

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

June 30, 2009

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Northeast Hamilton Community School District, Blairsburg, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Northeast Hamilton Community School District at June 30, 2009, 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 April 29, 2010, on our consideration of Northeast Hamilton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 13 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Hamilton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

April 29, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast Hamilton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,576,630 in fiscal 2008 to \$2,545,987 in fiscal 2009. General Fund expenditures increased from \$2,702,794 in fiscal 2008 to \$2,869,931 in fiscal 2009. The District's General Fund balance decreased from \$514,798 in fiscal 2008 to \$190,854 in fiscal 2009, a 63% decrease.
- General Fund revenue increased in the areas of local taxes and Federal sources while the other revenue sources (tuition, State sources and miscellaneous) decreased. The District's certified enrollment decreased by 10 students affecting revenue sources for fiscal 2009. The increase in expenditures was due primarily to increase costs in instruction services. As noted above, expenditures exceeded revenues in the General Fund by \$323,944
- In September 2008 a special election bond issue to build a new preschool through grade 5 elementary addition passed overwhelmingly (71.5% voted yes). The Board sold general obligation bonds in the amount of \$2,500,000 and construction began in May 2009.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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

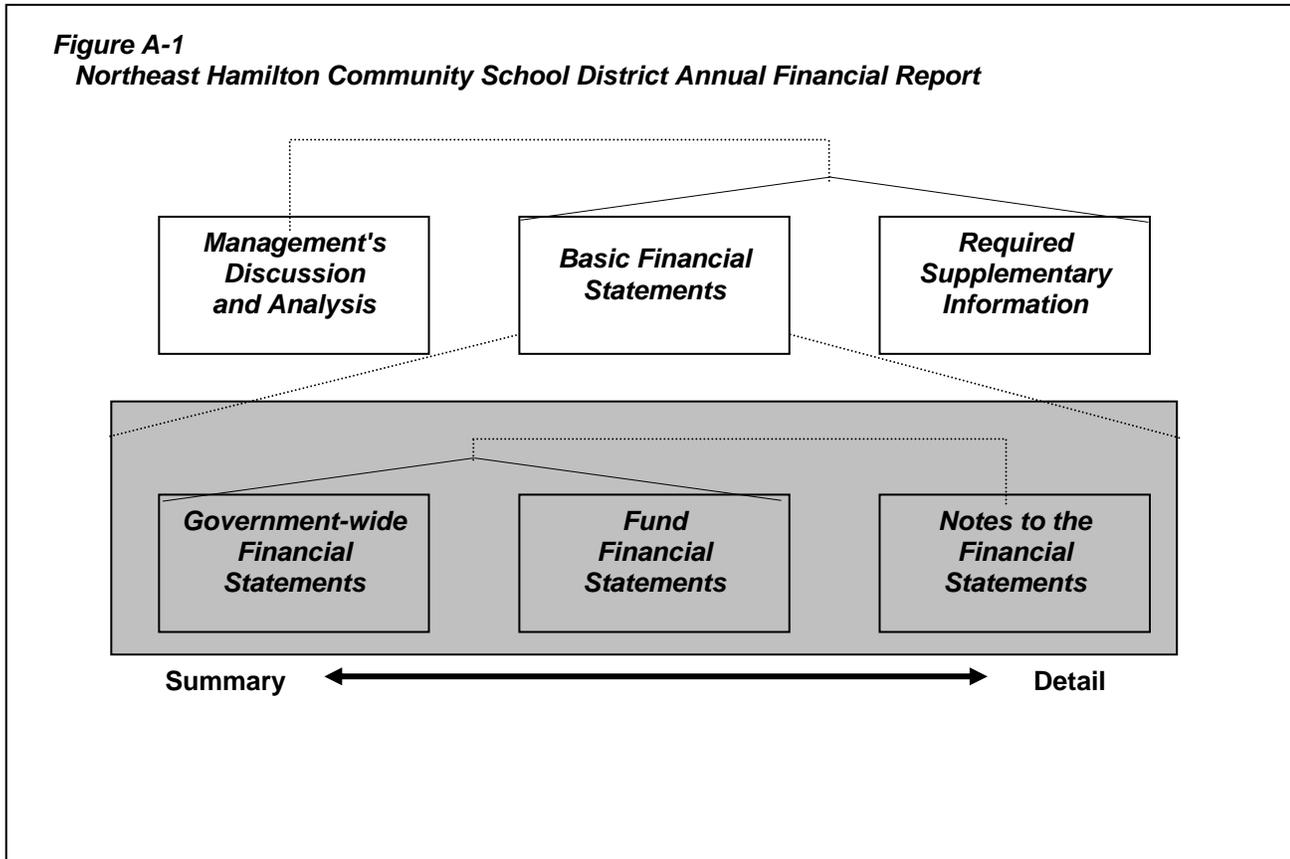


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund – The District would account for outside donations for scholarships for individual students in this fund; there are none currently in the District. The Special Needs Fund is classified as a private purpose trust fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures. The Spirit Club is accounted for in an agency fund.

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

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

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

Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District’s net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3							
Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2008	2009	2008	2009	2008	2009	2008-2009
Current and other assets	\$ 3,349,199	6,003,855	15,158	14,508	3,364,357	6,018,363	79%
Capital assets	920,135	1,296,111	10,384	19,197	930,519	1,315,308	41%
Total assets	4,269,334	7,299,966	25,542	33,705	4,294,876	7,333,671	71%
Long-term liabilities	-	2,510,797	-	-	-	2,510,797	100%
Other Liabilities	1,623,444	2,344,815	11,091	11,748	1,634,535	2,356,563	44%
Total liabilities	1,623,444	4,855,612	11,091	11,748	1,634,535	4,867,360	198%
Net Assets							
Invested in capital assets, net of related debt	920,135	1,183,345	10,384	19,197	930,519	1,202,542	29%
Restricted	1,120,780	1,023,707	-	-	1,120,780	1,023,707	-9%
Unrestricted	604,975	237,302	4,067	2,760	609,042	240,062	-61%
TOTAL NET ASSETS	\$ 2,645,890	2,444,354	14,451	21,957	2,660,341	2,466,311	-7%

The District's combined net assets decreased by nearly 7%, or \$194,030, over the prior year. A large portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$97,073 or 9% over the prior year. The decrease was primarily in the Physical Plant and Equipment Levy and Sales Tax Capital Projects funding.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$368,980, or 61%. The reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Current and other assets increased \$2,654,006 or 79% in fiscal 2009 due in large part to the increase in cash from selling general obligation bonds to support the new elementary construction project.

Figure A-4

Changes in Net Assets from Operating Results

	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2008	2009	2008	2009	2008	2009	2008-2009
Revenues							
Program Revenues							
Charges for services	\$ 445,716	\$ 348,824	\$ 84,989	\$ 87,242	\$ 530,705	\$ 436,066	-18%
Operating Grants & Contributions	370,901	409,002	51,524	47,061	422,425	456,063	8%
Capital Grants & Contributions	12,158	14,116	-	-	12,158	14,116	16%
General Revenues							
Property taxes & other taxes	1,131,410	1,326,409	-	-	1,131,410	1,326,409	17%
Income Surtax	147,507	155,042	-	-	147,507	155,042	5%
Local Option Sales Tax	149,233	146,611	-	-	149,233	146,611	-2%
Unrestricted State Grants	761,485	640,948	-	-	761,485	640,948	-16%
ARRA stabilization	-	20,650	-	-	-	20,650	100%
Loss on disposal of capital assets	-	(61,713)	-	-	-	(61,713)	100%
Unrestricted Investment Earnings	52,951	18,478	269	70	53,220	18,548	-65%
Other Revenue	5,548	6,296	-	-	5,548	6,296	13%
Total Revenues	\$3,076,909	\$3,024,663	\$136,782	\$134,373	\$3,213,691	\$3,159,036	-2%
Expenses							
Instruction	1,838,604	1,987,741	-	-	1,838,604	1,987,741	8%
Support Services	1,005,140	1,047,619	-	-	1,005,140	1,047,619	4%
Non-Instructional Programs	820	2,045	138,527	138,096	139,347	140,141	1%
Other Expenses	145,263	177,565	-	-	145,263	177,565	22%
Total Expenses	\$2,989,827	\$3,214,970	\$138,527	\$138,096	\$3,128,354	\$3,353,066	7%
Change in net assets before transfers	87,082	(190,307)	(1,745)	(3,723)	85,337	(194,030)	-327%
Transfers	-	(11,229)	-	11,229	-	-	-
Change in Net Assets	\$ 87,082	\$ (201,536)	\$ (1,745)	\$ 7,506	\$ 85,337	\$ (194,030)	-327%
Net assets beginning of year	\$2,558,808	\$2,645,890	\$ 16,196	\$ 14,451	\$2,575,004	\$2,660,341	3%
Net assets end of year	\$2,645,890	\$2,444,354	\$ 14,451	\$ 21,957	\$2,660,341	\$2,466,311	-7%

Property tax and unrestricted state grants accounted for 62% of the total revenue in FY09. The District's expenses primarily relate to instruction and support services, which accounted for 91% of the total expenses in FY09. Total expenses increased by 7%, as total revenues decreased by 2%. Year-end net assets for FY09, when compared to FY08, decreased by \$194,030, or 7%.

Governmental Activities

Referring to Figure A-4, revenues for the District's FY09 governmental activities, when compared to FY08, decreased \$52,246, or 2%. Total governmental expenditures increased from FY08 to FY09 by 8%, or \$225,143.

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

Figure A-5

Net Cost of Governmental Activities

	Total Cost of Services 2008	Total Cost of Services 2009	Net Cost of Services 2008	Net Cost of Services 2009
Instruction	\$ 1,838,604	\$ 1,987,741	\$ 1,122,398	\$ 1,333,098
Support Services	1,005,140	1,047,619	1,004,001	1,045,692
Non-instructional Programs	820	2,045	820	2,045
Other Expenses	145,263	177,565	33,833	62,193
TOTAL	\$ 2,989,827	\$ 3,214,970	\$ 2,161,052	\$ 2,443,028

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

- The cost of all governmental activities this year was \$3,214,970, compared to \$2,989,827 in FY08.
- Some of the cost was financed by the users of the District's programs (\$348,824).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$409,002).
- Most of the District's costs (\$1,628,062), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$1,326,409 in property taxes, and \$640,948 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

Business Type Activities

Revenues for business type activities were \$134,373 for FY09, compared to \$136,782 for FY08. Expenses were \$138,096, compared to \$138,527 for FY08. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income. During the year ended June 30, 2009 the NEH Board of Directors increased meal prices due to increased food and labor costs.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental activities funds reported a combined fund balance of \$3,550,041, 125% above last year's ending fund balance of \$1,580,702. The primary reason for the increase in combined fund balances in fiscal 2009 is due to the issuance of general obligation bonds for the purpose of constructing an elementary building.

Governmental Fund Highlights

- The District's General Fund had growth during the year in federal sources (\$15,682) and local taxes (\$108,491) and decreases in tuition, miscellaneous income and state sources (\$154,816) resulting in a slight revenue decrease of \$30,643. The District had an increase in General fund expenditures of \$167,137, which in large part were due to instruction services. These changes along with the FY08 deficiency of revenue under expenditures in the amount of \$126,164 create a negative net change in fund balance of \$323,944. The Board of Directors prepared for the affects of the budget guarantee scale down by building up the General Fund balance in prior years.
- The increase in the Capital Projects fund (\$2,297,936) was due to the issuance of general obligation bonds for the purpose of a construction project that was approved by the voters in November 2008.
- The Nonmajor Governmental (Management, Physical Plant and Equipment Levy and Activity) Funds balance decreased slightly (\$4,653) in FY09. The District used Physical Plant and Equipment Levy funds for preliminary building project expenses (\$47,792 Design Development).

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$14,451 on June 30, 2008, to \$21,957 by June 30, 2009, representing a increase of 52%. The Board increased breakfast prices by 10 cents a meal and lunch prices by 15 cents a meal for the 2008-09 school year due to increased food costs and purchased a steam kettle (\$11,229) using PPEL Funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, Northeast Hamilton Community School District amended its annual budget one time to reflect \$100,000 additional expenditures associated with the elementary building capital project.

The District's receipts were 214,428 less than budgeted receipts. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

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

In spite of the District's budgetary practice. The certified budget was exceeded in the other expenditure functional area, because year-end construction expenditures were more than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2009, the District had invested \$1,315,308 in a broad range of assets, including school buildings, athletic facilities, and computer and audio-visual equipment (see *Figure A-6*). This amount represents a net increase of \$384,789 or 41% from FY08. (More detailed information about capital assets can be found in Note 5 to the financial statements.) Capital assets were purchased as revenue became available and included new computers and copiers. Facility improvements invested in included tuckpointing, roof repairs, and new soffit, fascia and gutters.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business--		Total		Total
	Activities		type		School District		Percentage
	2008	2009	2008	2009	2008	2009	Change
Land	42,750	42,750	-	-	42,750	42,750	0%
Construction in progress	-	409,927	-	-	-	409,927	100%
Buildings	664,348	652,229	-	-	664,348	652,229	-2%
Improvements other than buildings	-	9,386	-	-	-	9,386	100%
Equipment & Furniture	<u>213,037</u>	<u>181,819</u>	<u>10,384</u>	<u>19,197</u>	<u>223,421</u>	<u>201,016</u>	-10%
TOTAL	920,135	1,296,111	10,384	19,197	930,519	1,315,308	41%

Long-Term Debt

At June 30, 2009 the District had \$2,510,797 in general obligation and other long-term debt outstanding. (See *Figure A-7*) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

In November 2008 the District's voters authorized the issuance of \$2,500,000 in general obligation bonds to pay for construction of a new elementary building.

Figure A-7 Outstanding Long-Term Obligations

	Total School District	
	2008	2009
	\$	\$
General obligation bonds	-	2,500,000
Early retirement	-	10,797
	-	<u>2,510,797</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District's 2009 total taxable valuation will increase by 11.15% for property tax collected in fiscal 2011. A new wind energy "farm" will go on the tax roles beginning in FY09; even in consideration of incentives and abatements, the District's total taxable valuation is scheduled to increase 8% per year for the next 4 years due to the wind farms.
- School financing is highly dependent upon student enrollment. The District's September 2009 enrollment decreased by 4.9 students. Due to the Governor's underfunding of the 2010 allowable growth and the 10% across the board cut in November 2009, the District will still be underfunded \$290 per weighted enrollment in fiscal year 2011. The Board will reduce staff and other expenditures to stay within the budget for fiscal year 2011.
- Open enrolled "in" students are projected to decline over time. In FY09, the number of open enrolled "in" students decreased by 12 as the open enrolled "out" students increased by 7. The District is still experiencing a positive ratio of open enrolled in (37) to open enrolled out (30) students in FY10.
- Construction of the new pre-k through grade 5 elementary addition began in May of 2009 with the project to be completed by August 2010.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	268,180	-	268,180
Other	4,026,013	11,557	4,037,570
Receivables:			
Property tax:			
Delinquent	12,803	-	12,803
Succeeding year	1,457,252	-	1,457,252
Accounts	964	1,554	2,518
Accrued interest:			
ISCAP	33	-	33
Other	2,568	-	2,568
Due from other governments	236,042	-	236,042
Inventories	-	1,397	1,397
Capital assets, net of accumulated depreciation	1,296,111	19,197	1,315,308
Total assets	7,299,966	33,705	7,333,671
Liabilities			
Warrants issued in excess of bank balance	168,667	-	168,667
Accounts payable	156,107	-	156,107
Salaries and benefits payable	253,616	10,316	263,932
Accrued interest payable	20,833	-	20,833
Deferred revenue:			
Succeeding year property tax	1,457,252	-	1,457,252
Other	19,139	1,432	20,571
ISCAP premium	5,111	-	5,111
ISCAP warrants payable	264,000	-	264,000
ISCAP accrued interest payable	90	-	90
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	75,000	-	75,000
Termination benefits	10,797	-	10,797
Portion due after one year:			
General obligation bonds payable	2,425,000	-	2,425,000
Total liabilities	4,855,612	11,748	4,867,360

See notes to financial statements.

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net assets			
Invested in capital assets, net of related debt	1,183,345	19,197	1,202,542
Restricted for:			
Categorical funding	10,617	-	10,617
Management levy	218,271	-	218,271
Physical plant and equipment levy	194,961	-	194,961
Other special revenue purposes	43,139	-	43,139
Sales tax capital projects	556,719	-	556,719
Unrestricted	<u>237,302</u>	<u>2,760</u>	<u>240,062</u>
Total net assets	<u><u>2,444,354</u></u>	<u><u>21,957</u></u>	<u><u>2,466,311</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,174,902	181,953	259,359	-
Special	330,232	58,531	13,933	-
Other	482,607	106,763	34,104	-
	<u>1,987,741</u>	<u>347,247</u>	<u>307,396</u>	<u>-</u>
Support services:				
Student	56,893	-	-	-
Instructional staff	126,344	-	-	-
Administration	358,598	-	-	-
Operation and maintenance of plant	299,751	-	-	-
Transportation	206,033	1,577	350	-
	<u>1,047,619</u>	<u>1,577</u>	<u>350</u>	<u>-</u>
Non-instructional programs	2,045	-	-	-
Other expenditures:				
Facilities acquisition	25,217	-	-	14,116
Long-term debt interest	17,348	-	-	-
AEA flowthrough	101,256	-	101,256	-
Depreciation (unallocated)*	33,744	-	-	-
	<u>177,565</u>	<u>-</u>	<u>101,256</u>	<u>14,116</u>
Total governmental activities	3,214,970	348,824	409,002	14,116
Business type activities:				
Non-instructional programs:				
Food service operations	138,096	87,242	47,061	-
Total	<u>3,353,066</u>	<u>436,066</u>	<u>456,063</u>	<u>14,116</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
ARRA stabilization				
Other				
Loss on disposal of capital assets				
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

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$	\$	\$
(733,590)	-	(733,590)
(257,768)	-	(257,768)
(341,740)	-	(341,740)
<u>(1,333,098)</u>	<u>-</u>	<u>(1,333,098)</u>
(56,893)	-	(56,893)
(126,344)	-	(126,344)
(358,598)	-	(358,598)
(299,751)	-	(299,751)
(204,106)	-	(204,106)
<u>(1,045,692)</u>	<u>-</u>	<u>(1,045,692)</u>
<u>(2,045)</u>	<u>-</u>	<u>(2,045)</u>
(11,101)	-	(11,101)
(17,348)	-	(17,348)
-	-	-
<u>(33,744)</u>	<u>-</u>	<u>(33,744)</u>
<u>(62,193)</u>	<u>-</u>	<u>(62,193)</u>
(2,443,028)	-	(2,443,028)
<u>-</u>	<u>(3,793)</u>	<u>(3,793)</u>
<u>(2,443,028)</u>	<u>(3,793)</u>	<u>(2,446,821)</u>
1,239,742	-	1,239,742
86,667	-	86,667
155,042	-	155,042
146,611	-	146,611
640,948	-	640,948
18,478	70	18,548
20,650	-	20,650
6,296	-	6,296
<u>(61,713)</u>	<u>-</u>	<u>(61,713)</u>
2,252,721	70	2,252,791
<u>(11,229)</u>	<u>11,229</u>	<u>-</u>
2,241,492	11,299	2,252,791
<u>(201,536)</u>	<u>7,506</u>	<u>(194,030)</u>
<u>2,645,890</u>	<u>14,451</u>	<u>2,660,341</u>
<u><u>2,444,354</u></u>	<u><u>21,957</u></u>	<u><u>2,466,311</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2009

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments:				
ISCAP	268,180	-	-	268,180
Other	448,394	3,121,754	455,865	4,026,013
Receivables:				
Property tax:				
Delinquent	10,779	-	2,024	12,803
Succeeding year	1,313,066	-	144,186	1,457,252
Accounts	867	-	97	964
Accrued interest - ISCAP	33	-	-	33
Accrued interest - other	-	2,568	-	2,568
Interfund receivable	34,571	-	-	34,571
Due from other governments	159,702	24,407	51,933	236,042
Total assets	2,235,592	3,148,729	654,105	6,038,426
Liabilities and Fund Balances				
Liabilities:				
Warrants issued in excess of bank balance	51,637	110,191	6,839	168,667
Accounts payable	60,180	94,586	1,341	156,107
Salaries and benefits payable	253,616	-	-	253,616
Interfund payable	-	-	34,571	34,571
ISCAP premium payable	5,111	-	-	5,111
ISCAP warrants payable	264,000	-	-	264,000
ISCAP accrued interest payable	90	-	-	90
Deferred revenue:				
Succeeding year property tax	1,313,066	-	144,186	1,457,252
Income surtax	77,899	-	51,933	129,832
Other	19,139	-	-	19,139
Total liabilities	2,044,738	204,777	238,870	2,488,385
Fund balances:				
Reserved for:				
Categorical funding	10,617	-	-	10,617
Unreserved reported in:				
General fund	180,237	-	-	180,237
Special revenue funds	-	-	415,235	415,235
Capital projects funds	-	2,943,952	-	2,943,952
Total fund balances	190,854	2,943,952	415,235	3,550,041
Total liabilities and fund balances	2,235,592	3,148,729	654,105	6,038,426

See notes to financial statements.

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

June 30, 2009

	\$
Total fund balances of governmental funds (Exhibit C)	3,550,041
<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.	1,296,111
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	129,832
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.	(20,833)
Long-term liabilities, including bonds payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(2,510,797)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,444,354</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,226,860	146,611	269,812	1,643,283
Tuition	219,279	-	-	219,279
Other	29,343	9,975	117,569	156,887
State sources	974,740	-	11,643	986,383
Federal sources	95,765	-	-	95,765
Total revenues	<u>2,545,987</u>	<u>156,586</u>	<u>399,024</u>	<u>3,101,597</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,107,028	-	88,565	1,195,593
Special	330,232	-	-	330,232
Other	371,896	-	110,711	482,607
	<u>1,809,156</u>	<u>-</u>	<u>199,276</u>	<u>2,008,432</u>
Support services:				
Student	56,893	-	-	56,893
Instructional staff	111,299	-	15,045	126,344
Administration	348,663	-	5,590	354,253
Operation and maintenance of plant	275,225	-	18,266	293,491
Transportation	167,439	-	7,981	175,420
	<u>959,519</u>	<u>-</u>	<u>46,882</u>	<u>1,006,401</u>
Non-instructional programs	-	-	2,045	2,045
Other expenditures:				
Facilities acquisition	-	362,135	158,291	520,426
Long-term debt:				
AEA flowthrough	101,256	-	-	101,256
	<u>101,256</u>	<u>362,135</u>	<u>158,291</u>	<u>621,682</u>
Total expenditures	<u>2,869,931</u>	<u>362,135</u>	<u>406,494</u>	<u>3,638,560</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(323,944)</u>	<u>(205,549)</u>	<u>(7,470)</u>	<u>(536,963)</u>
Other financing sources (uses):				
Bonds issued	-	2,500,000	-	2,500,000
Accrued interest on bond issue	-	3,485	-	3,485
Sales of equipment & real estate	-	-	2,817	2,817
Total other financing sources (uses)	<u>-</u>	<u>2,503,485</u>	<u>2,817</u>	<u>2,506,302</u>
Net change in fund balances	<u>(323,944)</u>	<u>2,297,936</u>	<u>(4,653)</u>	<u>1,969,339</u>
Fund balances beginning of year	<u>514,798</u>	<u>646,016</u>	<u>419,888</u>	<u>1,580,702</u>
Fund balances end of year	<u>190,854</u>	<u>2,943,952</u>	<u>415,235</u>	<u>3,550,041</u>

See notes to financial statements.

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		1,969,339
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. Capital outlay expenditures exceeded depreciation expense and loss on disposal of capital assets in the current year, as follows:		
Expenditures for capital assets	519,536	
Loss on disposal of capital assets	(64,530)	
Depreciation expense	<u>(79,030)</u>	375,976
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.		(15,221)
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.		(20,833)
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		(10,797)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		<u>(2,500,000)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>(201,536)</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2009

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	11,557
Accounts receivable	1,554
Inventories	1,397
Capital assets, net of accumulated depreciation	<u>19,197</u>
Total assets	<u>33,705</u>
Liabilities	
Salaries and benefits payable	10,316
Deferred revenue	<u>1,432</u>
Total liabilities	<u>11,748</u>
Net assets	
Invested in capital assets	19,197
Unrestricted	<u>2,760</u>
Total net assets	<u><u>21,957</u></u>

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

Year ended June 30, 2009

	Nonmajor School Nutrition
	\$
Operating revenues:	
Local sources:	
Charges for service	87,242
Operating expenses:	
Non-instructional programs:	
Salaries	41,742
Benefits	19,570
Purchased services	949
Supplies	73,419
Depreciation	2,416
Total operating expenses	138,096
Operating gain (loss)	(50,854)
Non-operating revenues:	
State sources	1,511
Federal sources	45,550
Interest income	70
Total non-operating revenues	47,131
Gain (loss) before capital contributions	(3,723)
Capital contributions	11,229
Change in net assets	7,506
Net assets beginning of year	14,451
Net assets end of year	21,957

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2009

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	86,439
Cash payments to employees for services	(60,780)
Cash payments to suppliers for goods or services	(66,337)
Net cash used by operating activities	<u>(40,678)</u>
Cash flows from non-capital financing activities:	
State grants received	1,511
Federal grants received	38,420
Net cash provided by non-capital financing activities	<u>39,931</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>70</u>
Net increase (decrease) in cash and cash equivalents	(677)
Cash and cash equivalents at beginning of year	<u>12,234</u>
Cash and cash equivalents at end of year	<u><u>11,557</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(50,854)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	7,130
Depreciation	2,416
Decrease (increase) in inventories	901
Decrease (increase) in accounts receivable	(928)
(Decrease) increase in salaries and benefits payable	532
(Decrease) increase in deferred revenue	125
Net cash used by operating activities	<u><u>(40,678)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received \$7,130 of federal commodities.

During the year the School Nutrition Fund received \$11,229 of equipment purchased by other funds.

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2009

	Private Purpose Trust	Agency
	<u>\$</u>	<u>\$</u>
Assets		
Cash and pooled investments	666	7,330
Liabilities		
Other payables	<u>-</u>	<u>7,330</u>
Net Assets		
Reserved for student special needs	<u>666</u>	<u>-</u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2009

	Private Purpose Trust
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	797
Deductions:	
Support services:	
Supplies	<u>1,210</u>
Change in net assets	(413)
Net assets beginning of year	<u>1,079</u>
Net assets end of year	<u><u>666</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2009

1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Northeast Hamilton Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Northeast Hamilton Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable 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 not meeting 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 instructional, support and other costs.

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the 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, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	2,000
Improvements other than buildings	2,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	25-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

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

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. The District has no long-term debt at June 30, 2009.

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, 2009, expenditures in the other expenditures function exceeded the amount budgeted.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2009, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	3,443,578

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

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

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2009 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
	Nonmajor Governmental:	
General Fund	Physical Plant and Equipment Levy Fund	34,571

4. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2009 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2009-10A	6/25/09	6/23/10	238,180	33	264,000	90

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2009, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

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

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2009-10A	2.500	0.902

5. Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	42,750	-	-	42,750
Construction in progress	-	409,927	-	409,927
Total capital assets not being depr.	<u>42,750</u>	<u>409,927</u>	<u>-</u>	<u>452,677</u>
Capital assets being depreciated:				
Buildings	1,666,092	85,282	138,479	1,612,895
Improvements other than buildings	106,774	-	-	106,774
Furniture and equipment	755,923	24,327	27,694	752,556
Total capital assets being deprec.	<u>2,528,789</u>	<u>109,609</u>	<u>166,173</u>	<u>2,472,225</u>
Less accumulated depreciation for:				
Buildings	1,011,853	33,021	84,208	960,666
Improvements other than buildings	96,665	723	-	97,388
Furniture and equipment	542,886	45,286	17,435	570,737
Total accumulated depreciation	<u>1,651,404</u>	<u>79,030</u>	<u>101,643</u>	<u>1,628,791</u>
Total capital assets being depreciated, net	<u>877,385</u>	<u>30,579</u>	<u>64,530</u>	<u>843,434</u>
Governmental activities capital assets, net	<u>920,135</u>	<u>440,506</u>	<u>64,530</u>	<u>1,296,111</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	80,181	11,229	-	91,410
Less accumulated depreciation	69,797	2,416	-	72,213
Business type activities capital assets, net	<u>10,384</u>	<u>8,813</u>	<u>-</u>	<u>19,197</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	4,068
Support services:	
Administration services	4,345
Operation and maintenance of plant services	6,260
Transportation	30,613
	<u>45,286</u>
Unallocated depreciation	33,744
Total depreciation expense – governmental activities	<u>79,030</u>
Business type activities:	
Food services	<u>2,416</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2009, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
General obligation bonds	-	2,500,000	-	2,500,000	75,000
Termination benefits	-	10,797	-	10,797	10,797
Total	-	2,510,797	-	2,510,797	85,797

Termination Benefits

The District offered a voluntary early retirement plan for employees during 2009. Eligible employees must have completed at least fifteen years of full-time 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 25% of the employee's regular contractual salary in effect during the employee's last year of employment.

Early retirement benefits will be paid during the next fiscal year.

At June 30, 2009, the District has obligations to one participant with a total liability of \$10,797. There were no early retirement expenditures during the year ended June 30, 2009.

General Obligation Bonds

Details of the District's June 30, 2009 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May, 2009			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2010	3.25	75,000	125,000	200,000
2011	3.25	80,000	121,250	201,250
2012	3.25	85,000	117,250	202,250
2013	3.50	90,000	113,000	203,000
2014	3.50	90,000	108,500	198,500
2015-2019	4.00-4.50	530,000	470,000	1,000,000
2020-2024	4.40-5.00	685,000	322,250	1,007,250
2025-2029	5.05-5.25	865,000	134,000	999,000
		<u>2,500,000</u>	<u>1,511,250</u>	<u>4,011,250</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 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$107,729, \$99,331 and \$79,390 respectively, equal to the required contributions for each year.

8. Risk Management

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

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 \$101,256 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Construction Commitment

The District has entered into a \$2,944,000 contract for a building addition. As of June 30, 2009 costs of \$172,632 had been incurred against the contract. The balance remaining at June 30, 2009 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2009

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,019,449	87,312	2,106,761	2,232,487	2,232,487	(125,726)
Intermediate sources	-	-	-	6,000	6,000	(6,000)
State sources	986,383	1,511	987,894	1,070,911	1,070,911	(83,017)
Federal sources	95,765	45,550	141,315	141,000	141,000	315
Total revenues	<u>3,101,597</u>	<u>134,373</u>	<u>3,235,970</u>	<u>3,450,398</u>	<u>3,450,398</u>	<u>(214,428)</u>
Expenditures/Expenses:						
Instruction	2,008,432	-	2,008,432	2,448,110	2,448,110	439,678
Support services	1,006,401	-	1,006,401	1,392,000	1,392,000	385,599
Non-instructional programs	2,045	138,096	140,141	167,146	167,146	27,005
Other expenditures	621,682	-	621,682	500,416	600,416	(21,266)
Total expenditures/expenses	<u>3,638,560</u>	<u>138,096</u>	<u>3,776,656</u>	<u>4,507,672</u>	<u>4,607,672</u>	<u>831,016</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(536,963)	(3,723)	(540,686)	(1,057,274)	(1,157,274)	616,588
Other financing sources (uses) net	<u>2,506,302</u>	<u>11,229</u>	<u>2,517,531</u>	<u>-</u>	<u>-</u>	<u>2,517,531</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	1,969,339	7,506	1,976,845	(1,057,274)	(1,157,274)	3,134,119
Balance beginning of year	<u>1,580,702</u>	<u>14,451</u>	<u>1,595,153</u>	<u>1,650,363</u>	<u>1,650,363</u>	<u>(55,210)</u>
Balance end of year	<u><u>3,550,041</u></u>	<u><u>21,957</u></u>	<u><u>3,571,998</u></u>	<u><u>593,089</u></u>	<u><u>493,089</u></u>	<u><u>3,078,909</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2009

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$100,000.

During the year ended June 30, 2009, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2009

Assets	Special Revenue Funds				Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Debt Service	
	\$	\$	\$	\$	
Cash and pooled investments	227,880	51,222	176,763	-	455,865
Receivables:					
Property tax:					
Delinquent	1,188	-	836	-	2,024
Succeeding year	-	-	93,686	50,500	144,186
Accounts	-	97	-	-	97
Due from other governments	-	-	51,933	-	51,933
Total assets	229,068	51,319	323,218	50,500	654,105
Liabilities & Fund Balances					
Liabilities:					
Warrants issued in excess of bank balance	-	6,839	-	-	6,839
Accounts payable	-	1,341	-	-	1,341
Interfund payables	-	-	34,571	-	34,571
Deferred revenue:					
Succeeding year property tax	-	-	93,686	50,500	144,186
Income surtax	-	-	51,933	-	51,933
Total liabilities	-	8,180	180,190	50,500	238,870
Fund balances:					
Unreserved reported in:					
Special revenue funds	229,068	43,139	143,028	-	415,235
Total liabilities and fund balances	229,068	51,319	323,218	50,500	654,105

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
		Fund	Equipment	
	\$	\$	Levy	\$
Revenues:				
Local sources:				
Local tax	123,052	-	146,760	269,812
Other	7,828	107,456	2,285	117,569
State sources	56	-	11,587	11,643
Total revenues	<u>130,936</u>	<u>107,456</u>	<u>160,632</u>	<u>399,024</u>
Expenditures:				
Current:				
Instruction:				
Regular	12,277	-	76,288	88,565
Other	-	110,711	-	110,711
Support services:				
Instructional staff	1,294	-	13,751	15,045
Administration	5,590	-	-	5,590
Operation and maintenance of plant	18,266	-	-	18,266
Transportation	7,981	-	-	7,981
Non-instructional programs	2,045	-	-	2,045
Other expenditures:				
Facilities acquisition	-	-	158,291	158,291
Total expenditures	<u>47,453</u>	<u>110,711</u>	<u>248,330</u>	<u>406,494</u>
Excess (deficiency) of revenues over (under) expenditures	83,483	(3,255)	(87,698)	(7,470)
Other financing sources (uses):				
Sales of real property	-	-	2,817	2,817
Net change in fund balances	83,483	(3,255)	(84,881)	(4,653)
Fund balances beginning of year	145,585	46,394	227,909	419,888
Fund balances end of year	<u>229,068</u>	<u>43,139</u>	<u>143,028</u>	<u>415,235</u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2009

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Student council	1,558	5,364	4,922	2,000
Student commons	1,953	13,904	13,732	2,125
National honor society	-	349	325	24
Fall play (drama)	1,822	711	1,968	565
Swing choir	1,322	4,982	5,087	1,217
Band	5,277	8,491	6,941	6,827
Instrument rent & ins.	249	135	108	276
Yearbook	8,139	7,328	7,263	8,204
Future farmers of america	8,530	16,246	20,126	4,650
Family and consumer science club	1,113	1,620	1,633	1,100
Fall cheerleaders	194	1,508	1,264	438
Drill team	461	-	-	461
Spanish club	37	-	-	37
Class of 2004	249	-	-	249
Class of 2012	3	2,015	1,094	924
Class of 2009	1,245	-	927	318
Class of 2010	934	2,296	2,309	921
Class of 2011	1,119	2,144	2,098	1,165
After prom party	559	2,325	2,182	702
Athletics	1,462	21,376	23,127	(289)
District football	13	700	296	417
Football donations	580	1,614	431	1,763
Boys basketball donations	1,953	4,311	5,740	524
Baseball donations	185	3,277	2,864	598
Boys track donations	322	518	512	328
Golf donations	225	1,071	1,007	289
Softball donations	-	478	464	14
Girls basketball donations	519	1,991	2,190	320
Volleyball donation	580	743	554	769
Girls track donations	97	1,266	1,164	199
Interest on investment	4,671	693	383	4,981
Earth day	688	-	-	688
Fifth grade Iowa trip	335	-	-	335
	<u>46,394</u>	<u>107,456</u>	<u>110,711</u>	<u>43,139</u>
Total	<u>46,394</u>	<u>107,456</u>	<u>110,711</u>	<u>43,139</u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2009

	<u>Spirit Club</u> \$
Balance beginning of year	4,570
Additions:	
Collections	28,306
Deductions:	
Miscellaneous	<u>25,546</u>
Balance end of year	<u><u>7,330</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

For the Last Six Years

	Modified Accrual Basis					
	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	1,643,283	1,437,005	1,488,065	1,516,005	1,404,323	1,392,025
Tuition	219,279	277,811	229,589	212,004	233,379	97,437
Other	156,887	226,157	241,646	211,572	162,270	126,656
Intermediate sources	-	-	5,000	-	-	-
State sources	986,383	1,064,461	991,282	1,252,296	1,139,668	908,056
Federal sources	95,765	80,083	84,765	103,919	89,840	85,950
Total revenues	3,101,597	3,085,517	3,040,347	3,295,796	3,029,480	2,610,124
Expenditures:						
Instruction:						
Regular	1,195,593	1,110,925	992,603	1,033,066	1,021,015	960,410
Special	330,232	269,913	283,106	292,186	367,483	353,349
Other	482,607	452,985	433,149	459,902	347,561	279,106
Support services:						
Student	56,893	61,557	90,343	89,321	84,538	75,941
Instructional staff	126,344	109,811	105,076	176,173	86,869	79,631
Administration	354,253	342,690	339,596	332,257	325,582	280,503
Operation and maintenance	293,491	278,938	294,859	305,449	253,704	266,533
Transportation	175,420	181,394	213,063	147,350	203,364	154,817
Non-instructional programs	2,045	820	827	945	10,341	1,492
Other expenditures:						
Facilities acquisition	520,426	45,294	50,496	67,983	108,615	79,763
AEA flowthrough	101,256	99,272	98,443	97,959	90,245	90,554
Total expenditures	3,638,560	2,953,599	2,901,561	3,002,591	2,899,317	2,622,099

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northeast Hamilton Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated April 30, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeast Hamilton Community School District's internal control over financial reporting 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 Northeast Hamilton Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northeast 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 Northeast 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 Northeast Hamilton Community School District's financial statements that is more than inconsequential will not be prevented or detected by Northeast 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 Northeast 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 09-I-A and 09-I-B are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Hamilton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. Certain compliance or other matters 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, 2009 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.

Northeast 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 Northeast 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 Northeast Hamilton Community School District and other parties to whom Northeast 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 Northeast Hamilton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

April 30, 2010

NORHTEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

09-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, preparing and posting 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: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

09-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.

NORHTEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part II: Other Findings Related to Statutory Reporting:

09-II-A Certified Budget: Expenditures for the year ended June 30, 2009, exceeded the amount budgeted in the other expenditures 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: We did amend our budget but year-end construction expenditures were more than anticipated.

Conclusion: Response accepted.

09-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.

09-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.

09-II-D Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bret Schutt, board member, coach	coaching	\$ 2,242

The transaction does not appear to represent a conflict of interest since the dollar amount was less than \$2,500.

09-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.

09-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

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

09-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.

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

NORHTEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

09-II-J Categorical Funding: Except as noted, no instances were noted of categorical funding being used to supplant rather than supplement other funds. The District allocated \$274 for college level textbooks to the District's Returning Dropout and Dropout Prevention program. The \$274 cost allocation does not appear to be an allowable cost for this program in accordance with Chapter 256D.2 of the Code of Iowa and Iowa Department of Education administrative rules.

Also, according to proposed administrative rules, "Categorical funding shall not be commingled with other funding. School districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year some categorical funding expenditures were commingled with other General Fund expenditures, then were reclassified as categorical spending at the end of the year.

Recommendation: The District should contact the Iowa Department of Education regarding corrective action required, if any, for the purchase of college level textbooks from the Returning Dropout and Dropout Prevention program. All categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred.

Response: We will discuss the textbook issue with the Iowa Department of Education. We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts as incurred.

Conclusion: Response accepted.

09-II-K Statewide Sales and Services Tax: No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

	\$	
Beginning balance		-
Statewide sales and services tax revenue		146,611
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements		<u>146,611</u>
Ending balance		<u>-</u>