

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of South Hamilton Community School District, Jewell, Iowa, as of and for the year ended June 30, 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of South Hamilton Community School District at June 30, 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 January 19, 2011, on our consideration of South Hamilton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 11 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Hamilton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

January 19, 2011

**South Hamilton Community Schools  
Management Discussion & Analysis  
FY 2009-2010**

Management of the South Hamilton Community School District provides this Management's Discussion and Analysis of the South Hamilton Community School District. This narrative overview analysis of the financial activities of the South Hamilton Community School District is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

**FY2010 Financial Highlights**

- General Fund revenues increased from \$7,334,028 in fiscal year 2009 to \$7,379,805 in fiscal year 2010, while General Fund expenditures decreased from \$6,966,423 in FY 2009 to \$6,757,913 in FY 2010. This indicates that the District's General Fund balance increased from \$610,798 at the end of Fiscal year 2009 to \$1,232,690 at the end of FY2010, an increase of \$621,892.
- The increase in General Fund revenues can be attributed to an increase in property tax and federal stimulus funds income in FY2010. The decrease in expenditures is due primarily to a reduction in personnel and other expenditures.
- The district's solvency ratio increased to 10.50% in FY 2010, up from 5.17% the previous year.
- The district's unspent balance (spending authority) increased from \$561,631 at the end of FY2009 to approximately \$951,017 at the end of FY2010.

**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 South Hamilton Community School District as a whole and present an overall view of the District's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report South Hamilton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which South Hamilton Community School District acts solely as an agent or custodian for the benefit of those outside of District government.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor funds.

## Government-wide Statements

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

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

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

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

## Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District currently has one internal service fund used to account for the District's employee flexible benefit plan.

The required financial statements for 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 funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for 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.

### Financial Analysis of the District as a Whole

The following table represents a condensed statement of net assets for the FY 2008 and FY 2009.

**Condensed Statement of Net Assets**

	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities		School District		
	2009	2010	2009	2010	2009	2010	
Current and other assets	\$6,137,540	\$6,890,925	\$26,533	\$19,563	\$6,164,073	\$6,910,488	12.11%
Capital assets	\$6,700,044	\$6,475,450	\$9,767	\$6,867	\$6,709,811	\$6,482,317	3.39%
<b>Total Assets</b>	<b>\$12,837,584</b>	<b>\$13,366,375</b>	<b>\$36,300</b>	<b>\$26,430</b>	<b>\$12,873,884</b>	<b>\$13,392,805</b>	4.03%
Long-term debt outstanding	\$3,362,946	\$2,860,721	\$0	\$3,531	\$3,362,946	\$2,864,252	-14.83%
Other liabilities	\$4,092,752	\$4,209,810	\$9,595	\$8,155	\$4,102,347	\$4,217,965	2.82%
<b>Total liabilities</b>	<b>\$7,455,698</b>	<b>\$7,070,531</b>	<b>\$9,595</b>	<b>\$11,686</b>	<b>\$7,465,293</b>	<b>\$7,082,217</b>	-5.13%
Net Assets							
Invested in capital assets, net of related debt	\$3,457,277	\$3,664,450	\$9,767	\$6,867	\$3,467,044	\$3,671,317	5.89%
Restricted	\$1,261,722	\$1,573,035	\$0	\$0	\$1,261,722	\$1,573,035	24.67%
Unrestricted	\$662,887	\$1,058,359	\$16,938	\$7,877	\$679,825	\$1,066,236	56.84%
<b>TOTAL NET ASSETS</b>	<b>\$5,381,886</b>	<b>\$6,295,844</b>	<b>\$26,705</b>	<b>\$14,744</b>	<b>\$5,408,591</b>	<b>\$6,310,588</b>	16.68%

The District's overall financial position is stable as evidenced by a growth in total net assets of 16.68% from FY09 to FY10. However, due to declining enrollment, the district must be diligent in its financial planning to maintain a sound financial position.

Changes in net assets. The following table represents a comparison of FY2009 and FY2010.

**Changes in Net Assets.**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Percent Change</b>
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	
<b>Revenues</b>							
Program Revenues							
Charges for services	\$1,039,954	\$1,063,617	\$244,624	\$235,419	\$1,284,578	\$1,299,036	1.13%
Operating Grants & Contributions	\$1,117,953	\$1,474,910	\$170,386	\$166,277	\$1,288,339	\$1,641,187	27.39%
Capital Grants & Contributions	\$7,793	\$23,778			\$7,793	\$23,778	205.1%
Property taxes & other taxes	\$3,724,133	\$3,954,924			\$3,724,133	\$3,954,924	6.20%
Unrestricted state aid	\$2,797,180	\$2,061,618			\$2,797,180	\$2,061,628	-26.3%
Other	\$41,738	\$28,943	\$10	\$5	\$41,748	\$28,948	-30.7%
<b>Total Revenues</b>	<b>\$8,728,751</b>	<b>\$8,607,790</b>	<b>\$415,020</b>	<b>\$401,701</b>	<b>\$9,143,771</b>	<b>\$9,009,491</b>	<b>-1.47%</b>
<b>Expenses</b>							
Instruction	\$5,371,053	\$5,064,065			\$5,371,053	\$5,064,065	-5.72%
Pupil & Instructional Svcs	\$387,917	\$443,759			\$387,917	\$443,759	14.40%
Administrative & Business	\$614,073	\$580,974			\$614,073	\$580,974	-5.72%
Maintenance & Operations	\$580,844	\$612,071			\$580,844	\$612,071	5.38%
Transportation	\$412,012	\$361,319			\$412,012	\$361,319	-12.3%
Non-instructional Programs	\$0	\$0	\$422,803	\$413,662	\$422,803	\$413,662	-2.16%
Other	\$628,288	\$631,644			\$628,288	\$631,644	0.53%
<b>Total Expenses</b>	<b>\$7,994,187</b>	<b>\$7,693,832</b>	<b>\$422,803</b>	<b>\$413,662</b>	<b>\$8,416,990</b>	<b>\$8,107,494</b>	<b>-3.68%</b>
<b>Increase (decrease) in net assets</b>	<b>\$734,564</b>	<b>\$913,958</b>	<b>-\$7,783</b>	<b>-\$11,961</b>	<b>\$726,781</b>	<b>\$901,997</b>	<b>24.11%</b>

**Governmental Activities**

Revenues for governmental activities were \$8,607,790 while expenses amounted to \$7,693,832.

The local option sales tax revenue was \$434,874 in FY2008 and it was \$434,759 in FY2009. The local option sales tax has been replaced by the statewide sales and service tax and the FY10 revenue was \$396,202. This was down due to the downturn in the economy.

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

**Net Cost of Governmental Activities**

	Total Cost of Services			Net Cost of Services		
	2009	2010	% Change	2009	2010	% Change
Instruction	\$5,371,053	\$5,064,065	-5.72%	\$3,509,177	\$2,842,656	-18.9%
Pupil & Instructional Services	\$387,917	\$443,759	14.40%	\$387,917	\$443,759	14.40%
Administrative & Business	\$614,073	\$580,974	-5.39%	\$614,073	\$580,974	-5.39%
Maintenance & Operations	\$580,844	\$612,071	5.38%	\$554,767	\$584,464	5.36%
Transportation	\$412,012	\$361,319	-12.3%	\$412,012	\$361,319	-12.3%
Other	\$628,288	\$631,644	0.53%	350,541	\$318,355	-9.18%
<b>TOTAL</b>	<b>\$7,994,187</b>	<b>\$7,693,832</b>	<b>-3.76%</b>	<b>\$5,828,487</b>	<b>\$5,131,527</b>	<b>-11.96%</b>

- The cost of all governmental activities this year was \$7,693,832.
- The portion of the cost financed by users of the District's programs was \$1,063,617 which represents tuition from other schools, charges to other schools for shared employees, revenues from extra-curricular student activities and student registration fees.
- The federal and state government (and private contributors) subsidized certain programs with grants and contributions totaling \$1,474,910.
- The net cost portion of governmental activities was financed with \$3,179,588 in property tax, \$2,061,618 in unrestricted state aid, \$396,202 in local option sales tax (now the statewide sales and service tax), \$379,134 income surtax, and \$14,349 in interest income.

**Business-Type Activities**

Revenues of the District's business-type activities totaled \$401,696 while expenses totaled \$413,662. The District's business-type activities include the School Nutrition Fund and the Ag Technology Enterprise Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

A deficit in the Ag Technology Enterprise Fund is noted. The cost of raw materials, particularly steel, has been the primary reason for increased expenditures in the Ag Technology program. The district continues to monitor revenues and expenditures and has made adjustments by taking some expenses from the general fund.

**Individual Fund Analysis**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,383,846, up from last year's ending fund balances of \$1,778,314.

### **Governmental Fund Highlights**

- The General Fund balance increased from \$610,798 in FY09 to \$1,232,690 in FY10. Expenditures decreased and property tax income increased and much of the federal ARRA stimulus funds were received during this year.
- The Capital Projects Fund balance increased with a FY2009 balance of \$741,229 and a FY2010 balance of \$767,586.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$209,033 in FY2009 to \$239,934 in FY2010. This fund balance increased even though funds were expended for a wide variety of projects to maintain and improvement grounds and facilities.

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

- The School Nutrition Fund and Ag Technology Enterprise Fund balance decreased by \$11,961 due primarily to the Nutrition Fund.

### **Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the GAAP basis. Over the course of the year, it was not necessary for the District to amend its certified budget.

The District has not amended its budget for several years because we prepare the initial budget using the maximum expenditures that the District could have based on projected revenues and carryover balances. Actual expenditures are controlled during the year using a line item budget that bases expenditures on projected revenues for the year.

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget", which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

By the end of the fiscal year 2010, the District had invested \$6,482,317, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers and audio-visual equipment, transportation equipment, and administrative offices. This amount represents a net decrease of 3.39 percent from last year. (See exhibit below).

**Capital Assets (net of depreciation)**

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2009 to 2010
	2009	2010	2009	2010	2009	2010	
Land	\$39,301	\$39,301			\$39,301	\$39,301	0.0%
Buildings & Other Improvements	\$5,800,105	\$5,718,826			\$5,800,105	\$5,718,826	-1.40%
Equipment & Furniture	\$860,638	\$717,323	\$9,767	\$6,867	\$870,405	\$724,190	-16.80%
<b>TOTAL</b>	<b>\$6,700,044</b>	<b>\$6,475,450</b>	<b>\$9,767</b>	<b>\$6,867</b>	<b>\$6,709,811</b>	<b>\$6,482,317</b>	<b>-3.39%</b>

**Long-Term Debt**

At year-end, the district had \$2,405,000 in general obligation bonds outstanding. This represents a decrease of 10.9% percent from last year. This debt is related to a \$5,000,000 bond issue approved by the voters on December 2, 1997 for the new elementary school building.

In June 2009 the District purchased \$542,767 of computers using a capital lease. This is a four year leave for these computers.

**Factors Bearing on the District's Future**

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

- The number of open enrolled students from neighboring districts per year has shown a decline. While there are still some open enrolling, there are fewer new open enrollees each year than there are open enrolled students who are graduating.
- The projections for enrollment show that there is likely to be a steady decline in enrollment for a number of years. The certified enrollment figure that FY10 was based on was down 58 from the previous year.
- The district recognized the need to reduce expenditures to maintain a solid financial position and reduced staff during the past three year, FY09, FY10, and FY11.
- The overall economic climate is very challenging to all entities, including public schools who are dependent on state funds.
- The 1.5% Across the Board cut enacted by the Governor during FY2008 was difficult, but manageable. The 10% Across the Board cut enacted during FY2009 forced South Hamilton to spend the cash that had been saved through reductions over the previous two years.

### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Susan L. Headley, Board Secretary/Business Manager  
or Lyle Schwartz, Superintendent  
South Hamilton Community Schools  
315 Division Street  
Jewell, IA 50130  
515-827-5671

## BASIC FINANCIAL STATEMENTS

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total	Component Unit South Hamilton Community School District Foundation
	\$	\$	\$	\$
<b>Assets</b>				
Cash and investments	2,969,669	5,168	2,974,837	223,966
Receivables:				
Property tax:				
Delinquent	45,495	-	45,495	-
Succeeding year	3,365,888	-	3,365,888	-
Accounts	28,827	1,328	30,155	-
Accrued interest	-	-	-	1,319
Internal balances	2,160	(2,160)	-	-
Due from other governments	478,886	-	478,886	-
Inventories	-	15,227	15,227	-
Capital assets, net of accumulated depreciation	6,475,450	6,867	6,482,317	-
<b>Total assets</b>	<b>13,366,375</b>	<b>26,430</b>	<b>13,392,805</b>	<b>225,285</b>
<b>Liabilities</b>				
Accounts payable	68,833	99	68,932	-
Salaries and benefits payable	547,794	3,040	550,834	-
Due to other governments	158,416	-	158,416	-
Accrued interest payable	17,478	-	17,478	-
Deferred revenue:				
Succeeding year property tax	3,365,888	-	3,365,888	-
Other	51,401	5,016	56,417	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	300,000	-	300,000	-
Capital leases	134,552	-	134,552	-
Termination benefits	16,767	-	16,767	-
Portion due after one year:				
General obligation bonds payable	2,105,000	-	2,105,000	-
Capital leases	271,448	-	271,448	-
Net OPEB liability	32,954	3,531	36,485	-
<b>Total liabilities</b>	<b>7,070,531</b>	<b>11,686</b>	<b>7,082,217</b>	<b>-</b>

See notes to financial statements.

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total	Component Unit South Hamilton Community School District Foundation
	\$	\$	\$	\$
<b>Net assets</b>				
Invested in capital assets, net of related debt	3,664,450	6,867	3,671,317	-
Restricted for:				
Categorical funding	456,124	-	456,124	-
Management levy	59,482	-	59,482	-
Physical plant and equipment levy	239,934	-	239,934	-
Other special revenue purposes	48,435	-	48,435	-
Capital project sales tax	767,586	-	767,586	-
Debt service	1,474	-	1,474	-
Unrestricted	1,058,359	7,877	1,066,236	225,285
<b>Total net assets</b>	<u>6,295,844</u>	<u>14,744</u>	<u>6,310,588</u>	<u>225,285</u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

<b>Functions/Programs</b>	<u>Program Revenues</u>			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Instruction:				
Regular	3,125,242	694,101	920,831	-
Special	933,824	133,915	187,822	-
Other	1,004,999	207,994	76,746	-
	<u>5,064,065</u>	<u>1,036,010</u>	<u>1,185,399</u>	<u>-</u>
Support services:				
Student	101,929	-	-	-
Instructional staff	341,830	-	-	-
Administration	580,974	-	-	-
Operation and maintenance of plant	612,071	27,607	-	-
Transportation	361,319	-	-	-
	<u>1,998,123</u>	<u>27,607</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	41,356	-	-	23,778
Long-term debt interest	103,415	-	46	-
AEA flowthrough	289,465	-	289,465	-
Depreciation (unallocated)*	197,408	-	-	-
	<u>631,644</u>	<u>-</u>	<u>289,511</u>	<u>23,778</u>
Total governmental activities	<u>7,693,832</u>	<u>1,063,617</u>	<u>1,474,910</u>	<u>23,778</u>
<b>Business type activities:</b>				
Non-instructional programs:				
Food service operations	401,332	222,291	166,277	-
Agri. science tech. student construction	12,330	13,128	-	-
Total business type activities	<u>413,662</u>	<u>235,419</u>	<u>166,277</u>	<u>-</u>
Total primary government	8,107,494	1,299,036	1,641,187	23,778
<b>Component Unit:</b>				
South Hamilton Community				
School District Foundation	28,305	16,039	19,622	-
Total	<u>8,135,799</u>	<u>1,315,075</u>	<u>1,660,809</u>	<u>23,778</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

**Change in net assets**

Net assets beginning of year

Net assets end of year

\*This amount excludes the depreciation that is included in the direct expenses of the various programs.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
\$	\$	\$	\$
(1,510,310)	-	(1,510,310)	-
(612,087)	-	(612,087)	-
(720,259)	-	(720,259)	-
<u>(2,842,656)</u>	<u>-</u>	<u>(2,842,656)</u>	<u>-</u>
(101,929)	-	(101,929)	-
(341,830)	-	(341,830)	-
(580,974)	-	(580,974)	-
(584,464)	-	(584,464)	-
(361,319)	-	(361,319)	-
<u>(1,970,516)</u>	<u>-</u>	<u>(1,970,516)</u>	<u>-</u>
(17,578)	-	(17,578)	-
(103,369)	-	(103,369)	-
-	-	-	-
(197,408)	-	(197,408)	-
<u>(318,355)</u>	<u>-</u>	<u>(318,355)</u>	<u>-</u>
<u>(5,131,527)</u>	<u>-</u>	<u>(5,131,527)</u>	<u>-</u>
-	(12,764)	(12,764)	-
-	798	798	-
<u>-</u>	<u>(11,966)</u>	<u>(11,966)</u>	<u>-</u>
(5,131,527)	(11,966)	(5,143,493)	-
-	-	-	7,356
<u>(5,131,527)</u>	<u>(11,966)</u>	<u>(5,143,493)</u>	<u>7,356</u>
2,771,058	-	2,771,058	-
221,506	-	221,506	-
187,024	-	187,024	-
379,134	-	379,134	-
396,202	-	396,202	-
2,061,618	-	2,061,618	-
14,349	5	14,354	6,424
14,594	-	14,594	-
<u>6,045,485</u>	<u>5</u>	<u>6,045,490</u>	<u>6,424</u>
913,958	(11,961)	901,997	13,780
<u>5,381,886</u>	<u>26,705</u>	<u>5,408,591</u>	<u>211,505</u>
<u>6,295,844</u>	<u>14,744</u>	<u>6,310,588</u>	<u>225,285</u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	1,876,382	711,192	375,649	2,963,223
Receivables:				
Property tax:				
Delinquent	37,966	-	7,529	45,495
Succeeding year	2,794,368	-	571,520	3,365,888
Accounts	25,526	-	3,301	28,827
Interfund receivable	-	-	2,160	2,160
Due from other governments	398,052	80,834	-	478,886
<b>Total assets</b>	<b>5,132,294</b>	<b>792,026</b>	<b>960,159</b>	<b>6,884,479</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	36,792	24,440	5,069	66,301
Salaries and benefits payable	547,794	-	-	547,794
Due to other governments	158,416	-	-	158,416
Deferred revenue:				
Succeeding year property tax	2,794,368	-	571,520	3,365,888
Income surtax	310,833	-	-	310,833
Other	51,401	-	-	51,401
Total liabilities	<b>3,899,604</b>	<b>24,440</b>	<b>576,589</b>	<b>4,500,633</b>
Fund balances:				
Reserved for:				
Categorical funding	456,124	-	-	456,124
Debt service	-	-	18,952	18,952
Unreserved reported in:				
General Fund	776,566	-	-	776,566
Special Revenue Funds	-	-	364,618	364,618
Capital Projects Fund	-	767,586	-	767,586
Total fund balances	<b>1,232,690</b>	<b>767,586</b>	<b>383,570</b>	<b>2,383,846</b>
<b>Total liabilities and fund balances</b>	<b>5,132,294</b>	<b>792,026</b>	<b>960,159</b>	<b>6,884,479</b>

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

June 30, 2010

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	2,383,846
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	6,475,450
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	310,833
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(17,478)
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	3,914
Long-term liabilities, including bonds payable, capital leases payable, early retirement benefits, and other postemployment benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(2,860,721)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>6,295,844</u></u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,969,405	396,202	557,260	3,922,867
Tuition	740,360	-	-	740,360
Other	164,136	5,061	213,357	382,554
State sources	2,849,200	-	270	2,849,470
Federal sources	656,704	-	23,778	680,482
Total revenues	<u>7,379,805</u>	<u>401,263</u>	<u>794,665</u>	<u>8,575,733</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,060,400	-	149,492	3,209,892
Special	927,939	-	-	927,939
Other	813,548	-	187,368	1,000,916
	<u>4,801,887</u>	<u>-</u>	<u>336,860</u>	<u>5,138,747</u>
Support services:				
Student	100,752	-	-	100,752
Instructional staff	176,375	-	-	176,375
Administration	577,836	-	-	577,836
Operation and maintenance of plant	531,711	-	63,612	595,323
Transportation	279,887	-	37,949	317,836
	<u>1,666,561</u>	<u>-</u>	<u>101,561</u>	<u>1,768,122</u>
Other expenditures:				
Facilities acquisition	-	63,000	176,073	239,073
Long-term debt:				
Principal	-	-	431,767	431,767
Interest and fiscal charges	-	-	103,027	103,027
AEA flowthrough	289,465	-	-	289,465
	<u>289,465</u>	<u>63,000</u>	<u>710,867</u>	<u>1,063,332</u>
Total expenditures	<u>6,757,913</u>	<u>63,000</u>	<u>1,149,288</u>	<u>7,970,201</u>
Excess (deficiency) of revenues over (under) expenditures	<u>621,892</u>	<u>338,263</u>	<u>(354,623)</u>	<u>605,532</u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Other financing sources (uses):				
Operating transfers in	-	-	311,906	311,906
Operating transfers out	-	(311,906)	-	(311,906)
Total other financing sources (uses)	-	(311,906)	311,906	-
Net change in fund balances	621,892	26,357	(42,717)	605,532
Fund balances beginning of year	610,798	741,229	426,287	1,778,314
Fund balances end of year	<u>1,232,690</u>	<u>767,586</u>	<u>383,570</u>	<u>2,383,846</u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		605,532
<b>Amounts reported for governmental activities in the Statement of Activities are different because:</b>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:		
Expenditures for capital assets	197,717	
Depreciation expense	<u>(422,311)</u>	(224,594)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		
		32,057
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		431,767
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		
		(388)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits	103,412	
Other postemployment benefits	<u>(32,954)</u>	70,458
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		
		<u>(874)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>913,958</u></u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2010

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	5,168	6,446
Accounts receivable	1,328	-
Inventories	15,227	-
Capital assets, net of accumulated depreciation	6,867	-
	<u>28,590</u>	<u>6,446</u>
<b>Total assets</b>	<u>28,590</u>	<u>6,446</u>
<b>Liabilities</b>		
Accounts payable	99	2,532
Interfund payable	2,160	-
Salaries and benefits payable	3,040	-
Deferred revenue	5,016	-
Net OPEB liability	3,531	-
	<u>13,846</u>	<u>2,532</u>
<b>Total liabilities</b>	<u>13,846</u>	<u>2,532</u>
<b>Net assets</b>		
Invested in capital assets	6,867	-
Unrestricted	7,877	3,914
	<u>14,744</u>	<u>3,914</u>
<b>Total net assets</b>	<u>14,744</u>	<u>3,914</u>

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

Year ended June 30, 2010

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	<u>\$</u>	<u>\$</u>
Operating revenue:		
Local sources:		
Charges for service	<u>235,419</u>	<u>44,745</u>
Operating expenses:		
Salaries	121,863	-
Benefits	66,665	45,620
Purchased services	1,962	-
Supplies	220,272	-
Depreciation	2,900	-
Total operating expenses	<u>413,662</u>	<u>45,620</u>
Operating gain (loss)	<u>(178,243)</u>	<u>(875)</u>
Non-operating revenues:		
State sources	3,639	-
Federal sources	162,638	-
Interest income	5	1
Total non-operating revenues	<u>166,282</u>	<u>1</u>
Change in net assets	(11,961)	(874)
Net assets beginning of year	<u>26,705</u>	<u>4,788</u>
Net assets end of year	<u><u>14,744</u></u>	<u><u>3,914</u></u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2010

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	221,234	-
Cash received from sale of services and equipment	14,342	-
Cash received from sale of services to other funds	-	44,745
Cash payments to employees for services	(184,908)	(48,250)
Cash payments to suppliers for goods or services	(194,141)	-
Net cash used by operating activities	<u>(143,473)</u>	<u>(3,505)</u>
Cash flows from non-capital financing activities:		
State grants received	3,639	-
Federal grants received	133,166	-
Net cash provided by non-capital financing activities	<u>136,805</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Loans from (repaid) other funds	<u>(206)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>5</u>	<u>1</u>
Net decrease in cash and cash equivalents	(6,869)	(3,504)
Cash and cash equivalents at beginning of year	<u>12,037</u>	<u>9,950</u>
Cash and cash equivalents at end of year	<u><u>5,168</u></u>	<u><u>6,446</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(178,243)	(875)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	29,472	-
Depreciation	2,900	-
Decrease (increase) in inventories	(839)	-
Decrease (increase) in accounts receivable	1,146	-
(Decrease) increase in accounts payable	(540)	(2,630)
(Decrease) increase in salaries and benefits payable	89	-
(Decrease) increase in deferred revenue	(989)	-
(Decrease) increase in other postemployment benefits	3,531	-
Net cash used by operating activities	<u>(143,473)</u>	<u>(3,505)</u>

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

During the year ended June 30, 2010, the District received \$29,472 of federal commodities.

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Fund

June 30, 2010

	Private Purpose Trust Scholarship
	<u>\$</u>
<b>Assets</b>	
Cash and pooled investments	31,843
Accrued interest receivable	<u>559</u>
<b>Total Assets</b>	32,402
<b>Liabilities</b>	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u><u>32,402</u></u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund

Year ended June 30, 2010

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	4,834
Interest	792
Total additions	<u>5,626</u>
Deductions:	
Support services:	
Supplies	265
Scholarships awarded	9,060
Total deductions	<u>9,325</u>
Change in net assets	(3,699)
Net assets beginning of year	<u>36,101</u>
Net assets end of year	<u><u>32,402</u></u>

# SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2010

### 1. Summary of Significant Accounting Policies

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

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

#### A. Reporting Entity

For financial reporting purposes, South Hamilton Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The South Hamilton Community School District Foundation is included in the financial statements, as required by section 11.6 of the Code of Iowa. The Foundation is the discretely presented component unit.

The South Hamilton Community School District Foundation was established to maintain, develop, increase and extend the facilities and services of the South Hamilton Community School District, and to provide broader education service opportunities to its students, staff, faculty and the residents of the South Hamilton Community School District. Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns.

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

#### B. Basis of Presentation

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

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

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

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

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

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

The District's nonmajor proprietary funds include the Enterprise School Nutrition Fund and the Enterprise Agricultural Science Technology Student Construction Fund. The Nutrition Fund is used to account for the food service operations of the District and the Agricultural Science Technology Student Construction Fund is used to account for student construction projects held for resale.

The District's Internal Service Fund is also reported as a proprietary fund. The Internal Service Fund is used to account for the District's employee flexible benefit plan.

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

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

### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 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. Proprietary fund inventories include \$1,850 of completed goods held for resale.

Capital Assets – Capital assets, which include property, furniture and 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.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	25,000
Improvements other than buildings	25,000
Intangibles	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Intangibles	3-20 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

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

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

**E. Budgeting and Budgetary Control**

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

**2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2010, the District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

**3. Interfund Receivables and Payables**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
Nonmajor Governmental Fund: Student Activity Fund	Nonmajor Enterprise: Agri. Science Tech. Student Constr.	2,160

The Student Activity Fund has loaned the Agri. Science Tech. Student Construction Fund money for cash flow.

**4. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
		\$
Nonmajor Governmental Funds: Debt Service Fund	Capital Projects Fund	311,906

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**5. Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	39,301	-	-	39,301
Capital assets being depreciated:				
Buildings	8,176,535	109,538	-	8,286,073
Improvements other than buildings	907,821	6,591	-	914,412
Furniture and equipment	2,433,830	81,588	-	2,515,418
Total capital assets being deprec.	<u>11,518,186</u>	<u>197,717</u>	-	<u>11,715,903</u>
Less accumulated depreciation for:				
Buildings	2,915,843	164,582	-	3,080,425
Improvements other than buildings	368,408	32,826	-	401,234
Furniture and equipment	1,573,192	224,903	-	1,798,095
Total accumulated depreciation	<u>4,857,443</u>	<u>422,311</u>	-	<u>5,279,754</u>
Total capital assets being depreciated, net	<u>6,660,743</u>	<u>(224,594)</u>	-	<u>6,436,149</u>
Governmental activities capital assets, net	<u>6,700,044</u>	<u>(224,594)</u>	-	<u>6,475,450</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	123,964	-	-	123,964
Less accumulated depreciation	114,197	2,900	-	117,097
Business type activities capital assets, net	<u>9,767</u>	<u>(2,900)</u>	-	<u>6,867</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	2,588
Support services:	552
Instructional staff services	164,278
Operation and maintenance of plant services	14,394
Transportation	43,091
	<u>224,903</u>
Unallocated depreciation	<u>197,408</u>
Total depreciation expense – governmental activities	<u>422,311</u>
Business type activities:	
Food services	<u>2,900</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	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
General obligation bonds	2,700,000	-	295,000	2,405,000	300,000
Capital leases	542,767	-	136,767	406,000	134,552
Termination benefits	120,179	35,859	139,271	16,767	16,767
Net OPEB liability	-	32,954	-	32,954	-
<b>Total</b>	<b>3,362,946</b>	<b>68,813</b>	<b>571,038</b>	<b>2,860,721</b>	<b>451,319</b>
	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Business type activities:					
Net OPEB liability	-	3,531	-	3,531	-

### Termination Benefits

The District offered a voluntary early retirement plan to its employees during fiscal years 2010 and 2009. Eligible employees must have completed at least twenty years of continuous service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits for certified staff are equal to 100% of the difference between the B.A. lane step 2 salary in the last year of employment and the employee's position on the salary schedule in the last year of employment.

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

At June 30, 2010, the District has obligations to two participants with a total liability of \$16,767. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$139,271.

### General Obligation Bonds

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2011	4.00	300,000	90,737	390,737
2012	4.00	315,000	78,738	393,738
2013	4.00	330,000	66,138	396,138
2014	3.65	340,000	54,422	394,422
2015	3.70	360,000	42,013	402,013
2016-2017	3.75-3.80	760,000	43,322	803,322
		<u>2,405,000</u>	<u>375,370</u>	<u>2,780,370</u>

### Capital Leases

The District has leased computers under capital leases. The following is a schedule of future minimum lease payments under the capital leases, together with the net present value of the minimum lease payments as of June 30, 2010.

	Year Ending June 30,	Amount
		\$
	2011	136,906
	2012	136,906
	2012	136,906
Minimum lease payments		410,718
Less amount representing interest		4,718
Present value of minimum lease payments		406,000

### **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 covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$276,963, \$287,407 and \$264,292 respectively, equal to the required contributions for each year.

### **8. Other Postemployment Benefits (OPEB)**

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 and prescription drug benefits for retirees and their spouses. There are 101 active and 9 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Seabury & Smith Inc. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit 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 that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual 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	46,630
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>46,630</u>
Contributions made	<u>10,145</u>
Increase in net OPEB obligation	36,485
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>36,485</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.

For the year ended June 30, 2010, the District contributed \$10,145 to the medical plan. Plan members eligible for benefits contributed \$35,367, or 78% of the premium costs.

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:

<u>Year Ended</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u> \$
June 30, 2010	46,630	22%	36,485

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 \$388,098, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$388,098. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,960,000, and the ratio of the UAAL to covered payroll was 9.8%. 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 events 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 the 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 2003, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized over 30 years.

**9. Risk Management**

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

**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 \$289,465 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. Lease Commitment**

The District entered into a five year contract to lease copiers in fiscal year 2009. The payments the District will make over the next three years are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Lease Payment</u>
2011	\$ 18,036
2012	18,036
2013	16,533

**12. Categorical Funding**

The District's reserved fund balance for categorical funding at June 30, 2010 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
	\$
Returning dropout and dropout prevention program	269,231
Teacher salary supplement	33,102
Home school assistance program	52,198
Educator quality, professional development	19,500
Core curriculum	26,559
At risk	33,765
Market factor	8,023
ICCC tech grant	9,307
Teacher mentoring	3,689
Administrator mentoring	750
	<u>456,124</u>

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2010

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
<b>Revenues:</b>						
Local sources	5,045,781	235,424	5,281,205	5,538,889	5,538,889	(257,684)
State sources	2,849,470	3,639	2,853,109	3,583,588	3,583,588	(730,479)
Federal sources	680,482	162,638	843,120	590,000	590,000	253,120
Total revenues	<u>8,575,733</u>	<u>401,701</u>	<u>8,977,434</u>	<u>9,712,477</u>	<u>9,712,477</u>	<u>(735,043)</u>
<b>Expenditures/Expenses:</b>						
Instruction	5,138,747	12,331	5,151,078	6,312,972	6,312,972	1,161,894
Support services	1,768,122	6,329	1,774,451	2,312,991	2,312,991	538,540
Non-instructional programs	-	395,002	395,002	512,607	512,607	117,605
Other expenditures	1,063,332	-	1,063,332	1,166,068	1,166,068	102,736
Total expenditures/expenses	<u>7,970,201</u>	<u>413,662</u>	<u>8,383,863</u>	<u>10,304,638</u>	<u>10,304,638</u>	<u>1,920,775</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	605,532	(11,961)	593,571	(592,161)	(592,161)	1,185,732
Balance beginning of year	<u>1,778,314</u>	<u>26,705</u>	<u>1,805,019</u>	<u>1,659,080</u>	<u>1,659,080</u>	<u>145,939</u>
Balance end of year	<u><u>2,383,846</u></u>	<u><u>14,744</u></u>	<u><u>2,398,590</u></u>	<u><u>1,066,919</u></u>	<u><u>1,066,919</u></u>	<u><u>1,331,671</u></u>

## SOUTH HAMILTON 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 Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

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

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT  
Schedule of Funding Progress for the Retiree Health Plan  
Required Supplementary Information

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 ) %
July 1, 2009	-	388,098	388,098	0.0%	3,960,000	9.8%

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

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2010

Assets	Special Revenue Funds				Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Debt Service	
	\$	\$	\$	\$	
Cash and pooled investments	74,094	48,043	237,467	16,045	375,649
Receivables:					
Property tax:					
Delinquent	2,155	-	2,467	2,907	7,529
Succeeding year	160,000	-	195,281	216,239	571,520
Accounts	-	3,301	-	-	3,301
Interfund receivable	-	2,160	-	-	2,160
<b>Total assets</b>	<b>236,249</b>	<b>53,504</b>	<b>435,215</b>	<b>235,191</b>	<b>960,159</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Accounts payable	-	5,069	-	-	5,069
Deferred revenue:					
Succeeding year property tax	160,000	-	195,281	216,239	571,520
Total liabilities	160,000	5,069	195,281	216,239	576,589
Fund balances:					
Reserved for debt service	-	-	-	18,952	18,952
Unreserved fund balance reported in:					
Special Revenue Funds	76,249	48,435	239,934	-	364,618
Total fund balances	76,249	48,435	239,934	18,952	383,570
<b>Total liabilities and fund balances</b>	<b>236,249</b>	<b>53,504</b>	<b>435,215</b>	<b>235,191</b>	<b>960,159</b>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Special Revenue Funds				Total
	Management	Student	Physical	Debt	
	Levy	Activity	Plant and	Service	
	Fund	Equipment			
	\$	\$	Levy	\$	\$
Revenues:					
Local sources:					
Local tax	148,730	-	187,024	221,506	557,260
Other	15,003	196,225	2,083	46	213,357
State sources	76	-	89	105	270
Federal sources	-	-	23,778	-	23,778
Total revenues	<u>163,809</u>	<u>196,225</u>	<u>212,974</u>	<u>221,657</u>	<u>794,665</u>
Expenditures:					
Current:					
Instruction:					
Regular	149,492	-	-	-	149,492
Other	-	187,368	-	-	187,368
Support services:					
Operation and maintenance	57,612	-	6,000	-	63,612
Transportation	37,949	-	-	-	37,949
Other expenditures:					
Facilities acquisition	-	-	176,073	-	176,073
Long-term debt:					
Principal	-	-	-	431,767	431,767
Interest and fiscal charges	-	-	-	103,027	103,027
Total expenditures	<u>245,053</u>	<u>187,368</u>	<u>182,073</u>	<u>534,794</u>	<u>1,149,288</u>
Excess (deficiency) of revenues over (under) expenditures	(81,244)	8,857	30,901	(313,137)	(354,623)
Other financing sources (uses):					
Operating transfers in	-	-	-	311,906	311,906
Net change in fund balance	(81,244)	8,857	30,901	(1,231)	(42,717)
Fund balances beginning of year	<u>157,493</u>	<u>39,578</u>	<u>209,033</u>	<u>20,183</u>	<u>426,287</u>
Fund balances end of year	<u>76,249</u>	<u>48,435</u>	<u>239,934</u>	<u>18,952</u>	<u>383,570</u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets  
Nonmajor Enterprise Funds

June 30, 2010

	School Nutrition	Agri. Science Tech. Student Constr.	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	5,168	-	5,168
Accounts receivable	556	772	1,328
Inventories	6,727	8,500	15,227
Capital assets, net of accumulated depreciation	6,867	-	6,867
	<u>19,318</u>	<u>9,272</u>	<u>28,590</u>
<b>Total assets</b>			
<b>Liabilities</b>			
Accounts payable	12	87	99
Interfund payable	-	2,160	2,160
Salaries and benefits payable	3,040	-	3,040
Deferred revenue	5,016	-	5,016
Net OPEB liability	3,531	-	3,531
	<u>11,599</u>	<u>2,247</u>	<u>13,846</u>
<b>Total liabilities</b>			
<b>Net assets</b>			
Invested in capital assets	6,867	-	6,867
Unrestricted	852	7,025	7,877
	<u>7,719</u>	<u>7,025</u>	<u>14,744</u>
<b>Total net assets</b>			

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenses, and Changes in Fund Net Assets  
Nonmajor Enterprise Funds

Year ended June 30, 2010

	School Nutrition	Agri. Science Tech. Student Constr.	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for service	222,291	13,128	235,419
Operating expenses:			
Salaries	121,863	-	121,863
Benefits	66,665	-	66,665
Purchased services	1,962	-	1,962
Supplies	207,942	12,330	220,272
Depreciation	2,900	-	2,900
Total operating expenses	401,332	12,330	413,662
Operating gain (loss)	(179,041)	798	(178,243)
Non-operating revenue:			
State sources	3,639	-	3,639
Federal sources	162,638	-	162,638
Interest income	5	-	5
Total non-operating revenue	166,282	-	166,282
Change in net assets	(12,759)	798	(11,961)
Net assets beginning of year	20,478	6,227	26,705
Net assets end of year	7,719	7,025	14,744

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows  
Nonmajor Enterprise Funds

Year ended June 30, 2010

	School Nutrition	Agri. Science Tech. Student Constr.	Total
	\$	\$	\$
<b>Cash flows from operating activities:</b>			
Cash received from sale of lunches and breakfasts	221,234	-	221,234
Cash received from sale of services and equipment		14,342	14,342
Cash payments to employees for services	(184,908)	-	(184,908)
Cash payments to suppliers for goods or services	(180,005)	(14,136)	(194,141)
Net cash provided by (used by) operating activities	<u>(143,679)</u>	<u>206</u>	<u>(143,473)</u>
<b>Cash flows from non-capital financing activities:</b>			
State grants received	3,639	-	3,639
Federal grants received	133,166	-	133,166
Net cash provided by non-capital financing activities	<u>136,805</u>	<u>-</u>	<u>136,805</u>
<b>Cash flows from capital and related financing activities:</b>			
Loans from (repaid to) other funds	-	(206)	(206)
<b>Cash flows from investing activities:</b>			
Interest on investments	5	-	5
Net increase (decrease) in cash and cash equivalents	(6,869)	-	(6,869)
Cash and cash equivalents at beginning of year	12,037	-	12,037
Cash and cash equivalents at end of year	<u>5,168</u>	<u>-</u>	<u>5,168</u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>			
Operating gain (loss)	(179,041)	798	(178,243)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	29,472	-	29,472
Depreciation	2,900	-	2,900
Decrease (increase) in inventories	461	(1,300)	(839)
Decrease (increase) in accounts receivable	(68)	1,214	1,146
(Decrease) increase in accounts payable	(34)	(506)	(540)
(Decrease) increase in salaries and benefits payable	89	-	89
(Decrease) increase in deferred revenue	(989)	-	(989)
(Decrease) increase in other postemployment benefits	3,531	-	3,531
Net cash provided by (used by) operating activities	<u>(143,679)</u>	<u>206</u>	<u>(143,473)</u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Dramatics	1,468	342	2,094	(284)
FFA	5,638	28,876	25,837	8,677
Technology club	120	-	-	120
Student council	206	10,715	9,961	960
National Honor Society	311	190	331	170
Spanish club	286	-	-	286
Yearbook	1,341	13,445	13,809	977
Hamilton holidays	8,391	4,802	3,755	9,438
Athletics	2,374	64,748	59,948	7,174
Concessions	(4,206)	33,410	30,319	(1,115)
Dance/drill team	8,369	10,023	8,580	9,812
District football	515	925	516	924
Class of 2009	317	-	317	-
Class of 2010	248	2,120	2,368	-
Swing choir	123	-	75	48
H.S. band	1,310	100	-	1,410
Elementary vocal	283	150	142	291
K-6 student council	5,017	332	1,589	3,760
M.S. band	564	-	371	193
7-8 student council	2,738	286	1,044	1,980
Springbrook trip	-	1,123	1,123	-
Prom	3,882	24,558	25,139	3,301
Interest	283	80	50	313
	<u>39,578</u>	<u>196,225</u>	<u>187,368</u>	<u>48,435</u>
Total	<u>39,578</u>	<u>196,225</u>	<u>187,368</u>	<u>48,435</u>

## SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

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

For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$
Revenues:							
Local sources:							
Local tax	3,922,867	3,537,132	3,263,863	3,240,909	3,067,266	2,885,750	2,917,977
Tuition	740,360	747,184	887,860	721,140	236,917	319,458	317,993
Other	382,554	342,392	423,066	455,173	312,855	300,947	297,132
Intermediate sources	-	15,000	-	-	-	-	-
State sources	2,849,470	3,582,950	3,598,523	3,295,233	3,132,214	2,921,344	2,590,845
Federal sources	680,482	317,092	226,821	212,030	158,562	178,751	152,129
Total revenues	<u>8,575,733</u>	<u>8,541,750</u>	<u>8,400,133</u>	<u>7,924,485</u>	<u>6,907,814</u>	<u>6,606,250</u>	<u>6,276,076</u>
Expenditures:							
Instruction:							
Regular instruction	3,209,892	3,317,658	3,475,832	3,252,168	2,766,224	2,490,516	2,399,336
Special instruction	927,939	1,006,863	912,705	758,079	588,247	620,431	824,936
Other instruction	1,000,916	923,812	924,604	871,040	866,266	802,457	616,770
Support services:							
Student services	100,752	89,126	117,465	131,019	127,515	133,739	127,009
Instructional staff services	176,375	143,776	186,406	154,803	172,749	182,771	175,952
Administration services	577,836	611,443	617,842	596,473	621,724	600,986	585,665
Operation and maintenance	595,323	565,863	580,907	605,204	536,343	451,596	423,233
Transportation services	317,836	434,402	380,207	385,830	350,990	285,321	335,534
Non-instructional programs	-	-	2,973	-	-	-	5,337
Other expenditures:							
Facilities acquisition	239,073	651,266	542,784	174,814	467,133	260,552	113,523
Long-term debt:							
Principal	431,767	281,782	312,668	284,930	277,040	228,476	211,655
Interest and other charges	103,027	114,103	127,524	166,885	178,287	188,023	196,715
AEA flowthrough	289,465	269,863	257,585	246,409	230,051	218,517	217,041
Total expenditures	<u>7,970,201</u>	<u>8,409,957</u>	<u>8,439,502</u>	<u>7,627,654</u>	<u>7,182,569</u>	<u>6,463,385</u>	<u>6,232,706</u>

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT  
Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	17,057
National School Lunch Program (non-cash)	10.555	FY10	29,472
National School Lunch Program	10.555	FY10	<u>109,094</u>
			<u>155,623</u>
Team Nutrition Grant	10.574	FY10	7,015
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY10	51,436
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	<u>14,946</u>
			<u>66,382</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	FY10	1,571
Fund for the Improvement of Education	84.215	FY10	23,778
Improving Teacher Quality State Grants	84.367	FY10	21,679
Grants for State Assessments and Related Activities	84.369	FY10	4,778
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY10	369,925
Prairie Lakes Area Education Agency 8:			
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	FY10	35,274
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	<u>48,226</u>
			<u>83,500</u>
Southeast Webster-Grand Community School District:			
Career and Technical Education - Basic Grants to States	84.048	FY10	<u>4,546</u>
Total			<u><u>738,797</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of South Hamilton Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of South Hamilton Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 19, 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 South Hamilton Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Hamilton Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of South Hamilton Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

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 and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items 10-II-A and 10-II-B to be material weaknesses.

### Compliance and Other Matters

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

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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of South Hamilton Community School District and other parties to whom South Hamilton Community School District may report, 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 South Hamilton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

January 19, 2011

Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

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

Compliance

We have audited South Hamilton Community School District's compliance with the types of compliance requirements described in the (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal programs for the year ended June 30, 2010. South Hamilton Community School District's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of South Hamilton Community School District's management. Our responsibility is to express an opinion on South Hamilton Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about South Hamilton Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on South Hamilton Community School District's compliance with those requirements.

In our opinion, South Hamilton Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of South Hamilton Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered South Hamilton Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for

the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Hamilton Community School District's internal control over compliance.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 10-III-A.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

South Hamilton Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit South Hamilton Community School District's response and, accordingly, we express no opinion on the response.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of South Hamilton Community School District and other parties to whom South Hamilton Community School District may report, 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.

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

January 19, 2011

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major programs was disclosed by the audit of the financial statements. No material weaknesses were reported.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.394 – ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) South Hamilton Community School District did not qualify as a low-risk auditee.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

10-II-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation and posting of general journal entries, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

District Response: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

CFDA Number 84.394: ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants,  
Recovery Act

Federal Award Year: 2010

U.S. Department of Education

Passed through the Iowa Department of Education

10-III-A Accounting for Expenditures: ARRA State Fiscal Stabilization program expenditures were not charged directly to specific expense accounts as the expenditures were incurred. ARRA program expenditures were reclassified to ARRA expenditure accounts at year-end.

Recommendation: The District should record federal expenditures to specific federal expenditures accounts as the expenditures are incurred and the District should document administrative approval for the expenditures charged to federal programs

District Response: We will revise our procedures for recording and documenting ARRA State Fiscal Stabilization expenditures.

Conclusion: Response accepted.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

- 10-IV-A Certified Budget: Expenditures for the year ended June 30, 2010 did not exceed the amounts budgeted.
- 10-IV-B Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 10-IV-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted.
- 10-IV-D Business Transactions: We noted the following transactions between the District and District officials or employees.

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
		\$
Marvin Ness, board member, substitute bus driver	Bus driving	1,338
Marie Johnson, board member, substitute teacher	Sub-teaching	663

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

- 10-IV-E Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 10-IV-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.
- 10-IV-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education for Certified Enrollment for October 2009, was overstated by .75 students. One student was counted at a 1.15 weighting when it should have been .4.

Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

District Response: We have contacted these departments.

Conclusion: Response accepted.

- 10-IV-H Supplementary Weighting: No variances regarding supplementary weighting certified to the Department of Education were noted.
- 10-IV-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (continued):

- 10-IV-J Certified Annual Report: The Certified Annual Report was certified timely with the Iowa Department of Education.
- 10-IV-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- 10-IV-L 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 revenue. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

	\$	\$
Beginning balance		741,229
Statewide sales, services and use tax revenue		396,202
Interest revenue		5,061
Expenditures/transfers out:		
School infrastructure:		
Equipment	40,841	
Buildings and building improvements	22,159	
General obligation debt	311,906	374,906
Ending balance		767,586

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
	\$	\$
Debt service Levy	.77136	175,000
Physical plant and equipment levy	.97500	221,202

- 10-IV-M Deficit Balances: The Student Activity Fund has two account with a deficit balances at June 30, 2010.

Recommendation: The District should continue to monitor this account and investigate alternatives to eliminate the deficit.

SOUTH HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (continued):

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

Conclusion: Response accepted.

10-IV-N Interfund Loans: On October 22, 2009 the Iowa Department of Education issued a revised Declaratory Order covering interfund loans. The Order states that all loans between funds must be approved by the board of directors, interest must be paid on the interfund loan and the loan must be repaid before the October 1, after each year-end.

We noted that the Agri. Science Tech Enterprise Fund shares a checking account with the Student Activity Fund. The Agri. Science Tech Enterprise Fund runs a cash deficit in the pooled bank account. The Agri. Science Tech Enterprise Fund cash deficit is an interfund loan.

Recommendation: The District should follow the October 22, 2009 Declaratory Order with respect to the interfund loan to the Agri. Science Tech Enterprise Fund.

District Response: We will investigate a permanent transfer to the Agri. Science Tech Enterprise Fund so that it will have cash for operations.

Conclusion: Response accepted.