determine if the revenue generated by the open enrolled students will continue to cover the costs of the new employees.

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, 2007

	Governmental Activities	Business Type Activities	Total	Component Unit South Hamilton Community School District Foundation
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	1,529,679	32,141	1,561,820	186,471
Receivables:				
Property tax:				
Delinquent	32,518	-	32,518	-
Succeeding year	2,736,936	-	2,736,936	-
Accounts	3,494	3,371	6,865	-
Accrued interest	395	-	395	3,656
Interfund receivable/payable	14,248	(14,248)	-	-
Due from other governments	285,096	7,742	292,838	-
Inventories	-	15,140	15,140	-
Capital assets, net of accumulated depreciation	6,274,867	16,350	6,291,217	-
Total assets	10,877,233	60,496	10,937,729	190,127
Liabilities				
Accounts payable	60,031	622	60,653	-
Salaries and benefits payable	569,356	2,715	572,071	-
Accrued interest payable	22,619	-	22,619	-
Deferred revenue:				
Succeeding year property tax	2,736,936	-	2,736,936	-
Other	-	7,855	7,855	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	270,000	-	270,000	-
Capital leases	41,891	-	41,891	-
Termination benefits	48,326	-	48,326	-
Portion due after one year:				
General obligation bonds payable	2,980,000	-	2,980,000	-
Capital leases	2,559	-	2,559	-
Total liabilities	6,731,718	11,192	6,742,910	-

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total	Component Unit South Hamilton Community School District Foundation
	\$	\$	\$	\$
Net assets				
Invested in capital assets, net of related debt	2,980,417	16,350	2,996,767	-
Restricted for:				
State categorical aid	45,695	-	45,695	-
Management levy	35,826	-	35,826	-
Physical plant and equipment levy	7,990	-	7,990	-
Other special revenue purposes	56,766	-	56,766	-
Capital projects local option sales tax	739,027	-	739,027	-
Unrestricted	279,794	32,954	312,748	190,127
Total net assets	<u>4,145,515</u>	<u>49,304</u>	<u>4,194,819</u>	<u>190,127</u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Functions/Programs	<u>Program Revenues</u>			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	3,214,682	735,561	327,126	-
Special	758,079	32,866	101,805	-
Other	872,282	234,058	68,473	-
	<u>4,845,043</u>	<u>1,002,485</u>	<u>497,404</u>	<u>-</u>
Support services:				
Student	131,019	-	-	-
Instructional staff	183,073	-	-	-
Administration	608,283	-	-	-
Operation and maintenance of plant	609,372	1,237	-	-
Transportation	359,570	-	-	-
	<u>1,891,317</u>	<u>1,237</u>	<u>-</u>	<u>-</u>
Non-instructional programs	-	-	-	-
Other expenditures:				
Facilities acquisition	70,477	-	-	7,885
Long-term debt interest	158,737	-	2,662	-
AEA flowthrough	246,409	-	246,409	-
Depreciation (unallocated)*	181,813	-	-	-
	<u>657,436</u>	<u>-</u>	<u>249,071</u>	<u>7,885</u>
Total governmental activities	<u>7,393,796</u>	<u>1,003,722</u>	<u>746,475</u>	<u>7,885</u>
Business type activities:				
Non-instructional programs:				
Food service operations	424,243	206,958	235,186	-
Agri. science tech. student construction	11,341	10,008	-	-
Total business type activities	<u>435,584</u>	<u>216,966</u>	<u>235,186</u>	<u>-</u>
Total primary government	7,829,380	1,220,688	981,661	7,885
Component Unit:				
South Hamilton Community				
School District Foundation	23,577	6,189	26,867	-
Total	<u>7,852,957</u>	<u>1,226,877</u>	<u>1,008,528</u>	<u>7,885</u>

General Revenues:

Property taxes levied for:
 General purposes
 Debt service
 Capital outlay
Income surtax
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Other

Total general revenues

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
\$	\$	\$	\$
(2,151,995)	-	(2,151,995)	-
(623,408)	-	(623,408)	-
(569,751)	-	(569,751)	-
(3,345,154)	-	(3,345,154)	-
(131,019)	-	(131,019)	-
(183,073)	-	(183,073)	-
(608,283)	-	(608,283)	-
(608,135)	-	(608,135)	-
(359,570)	-	(359,570)	-
(1,890,080)	-	(1,890,080)	-
-	-	-	-
(62,592)	-	(62,592)	-
(156,075)	-	(156,075)	-
-	-	-	-
(181,813)	-	(181,813)	-
(400,480)	-	(400,480)	-
(5,635,714)	-	(5,635,714)	-
-	17,901	17,901	-
-	(1,333)	(1,333)	-
-	16,568	16,568	-
(5,635,714)	16,568	(5,619,146)	-
-	-	-	9,479
(5,635,714)	16,568	(5,619,146)	9,479
2,208,949	-	2,208,949	-
356,159	-	356,159	-
154,245	-	154,245	-
110,469	-	110,469	-
448,790	-	448,790	-
2,727,758	-	2,727,758	-
45,322	158	45,480	6,711
126,407	-	126,407	-
6,178,099	158	6,178,257	6,711
(1,388)	1,388	-	-
6,176,711	1,546	6,178,257	6,711
540,997	18,114	559,111	16,190
3,604,518	31,190	3,635,708	173,937
4,145,515	49,304	4,194,819	190,127

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	725,546	638,860	158,089	1,522,495
Receivables:				
Property tax:				
Delinquent	24,201	-	8,317	32,518
Succeeding year	2,067,941	-	668,995	2,736,936
Accounts	2,649	-	845	3,494
Accrued interest	-	-	395	395
Interfund receivable	-	-	14,248	14,248
Due from other governments	184,929	100,167	-	285,096
	<u>3,005,266</u>	<u>739,027</u>	<u>850,889</u>	<u>4,595,182</u>
Total assets				
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	39,820	-	15,721	55,541
Salaries and benefits payable	569,356	-	-	569,356
Deferred revenue:				
Succeeding year property tax	2,067,941	-	668,995	2,736,936
Other	90,226	-	-	90,226
Total liabilities	<u>2,767,343</u>	<u>-</u>	<u>684,716</u>	<u>3,452,059</u>
Fund balances:				
Reserved for:				
State categorical aid	45,695	-	-	45,695
Debt service	-	-	17,265	17,265
Unreserved reported in:				
General Fund	192,228	-	-	192,228
Special Revenue Funds	-	-	148,908	148,908
Capital Projects Fund	-	739,027	-	739,027
Total fund balances	<u>237,923</u>	<u>739,027</u>	<u>166,173</u>	<u>1,143,123</u>
Total liabilities and fund balances	<u>3,005,266</u>	<u>739,027</u>	<u>850,889</u>	<u>4,595,182</u>

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

June 30, 2007

	\$
Total fund balances of governmental funds (Exhibit C)	1,143,123
 <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.	6,274,867
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	90,226
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.	(22,619)
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.	2,694
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>(3,342,776)</u>
Net assets of governmental activities (Exhibit A)	<u><u>4,145,515</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,124,427	421,082	695,400	3,240,909
Tuition	721,140	-	-	721,140
Other	217,452	14,090	223,631	455,173
State sources	3,267,078	27,708	447	3,295,233
Federal sources	204,145	7,885	-	212,030
Total revenues	<u>6,534,242</u>	<u>470,765</u>	<u>919,478</u>	<u>7,924,485</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,171,100	-	81,068	3,252,168
Special	758,079	-	-	758,079
Other	680,035	-	191,005	871,040
	<u>4,609,214</u>	<u>-</u>	<u>272,073</u>	<u>4,881,287</u>
Support services:				
Student	110,165	-	20,854	131,019
Instructional staff	154,803	-	-	154,803
Administration	596,473	-	-	596,473
Operation and maintenance of plant	559,873	8,600	36,731	605,204
Transportation	299,676	1,800	84,354	385,830
	<u>1,720,990</u>	<u>10,400</u>	<u>141,939</u>	<u>1,873,329</u>
Other expenditures:				
Facilities acquisition	-	136,997	37,817	174,814
Long-term debt:				
Principal	-	-	284,930	284,930
Interest and fiscal charges	-	-	166,885	166,885
AEA flowthrough	246,409	-	-	246,409
	<u>246,409</u>	<u>136,997</u>	<u>489,632</u>	<u>873,038</u>
Total expenditures	<u>6,576,613</u>	<u>147,397</u>	<u>903,644</u>	<u>7,627,654</u>
expenditures	<u>(42,371)</u>	<u>323,368</u>	<u>15,834</u>	<u>296,831</u>
Other financing sources (uses):				
Sales of materials and equipment	1,919	-	-	1,919
Operating transfers in	-	-	95,655	95,655
Operating transfers out	-	(50,000)	(45,655)	(95,655)
Total other financing sources (uses)	<u>1,919</u>	<u>(50,000)</u>	<u>50,000</u>	<u>1,919</u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Net change in fund balances	(40,452)	273,368	65,834	298,750
Fund balances beginning of year	<u>278,375</u>	<u>465,659</u>	<u>100,339</u>	<u>844,373</u>
Fund balances end of year	<u><u>237,923</u></u>	<u><u>739,027</u></u>	<u><u>166,173</u></u>	<u><u>1,143,123</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, 2007

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		298,750
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 Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:		
Expenditures for capital assets	221,446	
Depreciation expense	<u>(293,838)</u>	(72,392)
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 activities.		
		9,995
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.		
		284,930
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.		
		8,148
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		10,988
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>578</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>540,997</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2007

	Enterprise Funds			Governmental Activities - Internal Service Fund
	School Nutrition	Nonmajor Enterprise Fund	Total	
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	32,141	-	32,141	7,184
Accounts receivable	465	2,906	3,371	-
Due from other governments	7,742	-	7,742	-
Inventories	7,840	7,300	15,140	-
Capital assets, net of accumulated depreciation	16,350	-	16,350	-
Total assets	64,538	10,206	74,744	7,184
Liabilities				
Accounts payable	209	413	622	4,490
Interfund payable	-	14,248	14,248	-
Salaries and benefits payable	2,715	-	2,715	-
Deferred revenue	7,855	-	7,855	-
Total liabilities	10,779	14,661	25,440	4,490
Net assets				
Invested in capital assets, net of related debt	16,350	-	16,350	-
Unrestricted	37,409	(4,455)	32,954	2,694
Total net assets	53,759	(4,455)	49,304	2,694

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

Year ended June 30, 2007

	Enterprise Funds			Governmental Activities - Internal Service Fund
	School Nutrition	Nonmajor Enterprise Fund	Total	
	\$	\$	\$	\$
Operating revenue:				
Local sources:				
Charges for service	206,958	10,008	216,966	48,346
Operating expenses:				
Non-instructional programs:				
Salaries	119,911	-	119,911	-
Benefits	60,058	-	60,058	47,800
Purchased services	4,211	-	4,211	-
Supplies	236,702	11,341	248,043	-
Depreciation	3,361	-	3,361	-
	<u>424,243</u>	<u>11,341</u>	<u>435,584</u>	<u>47,800</u>
Operating gain (loss)	<u>(217,285)</u>	<u>(1,333)</u>	<u>(218,618)</u>	<u>546</u>
Non-operating revenues:				
State sources	4,447	-	4,447	-
Federal sources	215,739	-	215,739	-
Interest income	158	-	158	32
Other grants	15,000	-	15,000	-
Total non-operating revenues	<u>235,344</u>	<u>-</u>	<u>235,344</u>	<u>32</u>
Gain (loss) before contributions	18,059	(1,333)	16,726	578
Capital contributions	<u>1,388</u>	<u>-</u>	<u>1,388</u>	<u>-</u>
Change in net assets	19,447	(1,333)	18,114	578
Net assets beginning of year	<u>34,312</u>	<u>(3,122)</u>	<u>31,190</u>	<u>2,116</u>
Net assets end of year	<u><u>53,759</u></u>	<u><u>(4,455)</u></u>	<u><u>49,304</u></u>	<u><u>2,694</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2007

	Enterprise Funds		Governmental Activities - Internal Service Fund
	School Nutrition	Nonmajor Enterprise Fund	
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	209,321	-	209,321
Cash received from sale of services and equipment	-	8,870	8,870
Cash received from sale of services to other funds	-	-	-
Cash payments to employees for services	(179,709)	-	(179,709)
Cash payments to suppliers for goods or services	(223,480)	(12,795)	(236,275)
Net cash provided by (used by) operating activities	<u>(193,868)</u>	<u>(3,925)</u>	<u>(197,793)</u>
Cash flows from non-capital financing activities:			
Other grants received	15,000	-	15,000
State grants received	4,447	-	4,447
Federal grants received	203,884	-	203,884
Net cash provided by non-capital financing activities	<u>223,331</u>	<u>-</u>	<u>223,331</u>
Cash flows from capital and related financing activities:			
Loans from other funds	-	3,925	3,925
Cash flows from investing activities:			
Interest on investments	158	-	158
Net increase (decrease) in cash and cash equivalents	29,621	-	29,621
Cash and cash equivalents at beginning of year	2,520	-	2,520
Cash and cash equivalents at end of year	<u>32,141</u>	<u>-</u>	<u>32,141</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:			
Operating gain (loss)	(217,285)	(1,333)	(218,618)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	19,372	-	19,372
Depreciation	3,361	-	3,361
Decrease (increase) in inventories	(2,148)	(1,600)	(3,748)
Decrease (increase) in accounts receivable	48	(1,138)	(1,090)
(Decrease) increase in accounts payable	209	146	355
(Decrease) increase in salaries and benefits payable	260	-	260
(Decrease) increase in deferred revenue	2,315	-	2,315
Net cash used in operating activities	<u>(193,868)</u>	<u>(3,925)</u>	<u>(197,793)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$19,342 of federal commodities.

During the year ended June 30, 2007 the Nutrition Fund received \$1,388 of equipment from other funds.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Fund

June 30, 2007

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	37,616
Accrued interest receivable	<u>967</u>
Total Assets	38,583
Liabilities	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>38,583</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

Year ended June 30, 2007

	Private Purpose Trust Scholarship <u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	10,216
Interest	<u>1,194</u>
Total additions	<u>11,410</u>
Deductions:	
Support services:	
Supplies	861
Scholarships awarded	<u>9,450</u>
	<u>10,311</u>
Change in net assets	1,099
Net assets beginning of year	<u>37,484</u>
Net assets end of year	<u><u>38,583</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

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 imposed by management which 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 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 instruction, 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 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 non-operating 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 non-operating 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 financial statements:

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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006, through June 30, 2007, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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 \$2,200 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 not available for appropriation or 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 are 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. During the year ended June 30, 2007, expenditures in the non-instructional programs function exceeded the amount budgeted.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2007 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 No. 3 as amended by Statement No. 40.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Nonmajor Governmental Fund: Student Activity Fund	Nonmajor Enterprise: Agri. Science Tech. Student Construction	14,248

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

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer To	Transfer From	Amount
		\$
Nonmajor Governmental Funds: Debt Service Fund	Nonmajor Governmental Funds: Physical Plant and Equipment Levy Fund	45,655
Nonmajor Governmental Funds: Debt Service Fund	Capital Projects Fund	50,000

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, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	39,301	-	-	39,301

Capital assets being depreciated:				
Buildings	8,079,805	76,920	-	8,156,725
Improvements other than buildings	503,910	-	-	503,910
Furniture and equipment	<u>1,681,486</u>	<u>144,526</u>	<u>61,077</u>	<u>1,764,935</u>
Total capital assets being deprec.	<u>10,265,201</u>	<u>221,446</u>	<u>61,077</u>	<u>10,425,570</u>
Less accumulated depreciation for:				
Buildings	2,429,295	162,162	-	2,591,457
Improvements other than buildings	270,126	19,651	-	289,777
Furniture and equipment	<u>1,257,822</u>	<u>107,307</u>	<u>56,359</u>	<u>1,308,770</u>
Total accumulated depreciation	<u>3,957,243</u>	<u>289,120</u>	<u>56,359</u>	<u>4,190,004</u>
Total capital assets being depreciated, net	<u>6,307,958</u>	<u>(67,674)</u>	<u>4,718</u>	<u>6,235,566</u>
Governmental activities capital assets, net	<u>6,347,259</u>	<u>(67,674)</u>	<u>4,718</u>	<u>6,274,867</u>
	Balance			Balance End
	Beginning of			of Year
	Year	Increases	Decreases	
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	122,576	1,388	-	123,964
Less accumulated depreciation	<u>104,253</u>	<u>3,361</u>	<u>-</u>	<u>107,614</u>
Business type activities capital assets, net	<u>18,323</u>	<u>(1,973)</u>	<u>-</u>	<u>16,350</u>
Depreciation expense was charged to the following functions:				\$
Governmental activities:				
Instruction:				
Regular				2,586
Other				1,242
Support services:				
Instructional staff services				28,270
Administration services				11,810
Operation and maintenance of plant services				19,623
Transportation				<u>43,776</u>
				107,307
Unallocated depreciation				<u>181,813</u>
Total depreciation expense – governmental activities				<u>289,120</u>
Business type activities:				
Food services				<u>3,361</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	3,495,000	-	245,000	3,250,000	270,000
Capital leases	84,380	-	39,930	44,450	41,891
Termination benefits	59,314	48,326	59,314	48,326	48,326
Total	3,638,694	48,326	344,244	3,342,776	360,217

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least twenty 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 for certified staff 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 for administrators and support staff are equal to 40% of base salary 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, 2007, the District has obligations to two participants with a total liability of \$48,326. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$59,314.

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2008	4.00	270,000	124,537	394,537
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	4.00	315,000	78,738	393,738
2013-2017	4.00-3.75	1,790,000	205,895	1,995,895
		3,250,000	716,182	3,966,182

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, 2007.

	Year Ending June 30,	Amount
		\$
	2008	45,631
	2009	<u>1,837</u>
Minimum Lease Payments		47,468
Less Amount Representing Interest		<u>3,018</u>
Present Value of Minimum Lease Payments		<u>44,450</u>

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, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$232,762, \$205,609 and \$203,581 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 \$246,409 for the year ended June 30, 2007 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, 2007 the District had a \$4,455 deficit net assets in the Nonmajor Agri. Science Tech. Enterprise Fund.

11. Construction Commitment

The District has entered into contract totaling \$317,311 for a parking lot. Work on the project had not started at June 30, 2007.

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, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	4,417,222	232,124	4,649,346	4,552,133	4,552,133	97,213
State sources	3,295,233	4,447	3,299,680	3,435,613	3,435,613	(135,933)
Federal sources	212,030	215,739	427,769	345,000	345,000	82,769
Total revenues	<u>7,924,485</u>	<u>452,310</u>	<u>8,376,795</u>	<u>8,332,746</u>	<u>8,332,746</u>	<u>44,049</u>
Expenditures:						
Instruction	4,881,287	-	4,881,287	5,576,906	5,576,906	695,619
Support services	1,873,329	-	1,873,329	2,138,869	2,138,869	265,540
Non-instructional programs	-	435,584	435,584	392,973	392,973	(42,611)
Other expenditures	873,038	-	873,038	1,527,277	1,527,277	654,239
Total expenditures	<u>7,627,654</u>	<u>435,584</u>	<u>8,063,238</u>	<u>9,636,025</u>	<u>9,636,025</u>	<u>1,572,787</u>
Excess (deficiency) of revenues over (under) expenditures	296,831	16,726	313,557	(1,303,279)	(1,303,279)	1,616,836
Other financing sources (uses) net	<u>1,919</u>	<u>1,388</u>	<u>3,307</u>	<u>500</u>	<u>500</u>	<u>2,807</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	298,750	18,114	316,864	(1,302,779)	(1,302,779)	1,619,643
Balance beginning of year	<u>844,373</u>	<u>31,190</u>	<u>875,563</u>	<u>1,329,323</u>	<u>1,329,323</u>	<u>(453,760)</u>
Balance end of year	<u><u>1,143,123</u></u>	<u><u>49,304</u></u>	<u><u>1,192,427</u></u>	<u><u>26,544</u></u>	<u><u>26,544</u></u>	<u><u>1,165,883</u></u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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 function 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.

During the year ended June 30, 2007, expenditures in the non-instructional programs function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007

Assets	Special Revenue Funds					Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trusts	Debt Service	
	\$	\$	\$	\$	\$	
Cash and pooled investments	81,940	41,159	6,915	15,070	13,005	158,089
Receivables:						
Property tax:						
Delinquent	2,212	-	1,845	-	4,260	8,317
Succeeding year	160,001	-	164,456	-	344,538	668,995
Accounts	-	695	150	-	-	845
Accrued interest	-	-	-	395	-	395
Interfund receivable	-	14,248	-	-	-	14,248
Total assets	244,153	56,102	173,366	15,465	361,803	850,889
Liabilities & Fund Balances						
Liabilities:						
Accounts payable	-	14,801	920	-	-	15,721
Deferred revenue:						
Succeeding year property tax	160,001	-	164,456	-	344,538	668,995
Total liabilities	160,001	14,801	165,376	-	344,538	684,716
Fund balances:						
Reserved for debt service	-	-	-	-	17,265	17,265
Unreserved fund balance reported in:						
Special Revenue Funds	84,152	41,301	7,990	15,465	-	148,908
Total fund balances	84,152	41,301	7,990	15,465	17,265	166,173
Total liabilities and fund balances	244,153	56,102	173,366	15,465	361,803	850,889

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Special Revenue Funds					Total
	Management	Student	Physical	District	Debt	
	Levy	Activity	Plant and	Support	Service	
		Equipment	Trusts			
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	184,996	-	154,245	-	356,159	695,400
Other	12,627	204,916	2,930	496	2,662	223,631
State sources	119	-	99	-	229	447
Total revenues	<u>197,742</u>	<u>204,916</u>	<u>157,274</u>	<u>496</u>	<u>359,050</u>	<u>919,478</u>
Expenditures:						
Current:						
Instruction:						
Regular	81,068	-	-	-	-	81,068
Other	-	191,005	-	-	-	191,005
Support services:						
Student	20,854	-	-	-	-	20,854
Operation and maintenance of plant	30,981	-	5,750	-	-	36,731
Transportation	14,318	-	70,036	-	-	84,354
Other expenditures:						
Facilities acquisition	-	-	37,817	-	-	37,817
Long-term debt:						
Principal	-	-	-	-	284,930	284,930
Interest and fiscal charges	-	-	-	-	166,885	166,885
Total expenditures	<u>147,221</u>	<u>191,005</u>	<u>113,603</u>	<u>-</u>	<u>451,815</u>	<u>903,644</u>
Excess (deficiency) of revenues over (under) expenditures	<u>50,521</u>	<u>13,911</u>	<u>43,671</u>	<u>496</u>	<u>(92,765)</u>	<u>15,834</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	95,655	95,655
Operating transfers out	-	-	(45,655)	-	-	(45,655)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(45,655)</u>	<u>-</u>	<u>95,655</u>	<u>50,000</u>
Net change in fund balance	50,521	13,911	(1,984)	496	2,890	65,834
Fund balances beginning of year	<u>33,631</u>	<u>27,390</u>	<u>9,974</u>	<u>14,969</u>	<u>14,375</u>	<u>100,339</u>
Fund balances end of year	<u>84,152</u>	<u>41,301</u>	<u>7,990</u>	<u>15,465</u>	<u>17,265</u>	<u>166,173</u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
Dramatics	955	2,476	3,289	-	142
FFA	2,886	25,913	24,007	-	4,792
Technology club	120	-	-	-	120
Student council	1,396	17,455	17,145	-	1,706
National Honor Society	120	128	367	500	381
Spanish club	286	-	-	-	286
Yearbook	1,632	15,215	14,476	-	2,371
Hamilton holidays	9,052	2,415	1,901	-	9,566
Athletics	(5,212)	63,910	67,184	4,037	(4,449)
Concessions	226	32,324	29,135	(4,000)	(585)
Dance/drill team	-	10,005	4,051	-	5,954
District Football	997	1,200	650	(37)	1,510
Class of 2005	173	-	-	(173)	-
Class of 2006	655	-	100	(555)	-
Class of 2007	-	1,960	2,431	728	257
Swing choir	194	1,232	1,109	-	317
H.S. band	500	1,000	279	-	1,221
Elementary vocal	261	93	91	-	263
K-6 student council	2,023	2,820	1,077	(218)	3,548
M.S. band	1,064	-	-	-	1,064
7-8 student council	4,285	837	2,730	-	2,392
Springbrook trip	-	1,392	1,610	218	-
Prom	4,966	24,003	19,217	-	9,752
Interest	811	538	156	(500)	693
Total	27,390	204,916	191,005	-	41,301

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			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	3,240,909	3,067,266	2,885,750	2,917,977
Tuition	721,140	236,917	319,458	317,993
Other	455,173	312,855	300,947	297,132
State sources	3,295,233	3,132,214	2,921,344	2,590,845
Federal sources	212,030	158,562	178,751	152,129
Total revenues	<u>7,924,485</u>	<u>6,907,814</u>	<u>6,606,250</u>	<u>6,276,076</u>
Expenditures:				
Instruction:				
Regular instruction	3,252,168	2,766,224	2,490,516	2,399,336
Special instruction	758,079	588,247	620,431	824,936
Other instruction	871,040	866,266	802,457	616,770
Support services:				
Student services	131,019	127,515	133,739	127,009
Instructional staff services	154,803	172,749	182,771	175,952
Administration services	596,473	621,724	600,986	585,665
Operation and maintenances of plant services	605,204	536,343	451,596	423,233
Transportation services	385,830	350,990	285,321	335,534
Non-instructional programs	-	-	-	5,337
Other expenditures:				
Facilities acquisition	174,814	467,133	260,552	113,523
Long-term debt:				
Principal	284,930	277,040	228,476	211,655
Interest and other charges	166,885	178,287	188,023	196,715
AEA flowthrough	246,409	230,051	218,517	217,041
Total expenditures	<u>7,627,654</u>	<u>7,182,569</u>	<u>6,463,385</u>	<u>6,232,706</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
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, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 7, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of South Hamilton Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of South Hamilton Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects South Hamilton Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of South Hamilton Community School District's financial statements that is more than inconsequential will not be prevented or detected by South Hamilton Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by South Hamilton Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-I-A and 07-I-B are material weaknesses.

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 and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 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.

South Hamilton Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit South Hamilton Community School District's responses and, accordingly, we express no opinion on them.

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

January 7, 2008

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

07-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 and posting of general journal entries, 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.

07-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

07-II-A Certified Budget: Expenditures for the year ended June 30, 2007, exceeded the amounts budgeted in the non-instructional programs function.

Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

District Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

07-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.

07-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.

07-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 driving	1,269
Marvin Ness, board member, substitute bus driver	Bus driving	2,643

Board members may be District employees if the employment is part time and temporary and the amount paid is not over \$2,500.

Recommendation: The District should consult legal council regarding this matter.

District Response: Marvin Ness exceeded the \$2,500 limit during the last month of the year. We will monitor the limit closer in future years.

Conclusion: Response accepted.

07-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.

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

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

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

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

07-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.

07-II-I Certified Annual Report: The Certified Annual Report was certified timely with the Iowa Department of Education.

07-II-J Deficit Balances: The Student Activity Fund has two accounts with deficit balances and the Agri. Technology Science Enterprise Fund had a deficit net assets of \$4,455 at June 30, 2007.

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.