

HAMBURG COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2010

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Hamburg Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|---|---------------------|
| Board of Education (Before September 2009 Election) | | |
| Bill Green | President | 2011 |
| Greg Warden | Vice President | 2009 |
| Hilary Christiansen | Board Member | 2009 |
| Lori Burge | Board Member | 2011 |
| Charles Dovel | Board Member | 2011 |
| Board of Education (After September 2009 Election) | | |
| Hilary Christiansen | President | 2013 |
| Greg Warden | Vice President | 2013 |
| Bill Green | Board Member | 2011 |
| Lori Burge | Board Member (Resigned March 2010) | 2011 |
| Jim Nahkunst | Board Member (Appointed March 2010) | 2011 |
| Charles Dovel | Board Member | 2011 |
| School Officials | | |
| Dr. Paul Sellon | Superintendent | 2010 |
| Rhonda Shirley | Board Secretary/ District Treasurer (Resigned August 2009) | 2010 |
| Denise Stevens | Board Secretary/ District Treasurer (Appointed August 2009) | 2010 |
| Gruhn Law Firm | Attorney | 2010 |

HAMBURG COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Hamburg 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 the Hamburg Community School District, Hamburg, Iowa as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements 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 that 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 the Hamburg Community School District at June 30, 2010, 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 May 26, 2011 on our consideration of the Hamburg 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 and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hamburg 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 six years ended June 30, 2009 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 6, 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.


NOLTE, CORNMAN & JOHNSON, P.C.

May 26, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hamburg 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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,841,536 in fiscal 2009 to \$3,065,812 in fiscal 2010, while General Fund expenditures increased from \$2,955,609 in fiscal 2009 to \$3,187,627 in fiscal 2010. This resulted in a decrease in the District's General Fund balance from a deficit balance of \$166,414 in fiscal 2009 to a deficit balance of \$288,229 in fiscal 2010, a 73.20% decrease from the prior year.
- The increase in General Fund revenues was attributable to the District receiving more in local tax revenue during fiscal year 2010. The increase in expenditures was due primarily to the increase in expenditures in the support services functional area.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) decreased from a deficit 8.28% for fiscal year 2009 to a deficit 13.47% for fiscal year 2010. The School Budget Review Committee recommends of a solvency ratio between 5% and 10%.

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 Hamburg 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 Hamburg 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 Hamburg Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the 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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Hamburg Community School District Annual Financial Report

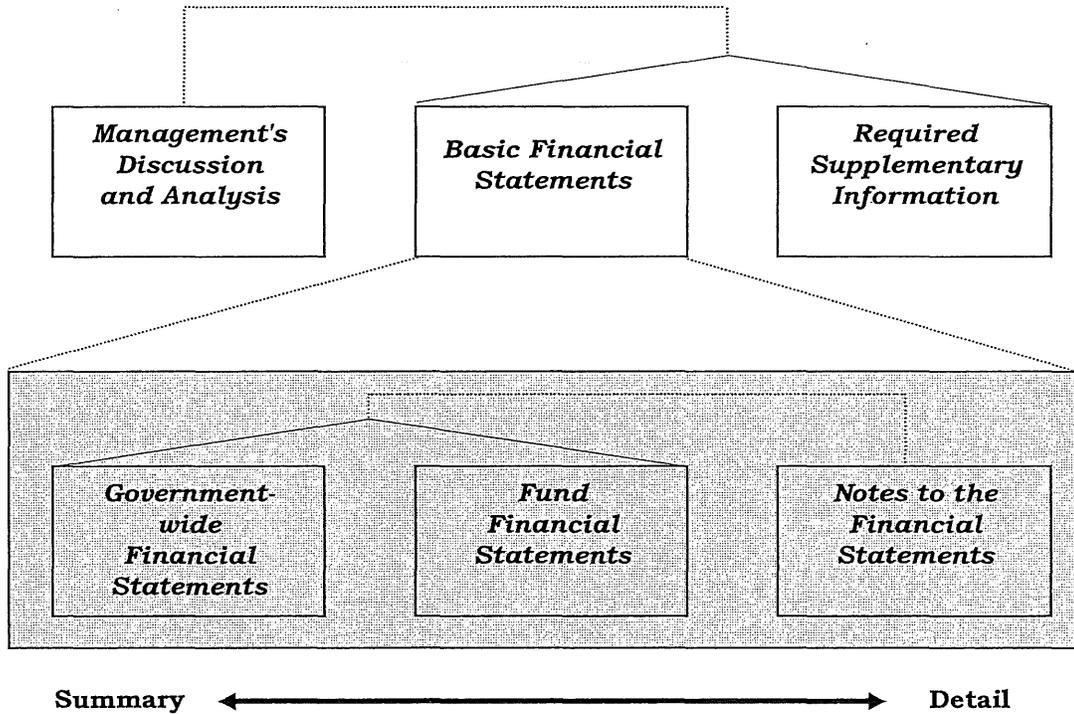


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

| 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 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, the Special Revenues Funds, the Capital Projects Fund.

The required financial statements for the 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 the proprietary funds include a statement of net assets, 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 include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund - The District accounts for the outside donations for scholarships for individual students in this 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, 2010 compared to June 30, 2009.

Figure A-3
Condensed Statement of Net Assets

| | Governmental | | Business Type | | Total | | Total |
|----------------------------|--------------|-----------|---------------|--------|-----------------|-----------|----------|
| | Activities | | Activities | | School District | | Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2009-10 |
| Current and other assets | \$ 3,000,628 | 4,218,580 | 108,863 | 14,244 | 3,109,491 | 4,232,824 | -26.54% |
| Capital assets | 863,021 | 866,004 | 55,634 | 13,806 | 918,655 | 879,810 | 4.42% |
| Total assets | 3,863,649 | 5,084,584 | 164,497 | 28,050 | 4,028,146 | 5,112,634 | -21.21% |
| Long-term liabilities | 58,992 | 41,828 | 228 | 0 | 59,220 | 41,828 | 41.58% |
| Other liabilities | 1,903,802 | 2,970,712 | 140,032 | 7,680 | 2,043,834 | 2,978,392 | -31.38% |
| Total liabilities | 1,962,794 | 3,012,540 | 140,260 | 7,680 | 2,103,054 | 3,020,220 | -30.37% |
| Net assets: | | | | | | | |
| Invested in capital assets | 863,021 | 866,004 | 55,634 | 13,806 | 918,655 | 879,810 | 4.42% |
| Restricted | 1,402,059 | 1,368,275 | 0 | 0 | 1,402,059 | 1,368,275 | 2.47% |
| Unrestricted | (364,225) | (162,235) | (31,397) | 6,564 | (395,622) | (155,671) | -154.14% |
| Total net assets | \$ 1,900,855 | 2,072,044 | 24,237 | 20,370 | 1,925,092 | 2,092,414 | -8.00% |

The District's combined net assets decreased by 8.00%, or \$167,322, from the prior year. A portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment).

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$33,784, or 2.47% from the prior year. The increase in restricted net assets can be attributed to the increase in carryover balances for state categorical funding and an increase in the Capital Projects Fund balances.

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 \$239,951, or 154.14%. This decrease in unrestricted net assets was primarily a result of the decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to June 30, 2009.

Figure A-4
Changes of Net Assets

| | Governmental Activities | | Business Type Activities | | Total School District | | Total Change |
|--|-------------------------|-----------|--------------------------|----------|-----------------------|-----------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2009-10 |
| Revenues and transfers: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 143,672 | 174,560 | 47,895 | 67,164 | 191,567 | 241,724 | -20.75% |
| Operating grants and contributions and restricted interest | 693,820 | 550,771 | 91,887 | 101,830 | 785,707 | 652,601 | 20.40% |
| General revenues: | | | | | | | |
| Property tax | 1,340,816 | 1,283,048 | 0 | 0 | 1,340,816 | 1,283,048 | 4.50% |
| Income surtax | 55,393 | 49,995 | 0 | 0 | 55,393 | 49,995 | 10.80% |
| Statewide sales, services and use tax | 200,867 | 165,246 | 0 | 0 | 200,867 | 165,246 | 21.56% |
| Unrestricted state grants | 1,007,059 | 1,091,667 | 0 | 0 | 1,007,059 | 1,091,667 | -7.75% |
| Unrestricted investment earnings | 7,400 | 17,596 | 84 | 424 | 7,484 | 18,020 | -58.47% |
| Other | 28,436 | 37,817 | 626 | 0 | 29,062 | 37,817 | -23.15% |
| Transfers | (47,817) | (60,094) | 47,817 | 0 | 0 | (60,094) | -100.00% |
| Total revenues and transfers | 3,429,646 | 3,310,606 | 188,309 | 169,418 | 3,617,955 | 3,480,024 | 3.96% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instructional | 2,147,876 | 2,164,244 | 0 | 0 | 2,147,876 | 2,164,244 | -0.76% |
| Support services | 1,180,984 | 902,879 | 11,391 | 0 | 1,192,375 | 902,879 | 32.06% |
| Non-instructional programs | 0 | 0 | 173,051 | 207,730 | 173,051 | 207,730 | -16.69% |
| Other expenditures | 271,975 | 206,009 | 0 | 0 | 271,975 | 206,009 | 32.02% |
| Total expenses | 3,600,835 | 3,273,132 | 184,442 | 207,730 | 3,785,277 | 3,480,862 | 8.75% |
| Changes in net assets | (171,189) | 37,474 | 3,867 | (38,312) | (167,322) | (838) | 19866.83% |
| Beginning net assets | 2,072,044 | 2,034,570 | 20,370 | 58,682 | 2,092,414 | 2,093,252 | -0.04% |
| Ending net assets | \$ 1,900,855 | 2,072,044 | 24,237 | 20,370 | 1,925,092 | 2,092,414 | -8.00% |

In fiscal 2010, property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 75.93% of the revenue from governmental activities while charges for services and operating grants and contributions account for 74.23% of the revenue from business type activities.

The District's total revenues were approximately \$3.62 million of which \$3.43 million was for governmental activities and \$0.19 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.96% increase in revenues and an 8.75% increase in expenses. The increase in expenses was a result of the increases in the negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$3,429,646 and expenses were \$3,600,835 for the year ended June 30, 2010.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, and other expenses, for the year ended June 30, 2010.

Figure A-5
Total and Net Cost of Governmental Activities

| | Total Cost of Services | | | Net Cost of Services | | |
|------------------|------------------------|-----------|-------------------|----------------------|-----------|-------------------|
| | 2010 | 2009 | Change 2009-10 | 2010 | 2009 | Change 2009-10 |
| Instruction | \$ 2,147,876 | 2,164,244 | -0.76% | 1,426,781 | 1,542,766 | -7.52% |
| Support services | 1,180,984 | 902,879 | 30.80% | 1,180,984 | 902,879 | 30.80% |
| Other expenses | 271,975 | 206,009 | 32.02% | 155,578 | 102,156 | 52.29% |
| Totals | \$ 3,600,835 | 3,273,132 | 10.01% | 2,763,343 | 2,547,801 | 8.46% |

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$143,672.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$693,820.
- The net cost of governmental activities was financed with \$1,340,816 in property tax, \$55,393 in income surtax, \$200,867 in statewide sales, services and use tax, \$1,007,059 in unrestricted state grants, \$7,400 in interest income and \$28,436 in other income.

Business Type Activities

Revenues of the District's business type activities were \$188,309 and expenses were \$184,442 for the year ended June 30, 2010. 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.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,049,382, below last year's ending fund balances of \$1,202,168. However, the primary reason for the decrease in combined fund balances in fiscal 2010 is due to a decrease in the Physical Plant and Equipment Levy Fund balance.

Governmental Fund Highlights

- The District's General Fund balance decrease from a deficit balance of \$166,414 to a deficit balance of \$288,229 is the product of many factors. Although revenues increased, expenditures increased as well in the General Fund compared to the prior year. Expenditures increased by a greater amount than revenues ensuring the decrease in the General Fund balance.
- The Physical Plant and Equipment Levy Fund balance decreased from \$465,642 in fiscal 2009 to \$308,196 in fiscal 2010. This decrease was due to the District purchasing a new van and bus during the year.
- The Capital Projects Fund balance increased from \$772,454 in fiscal 2009 to \$926,199 in fiscal 2010. This was due primarily to an increase in statewide sales, services and use tax revenue from the prior year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$20,370 at June 30, 2009 to \$24,237 at June 30, 2010, representing an increase of 18.98%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$126,286 less than budgeted revenues, a variance of 3.37%. The most significant variance resulted from the District receiving less in state source revenues 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 expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$918,655, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$103,362.

The original cost of the District's capital assets was \$3,542,323. Governmental funds account for \$3,437,014 with the remainder of \$105,309 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$218,274 at June 30, 2010, compared to \$123,807 reported at June 30, 2009. This increase resulted from the purchase of two vehicles and several new pieces of nutrition equipment during the year.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business Type Activities | | Total School District | | Total Change |
|-------------------------|-------------------------|---------|--------------------------|--------|-----------------------|---------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2009-10 |
| Land | \$ 42,707 | 42,707 | 0 | 0 | 42,707 | 42,707 | 0.00% |
| Buildings | 600,938 | 651,216 | 0 | 0 | 600,938 | 651,216 | -8.37% |
| Land improvements | 56,736 | 62,080 | 0 | 0 | 56,736 | 62,080 | -9.42% |
| Machinery and equipment | 162,640 | 110,001 | 55,634 | 13,806 | 218,274 | 123,807 | 43.28% |
| Total | \$ 863,021 | 866,004 | 55,634 | 13,806 | 918,655 | 879,810 | 4.42% |

Long-Term Debt

At June 30, 2010, the District had \$59,220 in other long-term debt outstanding. This represents an increase of 41.58% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding early retirement payable of \$47,908 from the Special Revenue, Management Fund at June 30, 2010.

The District had a net OPEB liability of \$11,312 as of June 30, 2010.

Figure A-7
Outstanding Long-Term Obligations

| | Governmental Activities June 30, | | Business type Activities June 30, | | Total School District June 30, | | Total Change June 30, 2009-10 |
|---------------------|-------------------------------------|--------|---|------|--------------------------------------|--------|--|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2009-10 |
| Early retirement | 47,908 | 41,828 | 0 | 0 | 47,908 | 41,828 | 14.54% |
| Net OPEB obligation | 11,084 | 0 | 228 | 0 | 11,312 | 0 | 100.00% |
| Total | \$ 58,992 | 41,828 | 228 | 0 | 59,220 | 41,828 | 41.58% |

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:

- With the District's current financial challenges, the FY 2010 state budget cut of 10% results in a significant decrease in General Fund revenue, shifting funding on property taxes and other revenue sources. As a result of these lost revenues, the District will explore all opportunities to reduce expenditures and/or increase revenues.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten year period beginning in fiscal year 2005.

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 Denise Stevens, Board Secretary, Hamburg Community School District, 105 E Street, Hamburg, Iowa, 51640.

HAMBURG COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,072,633 | 105,056 | 1,177,689 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 18,795 | - | 18,795 |
| Succeeding year | 1,557,021 | - | 1,557,021 |
| Income surtax | 47,444 | - | 47,444 |
| Interfund | 140,032 | - | 140,032 |
| Accounts | 191 | 2,800 | 2,991 |
| Due from other governments | 164,512 | - | 164,512 |
| Inventories | - | 1,007 | 1,007 |
| Capital assets, net of accumulated depreciation | 863,021 | 55,634 | 918,655 |
| TOTAL ASSETS | 3,863,649 | 164,497 | 4,028,146 |
| LIABILITIES | | | |
| Interfund payable | - | 140,032 | 140,032 |
| Accounts payable | 24,487 | - | 24,487 |
| Salaries and benefits payable | 306,446 | - | 306,446 |
| Deferred revenue: | | | |
| Succeeding year property tax | 1,557,021 | - | 1,557,021 |
| Other | 15,848 | - | 15,848 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Early retirement payable | 21,225 | - | 21,225 |
| Portion due after one year: | | | |
| Early retirement payable | 26,683 | - | 26,683 |
| Net OPEB Liability | 11,084 | 228 | 11,312 |
| TOTAL LIABILITIES | 1,962,794 | 140,260 | 2,103,054 |
| NET ASSETS | | | |
| Invested in capital assets | 863,021 | 55,634 | 918,655 |
| Restricted for: | | | |
| Categorical funding | 99,018 | - | 99,018 |
| Management levy | 68,646 | - | 68,646 |
| Capital projects | 926,199 | - | 926,199 |
| Physical plant and equipment levy | 308,196 | - | 308,196 |
| Unrestricted | (364,225) | (31,397) | (395,622) |
| TOTAL NET ASSETS | \$ 1,900,855 | 24,237 | 1,925,092 |

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | Total |
|--|---------------------|-------------------------|--|--|-----------------------------|--------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Governmental Activities | Business Type Activities | |
| Functions/Programs: | | | | | | |
| Governmental activities: | | | | | | |
| Instruction: | | | | | | |
| Regular | \$ 1,318,476 | 74,586 | 428,797 | (815,093) | 0 | (815,093) |
| Special | 462,932 | 500 | 87,271 | (375,161) | 0 | (375,161) |
| Other | 366,468 | 68,586 | 61,355 | (236,527) | 0 | (236,527) |
| | <u>2,147,876</u> | <u>143,672</u> | <u>577,423</u> | <u>(1,426,781)</u> | <u>0</u> | <u>(1,426,781)</u> |
| Support services: | | | | | | |
| Student | 57,253 | 0 | 0 | (57,253) | 0 | (57,253) |
| Instructional staff | 73,090 | 0 | 0 | (73,090) | 0 | (73,090) |
| Administration | 568,948 | 0 | 0 | (568,948) | 0 | (568,948) |
| Operation and maintenance of plant | 325,119 | 0 | 0 | (325,119) | 0 | (325,119) |
| Transportation | 156,574 | 0 | 0 | (156,574) | 0 | (156,574) |
| | <u>1,180,984</u> | <u>0</u> | <u>0</u> | <u>(1,180,984)</u> | <u>0</u> | <u>(1,180,984)</u> |
| Other expenditures: | | | | | | |
| Facilities acquisitions | 97,627 | 0 | 0 | (97,627) | 0 | (97,627) |
| AEA flowthrough | 116,397 | 0 | 116,397 | 0 | 0 | 0 |
| Depreciation (unallocated)* | 57,951 | 0 | 0 | (57,951) | 0 | (57,951) |
| | <u>271,975</u> | <u>0</u> | <u>116,397</u> | <u>(155,578)</u> | <u>0</u> | <u>(155,578)</u> |
| Total governmental activities | <u>3,600,835</u> | <u>143,672</u> | <u>693,820</u> | <u>(2,763,343)</u> | <u>0</u> | <u>(2,763,343)</u> |
| Business Type activities: | | | | | | |
| Support services: | | | | | | |
| Operation and maintenance of plant | 11,391 | 0 | 0 | 0 | (11,391) | (11,391) |
| Non-instructional programs: | | | | | | |
| Nutrition services | 173,051 | 47,895 | 91,887 | 0 | (33,269) | (33,269) |
| Total business type activities | <u>184,442</u> | <u>47,895</u> | <u>91,887</u> | <u>0</u> | <u>(44,660)</u> | <u>(44,660)</u> |
| Total | <u>\$ 3,785,277</u> | <u>191,567</u> | <u>785,707</u> | <u>(2,763,343)</u> | <u>(44,660)</u> | <u>(2,808,003)</u> |
| General Revenues and transfers: | | | | | | |
| General revenues: | | | | | | |
| Property tax levied for: | | | | | | |
| General purposes | | | | \$ 1,308,223 | 0 | 1,308,223 |
| Capital outlay | | | | 32,593 | 0 | 32,593 |
| Income surtax | | | | 55,393 | 0 | 55,393 |
| Statewide sales, services and use tax | | | | 200,867 | 0 | 200,867 |
| Unrestricted state grants | | | | 1,007,059 | 0 | 1,007,059 |
| Unrestricted investment earnings | | | | 7,400 | 84 | 7,484 |
| Other | | | | 28,436 | 626 | 29,062 |
| Transfers | | | | (47,817) | 47,817 | 0 |
| Total general revenues and transfers | | | | <u>2,592,154</u> | <u>48,527</u> | <u>2,640,681</u> |
| Changes in net assets | | | | (171,189) | 3,867 | (167,322) |
| Net assets beginning of year | | | | <u>2,072,044</u> | <u>20,370</u> | <u>2,092,414</u> |
| Net assets end of year | | | | <u>\$ 1,900,855</u> | <u>24,237</u> | <u>1,925,092</u> |

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

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

| | General | Physical Plant and Equipment Levy | Capital Projects | Other Nonmajor Governmental Funds | Total |
|--|---------------------|--|---------------------|--|------------------|
| ASSETS | | | | | |
| Cash and pooled investments | \$ 2,714 | 309,143 | 817,371 | 115,738 | 1,244,966 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 16,984 | 405 | - | 1,406 | 18,795 |
| Succeeding year | 1,521,775 | 35,246 | - | - | 1,557,021 |
| Income surtax | 47,444 | - | - | - | 47,444 |
| Interfund | 152,014 | 359 | 20,951 | - | 173,324 |
| Accounts | 191 | - | - | - | 191 |
| Due from other governments | 76,635 | - | 87,877 | - | 164,512 |
| TOTAL ASSETS | \$ 1,817,757 | 345,153 | 926,199 | 117,144 | 3,206,253 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Excess of warrants issued over bank balance | \$ 172,333 | - | - | - | 172,333 |
| Interfund payable | 21,743 | 1,068 | - | 10,481 | 33,292 |
| Accounts payable | 20,397 | 643 | - | 3,447 | 24,487 |
| Salaries and benefits payable | 306,446 | - | - | - | 306,446 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 1,521,775 | 35,246 | - | - | 1,557,021 |
| Income surtax | 47,444 | - | - | - | 47,444 |
| Other | 15,848 | - | - | - | 15,848 |
| Total liabilities | 2,105,986 | 36,957 | - | 13,928 | 2,156,871 |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Categorical funding | 99,018 | - | - | - | 99,018 |
| Unreserved: | | | | | |
| Designated for special purposes by the Board(Bunker Donation) | 25,838 | - | - | - | 25,838 |
| Undesignated | (413,085) | 308,196 | 926,199 | 103,216 | 924,526 |
| Total fund balances | (288,229) | 308,196 | 926,199 | 103,216 | 1,049,382 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,817,757 | 345,153 | 926,199 | 117,144 | 3,206,253 |

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2010

| | | |
|---|----|----------------------------|
| Total fund balances of governmental funds (page 20) | \$ | 1,049,382 |
| <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. | | 863,021 |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current period. | | 47,444 |
| Long-term liabilities, including early retirement payable and other postemployment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | (58,992) |
| | | <hr style="width: 100%;"/> |
| Net assets of governmental activities (page 18) | \$ | <u><u>1,900,855</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

| | General | Physical Plant and Equipment Levy | Capital Projects | Other Nonmajor Governmental Funds | Total |
|---|---------------------|--|---------------------|--|------------------|
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 1,261,823 | 32,593 | 200,867 | 100,049 | 1,595,332 |
| Tuition | 72,521 | - | - | - | 72,521 |
| Other | 30,870 | 535 | 682 | 75,234 | 107,321 |
| Intermediate sources | 1,000 | - | - | - | 1,000 |
| State sources | 1,317,863 | - | - | - | 1,317,863 |
| Federal sources | 381,682 | - | - | - | 381,682 |
| Total revenues | <u>3,065,759</u> | <u>33,128</u> | <u>201,549</u> | <u>175,283</u> | <u>3,475,719</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 1,283,150 | - | - | 17,838 | 1,300,988 |
| Special | 461,602 | - | - | - | 461,602 |
| Other | 284,280 | - | - | 81,589 | 365,869 |
| | <u>2,029,032</u> | <u>-</u> | <u>-</u> | <u>99,427</u> | <u>2,128,459</u> |
| Support services: | | | | | |
| Student | 57,249 | - | - | - | 57,249 |
| Instructional staff | 72,958 | - | 4,069 | - | 77,027 |
| Administration services | 546,921 | - | - | 14,264 | 561,185 |
| Operation and maintenance of plant | 229,256 | 5,981 | - | 88,862 | 324,099 |
| Transportation | 135,814 | 82,884 | - | - | 218,698 |
| | <u>1,042,198</u> | <u>88,865</u> | <u>4,069</u> | <u>103,126</u> | <u>1,238,258</u> |
| Non-instructional programs: | | | | | |
| Food service operations | - | 5,255 | - | - | 5,255 |
| Other expenditures: | | | | | |
| Facilities acquisitions | - | 96,454 | 43,735 | - | 140,189 |
| AEA flowthrough | 116,397 | - | - | - | 116,397 |
| | <u>116,397</u> | <u>96,454</u> | <u>43,735</u> | <u>-</u> | <u>256,586</u> |
| Total expenditures | <u>3,187,627</u> | <u>190,574</u> | <u>47,804</u> | <u>202,553</u> | <u>3,628,558</u> |
| Excess (deficiency) of revenues over (under) expenditures | (121,868) | (157,446) | 153,745 | (27,270) | (152,839) |
| OTHER FINANCING SOURCES: | | | | | |
| Proceeds from disposal of equipment | 53 | - | - | - | 53 |
| Net change in fund balances | (121,815) | (157,446) | 153,745 | (27,270) | (152,786) |
| Fund balance beginning of year | (166,414) | 465,642 | 772,454 | 130,486 | 1,202,168 |
| Fund balance end of year | <u>\$ (288,229)</u> | <u>308,196</u> | <u>926,199</u> | <u>103,216</u> | <u>1,049,382</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG 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, 2010

Net change in fund balances - total governmental funds (page 22) \$ (152,786)

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

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

| | | |
|---------------------------------|----------------|---------|
| Expenditures for capital assets | \$ 96,490 | |
| Depreciation expense | (97,373) | |
| Loss on disposal of assets | <u>(2,100)</u> | (2,983) |

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 1,744

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:

| | | |
|-------------------------------|----------------|-----------------|
| Other postemployment benefits | (11,084) | |
| Early retirement payable | <u>(6,080)</u> | <u>(17,164)</u> |

Changes in net assets of governmental activities (page 19) \$ (171,189)

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

| | School Nutrition |
|--|---------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 105,056 |
| Accounts receivable | 2,800 |
| Interfund | 433 |
| Inventories | 1,007 |
| Capital assets, net of accumulated depreciation | 55,634 |
| TOTAL ASSETS | 164,930 |
| LIABILITIES | |
| Interfund payable | 140,465 |
| OPEB liability | 228 |
| TOTAL LIABILITIES | 140,693 |
| NET ASSETS | |
| Invested in capital assets | 55,634 |
| Unrestricted | (31,397) |
| TOTAL NET ASSETS | \$ 24,237 |

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

| | School Nutrition |
|--|---------------------|
| OPERATING REVENUE: | |
| Local sources: | |
| Charges for services | \$ 47,895 |
| Miscellaneous | 626 |
| TOTAL OPERATING REVENUES | 48,521 |
| OPERATING EXPENSES: | |
| Support services: | |
| Operation and maintenance of plant: | |
| Salaries | 9,966 |
| Benefits | 1,425 |
| Total support services | 11,391 |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries | 64,950 |
| Benefits | 17,002 |
| Services | 485 |
| Supplies | 84,549 |
| Depreciation | 5,989 |
| Other | 76 |
| Total non-instructional programs | 173,051 |
| TOTAL OPERATING EXPENSES | 184,442 |
| OPERATING LOSS | (135,921) |
| NON-OPERATING REVENUES: | |
| State sources | 1,545 |
| Federal sources | 90,342 |
| Interest income | 84 |
| TOTAL NON-OPERATING REVENUES | 91,971 |
| Change in net assets before other financing sources | (43,950) |
| Other financing sources: | |
| Capital contributions | 47,817 |
| Change in net assets | 3,867 |
| Net assets beginning of year | 20,370 |
| Net assets end of year | \$ 24,237 |

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

| | School Nutrition |
|---|---------------------|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | \$ 53,604 |
| Cash received from miscellaneous sources | 626 |
| Cash payments to employees for services | (100,795) |
| Cash payments to suppliers for goods or services | (72,823) |
| Net cash used in operating activities | (119,388) |
| Cash flows from non-capital financing activities: | |
| Borrowings from the General Fund | 18,799 |
| State grants received | 1,545 |
| Federal grants received | 83,853 |
| Net cash provided by non-capital financing activities | 104,197 |
| Cash flows from investing activities: | |
| Interest on investments | 84 |
| Net decrease in cash and cash equivalents | (15,107) |
| Cash and cash equivalents at beginning of year | 120,163 |
| Cash and cash equivalents at end of year | \$ 105,056 |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (135,921) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Commodities consumed | 12,200 |
| Depreciation | 5,989 |
| Decrease in inventories | 87 |
| Decrease in accounts receivable | 5,709 |
| Decrease in salaries and benefits payable | (7,680) |
| Increase in OPEB liability | 228 |
| Net cash used in operating activities | \$ (119,388) |

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$12,200.

During the year ended June 30, 2010, the District received contributed capital of \$44,434 from the PPEL Fund.

During the year ended June 30, 2010, the District received contributed capital of \$3,383 from the Capital Projects Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

| | <u>Private Purpose</u> |
|-----------------------------|------------------------|
| | <u>Trust</u> |
| | <u>Scholarship</u> |
| Assets | |
| Cash and pooled investments | \$ 48,594 |
| Liabilities | - |
| Net Assets | |
| Reserved for scholarships | \$ 48,594 |

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2010

| | <u>Private Purpose Trust Scholarship</u> |
|------------------------------|--|
| DEDUCTIONS: | |
| Instruction: | |
| Regular: | |
| Scholarships awarded | \$ <u>5,000</u> |
| Change in net assets | (5,000) |
| Net assets beginning of year | <u>53,594</u> |
| Net assets end of year | <u>\$ 48,594</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

(1) **Summary of Significant Accounting Policies**

The Hamburg Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Hamburg, Iowa, and the predominate agricultural territory in Fremont County. 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, Hamburg 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 Hamburg Community School District has no component units which 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 Fremont County Assessors' 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 consists of capital assets, net of accumulated depreciation.

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

Unrestricted net asset 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 that are 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 other 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 Physical Plant and Equipment Levy is utilized to account for resources used to acquire equipment and capital facility improvements.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through Enterprise Funds.

The District reports the following proprietary funds:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition 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 through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 judgments, 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 nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Balances

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 are 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 that 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 become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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, machinery, equipment, and intangibles, 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.

| Asset Class | Amount |
|---------------------------------|--------|
| Land | \$ - |
| Buildings | 1,000 |
| Land improvements | 1,000 |
| Intangibles | 25,000 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 1,000 |

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

| Asset Class | Estimated Useful Lives (In Years) |
|-------------------------|-----------------------------------|
| Buildings | 50 years |
| Land improvements | 20 years |
| Intangibles | 2 or more |
| Machinery and equipment | 5-20 years |

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is 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 represents 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 succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

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

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

Designated for Special Purposes by the Board - In the governmental fund financial statements, designated funds are not available for appropriation but are set aside for a specific purpose. The designated fund balance is the balance remaining from the Bunker Inheritance Donation of \$27,361.

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2010 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool 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 and the Treasurer of the State of Iowa; 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, 2010 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,043,368 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investor's Service.

(3) Due from and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2010 is as follows:

| Receivable Fund | Payable Fund | Amount |
|-------------------------------|--------------------------------------|-------------------|
| General Fund | School Nutrition | \$ 140,465 |
| School Nutrition | General Fund | 433 |
| Special Revenue, PPEL Fund | General Fund | 359 |
| General Fund | Special Revenue, PPEL Fund | 1,068 |
| Capital Projects | General Fund | 20,951 |
| General Fund | Special Revenue, Student Activity | 10,481 |
| | | <u>\$ 173,757</u> |

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools 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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

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. 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. The interest rate on the Series 2008-09B warrants was 3.00%. The interest rate on the Series 2009-10A warrants was 2.50%. A

summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

| Series | Warrant Date | Final Warrant Maturity | Balance Beginning of Year | Advances Received | Advances Repaid | Balance End of Year | Interest Payable |
|----------|--------------|------------------------|---------------------------|-------------------|-----------------|---------------------|------------------|
| 2009-10A | 6/25/09 | 6/23/10 | \$ - | 300,000 | 300,000 | - | - |

During the year ended June 30, 2010 the District paid \$1,798 of interest on the ISCAP warrants.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------|-----------|-----------|---------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 42,707 | - | - | 42,707 |
| Total capital assets not being depreciated | 42,707 | - | - | 42,707 |
| Capital assets being depreciated: | | | | |
| Buildings | 2,046,296 | - | - | 2,046,296 |
| Land improvements | 257,003 | - | - | 257,003 |
| Machinery and equipment | 1,051,218 | 96,490 | 56,700 | 1,091,008 |
| Total capital assets being depreciated | 3,354,517 | 96,490 | 56,700 | 3,394,307 |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,395,080 | 50,278 | - | 1,445,358 |
| Land improvements | 194,923 | 5,344 | - | 200,267 |
| Machinery and equipment | 941,217 | 41,751 | 54,600 | 928,368 |
| Total accumulated depreciation | 2,531,220 | 97,373 | 54,600 | 2,573,993 |
| Total capital assets being depreciated, net | 823,297 | (883) | 2,100 | 820,314 |
| Governmental activities capital assets, net | \$ 866,004 | (883) | 2,100 | 863,021 |
| Business type activities: | | | | |
| Machinery and equipment | \$ 57,492 | 47,817 | - | 105,309 |
| Less accumulated depreciation | 43,686 | 5,989 | - | 49,675 |
| Business type activities capital assets, net | \$ 13,806 | 41,828 | - | 55,634 |

Depreciation expense was charged by the District as follows:

| | |
|--|------------------|
| Governmental activities: | |
| Instruction: | |
| Regular | \$ 3,822 |
| Special | 87 |
| Other | 1,732 |
| Support services: | |
| Instructional staff | 572 |
| Administration | 5,874 |
| Operation and maintenance of plant | 518 |
| Transportation | 26,817 |
| | <u>39,422</u> |
| Unallocated depreciation | <u>57,951</u> |
| | |
| Total governmental activities depreciation expense | <u>\$ 97,373</u> |
| | |
| Business type activities: | |
| Food services | <u>\$ 5,989</u> |

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|---------------------------|---------------------------------|---------------|---------------|---------------------------|---------------------------|
| Governmental activities: | | | | | |
| Early Retirement | \$ 41,828 | 20,622 | 14,542 | 47,908 | 21,225 |
| Net OPEB liability | - | 11,084 | - | 11,084 | - |
| Total | <u>41,828</u> | <u>31,706</u> | <u>14,542</u> | <u>58,992</u> | <u>21,225</u> |
| | | | | | |
| Business Type activities: | | | | | |
| Net OPEB liability | \$ - | 228 | - | 228 | - |

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty-five years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The District will pay health insurance benefits until the retiree reaches age sixty-five. A liability has been recorded in the Statement of Net Assets for government-wide activities for these early retirement benefits. Early retirement benefits paid during the year ended June 30, 2010, totaled \$14,542.

(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 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$114,611, \$111,830, and \$100,903 respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical, prescription drug and dental benefits for retirees and their spouses. There are 27 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark Blue Cross Blue Shield. Retirees under age 65 pay the same premium for the medical and prescription drug as active employees, which result in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize and unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | |
|--|------------------|
| Annual required contribution | \$ 21,370 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB cost | <u>21,370</u> |
| Contributions made | (10,058) |
| Increase in net OPEB obligation | <u>11,312</u> |
| Net OPEB obligation beginning of year | - |
| Net OPEB obligation end of year | <u>\$ 11,312</u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------|------------------|--|---------------------|
| June 30, 2010 | \$ 21,370 | 47.07% | \$ 11,312 |

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$185,940, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$185,940. The covered payroll (annual payroll of active employees covered by the plan) was \$1,767,181, and the ratio of the UAAL to covered payroll was 10.52%. As of June 30, 2010 there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of event far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the Frozen Entry Age Actuarial Cost Method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, Projected to 2000 applied on a gender-specific basis. Annual retirement and termination probabilities were based upon the 2006 Society of Actuaries Study. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) **Risk Management**

Hamburg Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles

and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$116,397 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Fund Balance/Unrestricted Net Assets

The District has a deficit undesignated fund balance in the General Fund of \$413,085. The District also had deficit unrestricted net assets in the governmental activities of \$364,225. The District had a deficit unrestricted net assets of \$31,397 in the Enterprise, School Nutrition Fund.

(12) Categorical Funding

The District's categorical funding balances for the year ended June 30, 2010 are as follows:

| Project | Amount |
|---------------------------------------|-----------|
| Dropout and Dropout Prevention | \$ 58,067 |
| Market Factor Incentives | 2,384 |
| Market Factor Grants | 22,931 |
| Market Factor | 566 |
| Salary Improvement | 11,545 |
| Home School Assistance Program (HSAP) | 3,525 |
| Total | \$ 99,018 |

REQUIRED SUPPLEMENTARY INFORMATION

HAMBURG COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2010

| | Governmental | Proprietary | Total Actual | Budgeted Amounts | | Final to |
|--|--------------|-------------|-----------------|------------------|-----------|-----------|
| | Fund Types | Fund Type | | Original | Final | Actual |
| | Actual | Actual | | | | Variance |
| Revenues: | | | | | | |
| Local sources | \$ 1,775,174 | 48,605 | 1,823,779 | 1,630,415 | 1,630,415 | 193,364 |
| Intermediary sources | 1,000 | - | 1,000 | 1,000 | 1,000 | - |
| State sources | 1,317,863 | 1,545 | 1,319,408 | 1,680,582 | 1,680,582 | (361,174) |
| Federal sources | 381,682 | 90,342 | 472,024 | 430,500 | 430,500 | 41,524 |
| Total revenues | 3,475,719 | 140,492 | 3,616,211 | 3,742,497 | 3,742,497 | (126,286) |
| Expenditures/Expenses: | | | | | | |
| Instruction | 2,128,459 | - | 2,128,459 | 2,287,741 | 2,287,741 | 159,282 |
| Support services | 1,238,258 | 11,391 | 1,249,649 | 1,649,000 | 1,649,000 | 399,351 |
| Non-instructional programs | 5,255 | 173,051 | 178,306 | 180,000 | 180,000 | 1,694 |
| Other expenditures | 256,586 | - | 256,586 | 117,595 | 300,000 | 43,414 |
| Total expenditures/expenses | 3,628,558 | 184,442 | 3,813,000 | 4,234,336 | 4,416,741 | 603,741 |
| Excess(deficiency)of revenues over(under)expenditures/expenses | (152,839) | (43,950) | (196,789) | (491,839) | (674,244) | 477,455 |
| Other financing sources, net | 53 | 47,817 | 47,870 | - | - | 47,870 |
| Excess(deficiency)of revenues and other financing sources over(under)expenditures/expenses | (152,786) | 3,867 | (148,919) | (491,839) | (674,244) | 525,325 |
| Balance beginning of year | 1,202,168 | 20,370 | 1,222,538 | 630,061 | 630,061 | 592,477 |
| Balance end of year | \$ 1,049,382 | 24,237 | 1,073,619 | 138,222 | (44,183) | 1,117,802 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison 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 Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

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

During the year ended June 30, 2010, The District adopted one budget amendment increasing other expenditures by \$182,405.

HAMBURG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2010

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------|--------------------------------|--|---|------------------------------------|--------------------------|-----------------------------|---|
| 2010 | July 1, 2009 | \$ - | \$ 185,940 | \$ 185,940 | 0.00% | \$ 1,767,181 | 10.52% |

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

HAMBURG COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2010

| | Manage- ment Levy | Student Activity | Total |
|--|-------------------------|---------------------|----------------|
| ASSETS | | | |
| Cash and pooled investments | \$ 115,148 | 590 | 115,738 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 1,406 | - | 1,406 |
| TOTAL ASSETS | \$ 116,554 | 590 | 117,144 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Interfund payable | - | 10,481 | 10,481 |
| Accounts payable | - | 3,447 | 3,447 |
| TOTAL LIABILITIES | - | 13,928 | 13,928 |
| UNRESERVED FUND BALANCES | 116,554 | (13,338) | 103,216 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 116,554 | 590 | 117,144 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2010

| | Manage- ment Levy | Student Activity | Total |
|---|-------------------------|---------------------|----------------|
| REVENUES: | | | |
| Local sources: | | | |
| Local tax | \$ 100,049 | - | 100,049 |
| Other | 6,716 | 68,518 | 75,234 |
| TOTAL REVENUES | <u>106,765</u> | <u>68,518</u> | <u>175,283</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 17,838 | - | 17,838 |
| Other | - | 81,589 | 81,589 |
| Support services: | | | |
| Administration | 14,264 | - | 14,264 |
| Operation and maintenance of plant | 86,556 | 2,306 | 88,862 |
| TOTAL EXPENDITURES | <u>118,658</u> | <u>83,895</u> | <u>202,553</u> |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | (11,893) | (15,377) | (27,270) |
| Fund balance beginning of the year | <u>128,447</u> | <u>2,039</u> | <u>130,486</u> |
| Fund balance end of the year | <u>\$ 116,554</u> | <u>(13,338)</u> | <u>103,216</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2010

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|---------------------------|---------------------------------|---------------|-------------------|---------------------------|
| Interest | \$ (7,091) | 898 | 304 | (6,497) |
| Drama | 2,100 | 1,870 | 1,233 | 2,737 |
| Chorus | (814) | 423 | 1,061 | (1,452) |
| Band | (1,375) | 55 | 217 | (1,537) |
| HS Athletics | (3,167) | 16,125 | 33,551 | (20,593) |
| HS Athletics Resale | (1,311) | 5,669 | 7,721 | (3,363) |
| JH Athletics | (1,015) | 2,172 | 2,438 | (1,281) |
| HS Cheerleading | 4,757 | 507 | 3,389 | 1,875 |
| JH Cheerleading | 629 | - | - | 629 |
| Art | 68 | - | - | 68 |
| Class of 2002 | 290 | - | 85 | 205 |
| Class of 2003 | (4,901) | - | 1,228 | (6,129) |
| Class of 2007 | 700 | - | - | 700 |
| Class of 2008 | 591 | - | - | 591 |
| Class of 2009 | 7,970 | - | - | 7,970 |
| Class of 2010 | 2,312 | 4,270 | 5,322 | 1,260 |
| Class of 2011 | 1,101 | 19,648 | 11,441 | 9,308 |
| Class of 2012 | 666 | 776 | - | 1,442 |
| Class of 2013 | - | 171 | - | 171 |
| Student Council | (125) | 185 | 1,824 | (1,764) |
| Yearbook | (44) | 3,442 | 3,231 | 167 |
| Elementary Activity | 773 | 12,223 | 10,831 | 2,165 |
| Elementary Music Activity | (138) | 84 | - | (54) |
| Elementary Yearbook | 63 | - | 19 | 44 |
| Total | \$ 2,039 | 68,518 | 83,895 | (13,338) |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST
 JUNE 30, 2010

| | | Private Purpose Trust - Scholarship Fund | | | | | | | |
|-----------------------------|----|--|-------------|-------------|-------------|-------------|-------------|-------------|--------|
| | | Class of | | | | | | | |
| | | Boldra | 1953 | Activities | Other | Rice | Hensleigh | Pepsi | |
| | | Scholarship | Scholarship | Scholarship | Scholarship | Scholarship | Scholarship | Scholarship | Total |
| ASSETS | | | | | | | | | |
| Cash and pooled investments | \$ | 2,648 | 550 | 350 | 100 | 20,112 | 24,832 | 2 | 48,594 |
| | | 2,648 | 550 | 350 | 100 | 20,112 | 24,832 | 2 | 48,594 |
| LIABILITIES | | - | - | - | - | - | - | - | - |
| NET ASSETS | | | | | | | | | |
| Reserved for scholarships | \$ | 2,648 | 550 | 350 | 100 | 20,112 | 24,832 | 2 | 48,594 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST
 YEAR ENDED JUNE 30, 2010

| | Private Purpose Trust - Scholarship Fund | | | | | | | Total |
|------------------------------|--|---------------------|---------------------------|----------------------|---------------------|--------------------------|----------------------|---------|
| | Class of Boldra Scholarship | 1953 Scholarship | Activities Scholarship | Other Scholarship | Rice Scholarship | Hensleigh Scholarship | Pepsi Scholarship | |
| DEDUCTIONS: | | | | | | | | |
| Instruction: | | | | | | | | |
| Regular: | | | | | | | | |
| Scholarships awarded | \$ 3,500 | - | - | - | 1,500 | - | - | 5,000 |
| Changes in net assets | (3,500) | - | - | - | (1,500) | - | - | (5,000) |
| Net assets beginning of year | 6,148 | 550 | 350 | 100 | 21,612 | 24,832 | 2 | 53,594 |
| Net assets end of year | \$ 2,648 | 550 | 350 | 100 | 20,112 | 24,832 | 2 | 48,594 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST SEVEN YEARS

| | Modified Accrual Basis | | | | | | |
|------------------------------------|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Years Ended June 30, | | | | | | |
| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Revenues: | | | | | | | |
| Local sources: | | | | | | | |
| Local tax | \$ 1,595,332 | 1,495,740 | 1,433,070 | 1,390,820 | 1,435,744 | 1,444,051 | 1,304,312 |
| Tuition | 72,521 | 91,603 | 107,798 | 75,449 | 75,210 | 85,975 | 61,534 |
| Other | 107,321 | 139,138 | 131,701 | 144,440 | 140,650 | 237,461 | 141,160 |
| Intermediate sources | 1,000 | - | - | - | - | - | - |
| State sources | 1,317,863 | 1,508,235 | 1,547,915 | 1,438,664 | 1,285,828 | 1,293,041 | 1,306,026 |
| Federal sources | 381,682 | 131,789 | 146,812 | 150,327 | 99,339 | 244,371 | 194,325 |
| Total | \$ 3,475,719 | 3,366,505 | 3,367,296 | 3,199,700 | 3,036,771 | 3,304,899 | 3,007,357 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| Instruction: | | | | | | | |
| Regular | \$ 1,300,988 | 1,509,588 | 1,332,653 | 1,314,265 | 1,223,556 | 1,106,577 | 1,169,307 |
| Special | 461,602 | 366,222 | 402,759 | 303,217 | 329,945 | 423,240 | 341,609 |
| Other | 365,869 | 271,120 | 274,313 | 326,518 | 335,126 | 251,490 | 162,934 |
| Support services: | | | | | | | |
| Student | 57,249 | 25,768 | 68,177 | 58,196 | 80,629 | 85,886 | 93,353 |
| Instructional staff | 77,027 | 76,388 | 94,482 | 81,216 | 47,723 | 42,790 | 40,715 |
| Administration | 561,185 | 402,493 | 488,458 | 444,707 | 440,965 | 416,633 | 404,342 |
| Operation and maintenance of plant | 324,099 | 274,327 | 298,480 | 306,839 | 282,213 | 335,478 | 236,005 |
| Transportation | 218,698 | 121,948 | 132,236 | 151,007 | 100,356 | 67,945 | 84,713 |
| Central support | - | - | - | - | - | 4,145 | 7,824 |
| Non-instructional programs | 5,255 | - | - | 458 | - | 7,800 | 7,750 |
| Other expenditures: | | | | | | | |
| Facilities acquisitions | 140,189 | 53,993 | 47,296 | 40,092 | 100,016 | 259,022 | 422,899 |
| AEA flow-through | 116,397 | 103,853 | 101,979 | 96,137 | 91,789 | 91,840 | 94,675 |
| Total | \$ 3,628,558 | 3,205,700 | 3,240,833 | 3,122,652 | 3,032,318 | 3,092,846 | 3,066,126 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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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 the
Hamburg 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 Hamburg Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated May 26, 2011. 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 Hamburg 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 an opinion on the effectiveness of Hamburg Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hamburg 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-B-10 through I-M-10 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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.

Hamburg Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Hamburg 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 Hamburg Community School District and other parties to whom Hamburg Community School District may report, including federal awarding agencies and pass-through entities, and 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 Hamburg 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.


NOLTE, CORNMAN & JOHNSON, P.C.

May 26, 2011

HAMBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - Our Board is aware that sufficient staff is not available to have adequate segregation of duties. We will discuss the options that might be available to us.

Conclusion - Response accepted.

I-B-10 Cash Receipting - We noted during our audit that cash receipts do not appear to be posted timely and have many errors.

Recommendation - The District should review its procedures to ensure that cash receipting is done timely and accurately.

Response - We will review the receipting process. We will direct individuals who collect money to turn the cash in timely for deposit and the deposits will be made daily.

Conclusion - Response accepted.

I-C-10 Bank Reconciliations - We noted during our audit that bank reconciliations are not completed timely. The bank reconciliations serve as a control to help ensure deposits and receipts recorded reconcile. Also, bank reconciliations are essential in determining the financial position of each fund.

Recommendation - The District should review its procedures to ensure that bank reconciliations are done timely.

Response - The bank reconciliations are performed on our Software Unlimited software. We will provide additional training to our accounting personnel directly related to bank reconciliations.

Conclusion - Response accepted.

I-D-10 Transfers Between Funds - We noted that transfers from the Student Activity Fund to the General Fund were not completed. These transfers include registration and textbook fees that were deposited into the Student Activity Fund.

Recommendation - The District should make sure the transfers from the Student Activity Fund to the General Fund are completed by year end.

Response - Although registration fees are collected in the Student Activity fund we realize these should be transferred to the General Fund. We will make the necessary transfer and we will look at the process of registration to see if the registration could be deposited into the General fund at the time registration occurs.

Conclusion - Response accepted.

- I-E-10 Grants - We noted during our audit, that when expenditures for specific projects were posted they were not always properly posted to those projects resulting in numerous adjusting entries at year end.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - We will prepare chart of account numbers with categorical as well as state and federal grant codes to aid in the reporting. When grants are received project coding will be assigned and expected to be used in the ordering and purchasing of items. This will help in providing the coding. In addition, the coding of grants will be reviewed at year end to determine the balances available and subsequent carryover available.

Conclusion - Response accepted.

- I-F-10 YRBS Grant - The District currently has a deferred revenue of \$525 from a carryover from the FY08 year.

Recommendation - The District needs to expend the grant or pay the money back.

Response - We will review the allowability of expenses related to this grant and either expend it or pay the money back.

Conclusion - Response accepted.

- I-G-10 TSA Payable - We noted during the audit that the District has a payable outstanding on the balance sheet of \$2,605 for TSAs from the FY 09 year.

Recommendation - These TSA checks were sent back to the District. They need to either be reissued or paid back.

Response - We will review the returned checks and determine if we need to return the deducted amounts back to the employees.

Conclusion - Response accepted.

- I-H-10 Gate Admissions - During our audit we noted that the District doesn't utilize pre-numbered tickets for all events that require admission.

Recommendation - The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any

policies and the District's business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" of the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - Each cash box will begin with an established amount of cash (\$200). A minimum of two individuals will be responsible for gate collection and will be instructed in writing, not to leave the cash box unattended for any amount of time for any reason.

Pre-numbered tickets will be utilized to document each entry fee. At the end of the event the cash box will be counted and reconciled to the number of tickets sold. The next unsold ticket, less the beginning ticket number will determine the number of tickets sold. The number of tickets sold times the price of the ticket will determine the amount of cash at the end of the event, less the established beginning cash amount.

The cash will be reconciled and signed off for by the individuals responsible for the gate collection. Following the event the cash box is turned into the Event Administrator who secures the box in a locked cabinet until the following business day.

At that time, the cash box will be reconciled to match the tickets sold once again in the business office. The school secretary receipts the cash and any checks received in a pre-number receipt book. The cash and checks are then prepared for deposit and deposited by someone other than the school secretary. The pre-numbered receipt, tickets sold, and the reconciled signoff sheet will be filed with the deposit slip and cash receipt report from our accounting software.

Conclusion - Response accepted.

- I-I-10 Supporting Documents for Payments Made - During our audit we noted that the District advanced a payment of \$9,000 for the purchase of a walk-in freezer without any supporting invoice or other documentation to support the payment.

Recommendation - The District should review its procedures to ensure that all payments made have supporting documentation to support the purchase.

Response - We will refrain from making downpayments on purchases without adequate documentation.

Conclusion - Response accepted.

- I-J-10 Employee Reimbursements - We noted during our audit that the District gave out Accelerated Reader Awards. These awards were purchased by employees who were later reimbursed.

Recommendation - The District should purchase items directly and avoid making reimbursements to employees. With the new 1099 rules employees become potentially liable to receive a 1099 for purchases made for the school.

Response - Our community is small and we are not always able to obtain items by use of purchase orders. It is sometimes necessary to reimburse individuals for items, however, we will make a conscience effort to avoid reimbursements.

Conclusion - Response accepted.

- I-K-10 Deficit Student Account Balances - We noted during our audit that the District has deficit student balances in the Nutrition Fund. The District should design and implement procedures with regard to deficit accounts. The amount of negative balances continues to be a concern.

Recommendation - The District should design and implement procedures with regard to deficit accounts. The amount of negative balances continues to be a concern. The Board should direct management as to expectations in collecting deficit balances and how to proceed with lunch participation when an individual has a negative account balance.

Response - The individual student account balances will be reviewed monthly. The negative accounts will receive letters requesting payment. The Board of Directors will adopt a policy to deal with deficit balances and the procedures that the administration will be directed to follow.

Conclusion - Response accepted.

- I-L-10 ISCAP Borrowings - We noted during our audit that the borrowed money from ISCAP in August 2009 and did not repay the loan until May 2010.

Recommendation - Although ISCAP is designed to help during times of low cash flow, the District should repay the money when the funds are available to do so.

Response - In the future, we will pay back ISCAP when funds are available.

Conclusion - Response accepted.

I-M-10 Board Policies - We noted during the audit that the board policies are not being reviewed on a regular basis. The District has policies that have not been updated within five year.

Recommendation - Board policies should be reviewed by the Board at a minimum every five years.

Response - Since September of 2009 the board has been consistently updating board policies. With the current schedule those policies will be completely reviewed by September of 2014. Starting in 2014 those policies will be reviewed every three years.

Conclusion - Response accepted.

I-N-10 Student Activity Class Accounts - We noted during our audit that the District has a Class of 2002, Class of 2003, Class of 2007 and Class of 2008 account.

Recommendation - Upon graduation, the remaining balance in old class accounts should be redistributed to other individual activity fund accounts, used as start up funds for the next incoming class or transferred to another student activity fund account.

Response - The money will be transferred out of these accounts and they will be closed.

Conclusion - Response accepted.

I-O-10 Mileage Reimbursement - We noted during our audit an instance of District employees receiving a different rate for mileage reimbursements then stated in the District's board policies.

Recommendation - The District should ensure that actual reimbursement rates match the rates established and authorized by board policy 401.7.

Response - We will review the process and we will make changes necessary so that the reimbursement rate and the authorized amount are consistent.

Conclusion - Response accepted.

HAMBURG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 Certified Budget - District disbursements for the year ended June 30, 2010, did not exceed the amount budgeted.
- II-B-10 Questionable Disbursements - We noted no expenditures that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-10 Travel Expense - 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.
- II-D-10 Business Transactions - Business transactions between the District and District officials are noted as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|---|----------------------------|----------|
| Sue Warden, Substitute Teacher Husband is Board Member | Salaries | \$ 6,119 |
| Sue Harris, Substitute Teacher Husband is Principal | Salaries | \$ 5,498 |

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouses of employees do not appear to represent a conflict of interest.

- II-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will publish the minutes timely in the future

Conclusion - Response accepted.
- II-G-10 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-10 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-J-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-K-10 Categorical Funding -No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-L-10 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use 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, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

| | | |
|---|-----------|-------------------|
| Beginning Balance | | \$ 165,246 |
| Statewide sales, services and use tax revenue | | 200,687 |
| Expenditures/transfers out: | | |
| School Infrastructure | | |
| Buildings | \$ 10,297 | |
| Equipment | 7,452 | |
| Other improvements | 30,055 | 47,804 |
| | | <hr/> |
| Ending Balance | | <u>\$ 318,129</u> |

As a result of the statewide sales, service and use tax revenue received during the year ended June 30, 2010 the District reduced the following levy:

| | | |
|-----------------------------------|--------------------|-----------------|
| | <u>Per \$1,000</u> | <u>Property</u> |
| | of Taxable | Tax |
| | Valuation | Dollars |
| Physical plant and equipment levy | <u>\$ 1.34000</u> | <u>132,287</u> |

- II-M-10 Financial Condition - The District had a deficit undesignated fund balance of \$413,085 in the General Fund and deficit unrestricted net assets in the governmental activities of \$364,225. The District had a deficit unrestricted net assets in the Nutrition Fund of \$31,397. The District also had several deficit accounts in the Special Revenue, Student Activity Fund totaling \$42,670.

Recommendation - The District should continue to monitor these fund balances and investigate alternatives to eliminate the deficit. The District should also review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts.

Response - The District will continue to monitor these funds to eliminate the deficits.

Conclusion - Response accepted.

- II-N-10 PPEL Expenditures - We noted that the District is currently making purchases from Special Revenue, Physical Plant and Equipment Levy(PPEL) Fund which do not appear to be in compliance with Chapter 298.3 of the Code of Iowa. The District purchased furniture under the \$500/unit threshold, which is not allowable from the PPEL Fund.

Recommendation - The District should review Chapter 298.3 of the Code of Iowa to

ensure that purchases made from this fund are compliant. The District should make a corrective transfer from the General Fund to the PPEL Fund in the amount of \$1,949.60 to cover this expense.

Response - The District will make a corrective transfer to correct these expenditures.

Conclusion - Response accepted.

II-O-10 Officiating Contracts - We noted during our audit that the Board President was not signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - The District will follow the recommendation provided.

Conclusion - Response accepted.

II-P-10 Student Activity Fund-Fundraisers - We noted during our audit that the District maintains fundraisers in the Student Activity Fund, however they are not approved by the Board. We recommend that all fundraisers be approved by Board.

Recommendation - Districts should have policies and/or procedures in place to address fund-raising activity including:

- a. The Board or its designee should approve all District-sponsored fundraising activity.
- b. The Board may also adopt a policy to require Board approval of all fundraising activity including fundraising activities of affiliated organizations such as Booster Clubs and the PTO.
- c. Boards should establish procedures for fund-raising activity for District sponsored fund-raisers as well as fund-raisers sponsored by outside groups and organizations to help ensure consistency and accountability over fund-raising activities.
- d. The Board should determine the extent, if any, of administrative support to be provided for District-sponsored and affiliated organization fundraising activity including the cost and/or expense associated with staff time used in collecting payments; preparing, printing and/or assembling mailings; postage; etc.
- e. Fund-raising activity should be clearly designated as District-sponsored and/or sponsored by an outside group or affiliated organization to clearly establish responsibility and accountability.
- f. If District-sponsored, the District should account for the fund-raising activity.

Response - The District will follow the recommendation provided.

Conclusion - Response accepted.