

HAMILTON UNIFIED SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2012



HAMILTON UNIFIED SCHOOL DISTRICT
OF GLENN COUNTY

HAMILTON CITY, CALIFORNIA

JUNE 30, 2012

The Hamilton Unified School District was established on July 1, 2009 upon the unification of Hamilton High School District and Hamilton Elementary School District. The boundaries of the former districts changed in accordance with the approved plan of unification. The District is located in Glenn County and is currently operating one high school, one elementary school, two community day schools, one continuation high school, one preschool, and an adult education program.

GOVERNING BOARD

Member	Office	Term Expires
Tomas Loera	President	December 2014
Tim Anderson	Clerk	December 2014
Gabriel Leal	Member	December 2012
Judy Twede	Member	December 2012
Bill Boone	Member	December 2012

DISTRICT ADMINISTRATORS

Charles Tracy
Superintendent

Diane Lyon
Chief Business Official

**HAMILTON UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements	
Governmental Funds – Balance Sheet.....	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	13
Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances.....	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Fiduciary Funds – Statement of Net Assets.....	17
Notes to Financial Statements	18

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Budgetary Comparison Schedule	44
Schedule of Funding Progress	45
Notes to Required Supplementary Information.....	46

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	47
Schedule of Average Daily Attendance (ADA).....	48
Schedule of Instructional Time.....	49
Schedule of Financial Trends and Analysis	50
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	51
Combining Statements – Non-Major Governmental Funds	
Combining Balance Sheet.....	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	53
Notes to Supplementary Information.....	54

**HAMILTON UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2012**

OTHER INDEPENDENT AUDITORS' REPORTS

Independent Auditors' 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* 56

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133..... 58

Independent Auditors' Report on State Compliance 60

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results 62

Financial Statement Findings..... 63

Federal Award Findings and Questioned Costs 67

State Award Findings and Questioned Costs..... 68

Summary Schedule of Prior Audit Findings 69

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

Licensed by the California
State Board of Accountancy

Governing Board
Hamilton Unified School District
Hamilton City, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton Unified School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hamilton Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hamilton Unified School District, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2012 on our consideration of Hamilton Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 3 through 9, the budgetary comparison information on page 44, and the schedule of funding progress on page 45 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hamilton Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Christy White Associates

San Diego, California
December 4, 2012

**HAMILTON UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

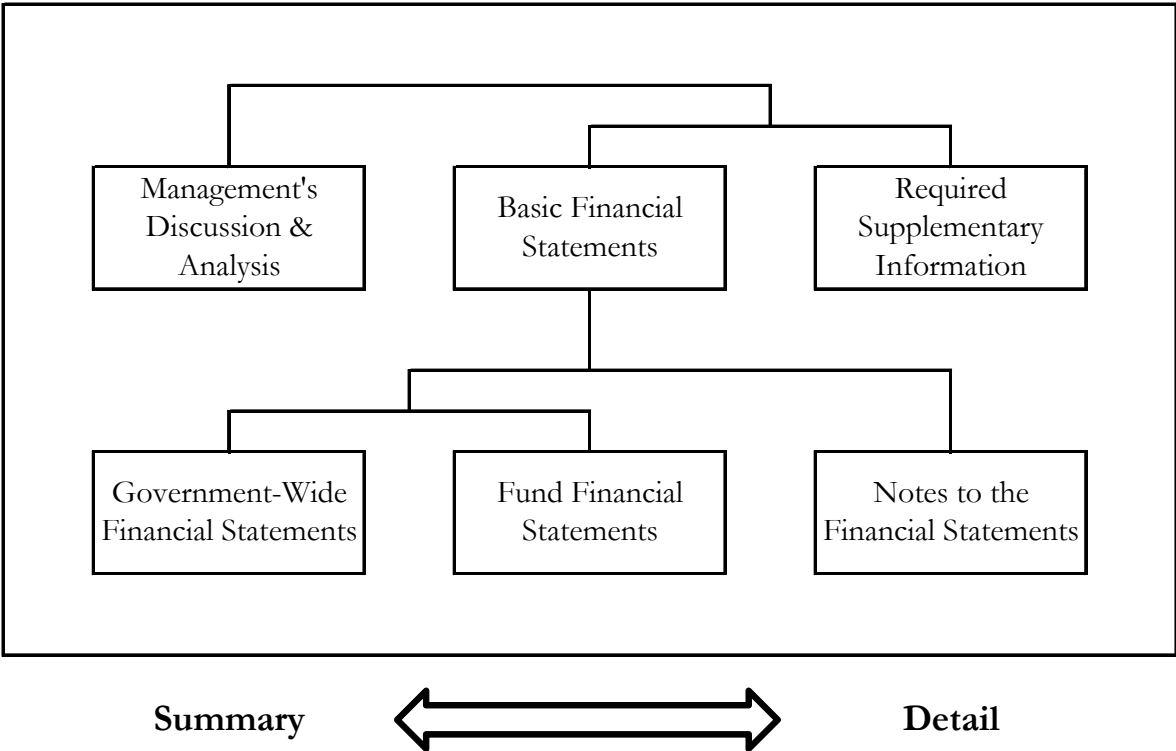
Our discussion and analysis of Hamilton Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ Total net assets were \$8,679,214 at June 30, 2012. This was an increase of \$93,844 from the prior year.
- ▶ Overall revenues were \$7,445,430 which exceeded expenses of \$7,351,586.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**HAMILTON UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

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

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Revenue limit funding and federal and state grants finance most of these activities.

**HAMILTON UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

The District's combined net assets were \$8,679,214 at June 30, 2012, as reflected in Table A-1 below. Of this amount, \$2,265,095 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use those net assets for day-to-day operations.

Table A-1

	Governmental Activities		
	2012	2011	Net Change
ASSETS			
Current and other assets	\$ 3,864,672	\$ 3,550,909	\$ 313,763
Capital assets	6,301,193	6,673,545	(372,352)
Total Assets	10,165,865	10,224,454	(58,589)
LIABILITIES			
Current liabilities	355,543	526,654	171,111
Long-term liabilities	1,131,108	1,112,430	(18,678)
Total Liabilities	1,486,651	1,639,084	152,433
NET ASSETS			
Invested in capital assets, net of related debt	5,414,993	7,557,533	(2,142,540)
Restricted	999,126	966,129	32,997
Unrestricted	2,265,095	61,708	2,203,387
Total Net Assets	\$ 8,679,214	\$ 8,585,370	\$ 93,844

**HAMILTON UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table A-2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly, so you can see our total revenues, expenses, and special items for the year.

Table A-2

	Governmental Activities		
	2012	2011	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 102,681	\$ 69,379	\$ 33,302
Operating grants and contributions	1,302,247	1,205,830	96,417
General revenues			
Property taxes	1,165,350	1,162,756	2,594
Unrestricted federal and state aid	4,483,600	4,661,739	(178,139)
Other	391,552	406,544	(14,992)
Total Revenues	7,445,430	7,506,248	(60,818)
EXPENSES			
Instruction	4,137,994	4,016,089	121,905
Instruction-related services	949,548	918,386	31,162
Pupil services	777,885	691,954	85,931
General administration	368,272	531,654	(163,382)
Plant services	705,943	702,815	3,128
Ancillary and community services	7,690	6,550	1,140
Debt service	66,380	53,869	12,511
Other Outgo	337,874	420,298	(82,424)
Total Expenses	7,351,586	7,341,615	9,971
Change in net assets	93,844	164,633	(70,789)
Net Assets - Beginning	8,585,370	8,420,737	164,633
Net Assets - Ending	\$ 8,679,214	\$ 8,585,370	\$ 93,844

**HAMILTON UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets (continued)

The cost of all our governmental activities this year was \$7,351,586 (refer to Table A-3). The amount that our taxpayers ultimately financed for these activities through taxes was only \$1,165,350 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$5,785,847).

	<u>Total cost of services</u>	<u>Net cost of services</u>
Instruction	\$ 4,137,994	\$ 3,388,806
Instruction-related services	949,548	834,569
Pupil services	777,885	248,066
General administration	368,272	363,706
Plant services	705,943	699,567
Ancillary and community services	7,690	7,690
Debt service	66,380	66,380
Transfers to other agencies	337,874	337,874
Total Expenses	<u>\$ 7,351,586</u>	<u>\$ 5,946,658</u>

FINANCIAL ANALYSIS OF THE DISTRICT’S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$3,596,333, which is more than last year’s ending fund balance of \$3,128,515. The District’s General Fund had \$431,719 more in operating revenues than expenditures for the year ended June 30, 2012.

CURRENT YEAR BUDGET 2011-12

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a monthly basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District’s financial projections and current budget based on State and local financial information.

**HAMILTON UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011-12 the District had invested \$6,301,193 in capital assets, net of accumulated depreciation.

Table A-4

	Governmental Activities		
	2012	2011	Net Change
CAPITAL ASSETS			
Land	\$ 293,887	\$ 293,887	\$ -
Land improvements	571,482	548,393	23,089
Buildings & improvements	8,913,816	8,907,728	6,088
Furniture & equipment	1,074,561	1,034,520	40,041
Accumulated depreciation	(4,552,553)	(4,110,983)	(441,570)
Total Capital Assets	\$ 6,301,193	\$ 6,673,545	\$ (372,352)

Long-Term Liabilities

At year-end, the District had \$1,224,080 in long-term liabilities, an increase of 0.1% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

Table A-5

	Governmental Activities		
	2012	2011	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 886,200	\$ 910,000	\$ (23,800)
PARS retirement	26,512	39,768	(13,256)
Compensated absences	24,794	37,511	(12,717)
CalSTRS retirement	129,870	75,631	54,239
Net OPEB obligation	156,704	160,029	(3,325)
Total Long-term Liabilities	\$ 1,224,080	\$ 1,222,939	\$ 1,141

**HAMILTON UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

- At the state level, the budget situation continues to reflect challenging economic times. A major key to higher funding for education is the recovery of the economy. There were two tax initiatives on the November 2012 ballot – the Governor's Proposition 30 and a rival tax initiative, Proposition 38. Since the Governor's proposal was approved by voters in November 2012, K-12 spending will remain flat at roughly the 2011-12 level. State categorical program flexibility continues for the 2011-12 and 2012-13 fiscal years with no anticipated changes. School districts are currently authorized to use funding from Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed through 2013-14 and school agencies maintain the flexibility to shorten the school year until 2014-15.
- Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2012-13 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the District's Business Office, Hamilton Unified School District, 620 Canal Street, PO Box 488; Hamilton City, CA 95951.

**HAMILTON UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,094,300
Accounts receivable	1,735,736
Inventory	12,990
Deferred charges	21,646
Capital assets, not depreciated	293,887
Capital assets, net of accumulated depreciation	6,007,306
Total Assets	10,165,865
LIABILITIES	
Deficit cash	13,086
Accrued liabilities	225,864
Deferred revenue	23,621
Long-term liabilities, current portion	92,972
Long-term liabilities, non-current portion	1,131,108
Total Liabilities	1,486,651
NET ASSETS	
Invested in capital assets, net of related debt	5,414,993
Restricted for	
Capital projects	40,061
Debt service	155,205
Educational programs	803,860
Unrestricted	2,265,095
Total Net Assets	\$ 8,679,214

The accompanying notes are an integral part of these financial statements.

**HAMILTON UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 4,137,994	\$ 130	\$ 749,058	\$ (3,388,806)
Instruction-related services				
Instructional supervision and administration	5,112	-	8,134	3,022
Instructional library, media, and technology	143,729	795	67,005	(75,929)
School site administration	800,707	-	39,045	(761,662)
Pupil services				
Home-to-school transportation	142,734	-	59,154	(83,580)
Food services	523,067	101,111	369,554	(52,402)
All other pupil services	112,084	-	-	(112,084)
General administration				
All other general administration	368,272	-	4,566	(363,706)
Plant services	705,943	645	5,731	(699,567)
Ancillary services	5,000	-	-	(5,000)
Community services	2,690	-	-	(2,690)
Interest on long-term debt	66,380	-	-	(66,380)
Other Outgo	337,874	-	-	(337,874)
Total Governmental Activities	\$ 7,351,586	\$ 102,681	\$ 1,302,247	(5,946,658)
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				1,064,251
Property taxes, levied for debt service				101,099
Federal and state aid not restricted for specific purposes				4,483,600
Interest and investment earnings				9,526
Interagency revenues				234,057
Miscellaneous				147,969
Subtotal, General Revenue				6,040,502
CHANGE IN NET ASSETS				93,844
Net Assets - Beginning				8,585,370
Net Assets - Ending				\$ 8,679,214

The accompanying notes are an integral part of these financial statements.

**HAMILTON UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,552,206	\$ 542,094	\$ 2,094,300
Accounts receivable	1,632,694	103,042	1,735,736
Due from other funds	12,481	-	12,481
Stores inventory	-	12,990	12,990
Total Assets	\$ 3,197,381	\$ 658,126	\$ 3,855,507
LIABILITIES			
Deficit cash	\$ -	\$ 13,086	\$ 13,086
Accrued liabilities	201,887	8,099	209,986
Due to other funds	-	12,481	12,481
Deferred revenue	23,621	-	23,621
Total Liabilities	225,508	33,666	259,174
FUND BALANCES			
Nonspendable	10,000	12,990	22,990
Restricted	671,287	327,839	999,126
Committed	-	283,631	283,631
Assigned	320,303	-	320,303
Unassigned	1,970,283	-	1,970,283
Total Fund Balances	2,971,873	624,460	3,596,333
Total Liabilities and Fund Balances	\$ 3,197,381	\$ 658,126	\$ 3,855,507

The accompanying notes are an integral part of these financial statements.

**HAMILTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET ASSETS
JUNE 30, 2012**

Total Fund Balance - Governmental Funds \$ 3,596,333

Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:

Capital assets:

In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation:

Capital assets	\$ 10,853,746	
Accumulated depreciation	(4,552,553)	6,301,193

Unamortized costs:

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the governmental-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in net long-term debt on the statement of net assets are:

21,646

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was:

(15,878)

Long-term liabilities:

In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Total general obligation bonds	\$ 886,200	
PARS retirement	26,512	
Compensated absences	24,794	
CalSTRS retirement	129,870	
Net OPEB obligation	156,704	(1,224,080)

Total Net Assets - Governmental Activities \$ 8,679,214

The accompanying notes are an integral part of these financial statements.

**HAMILTON UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Revenue limit sources			
State aid	\$ 3,356,692	\$ -	\$ 3,356,692
Local sources	1,064,251	-	1,064,251
Transfers	11,670	-	11,670
Federal sources	581,957	385,666	967,623
Other state sources	1,196,368	212,637	1,409,005
Other local sources	423,914	212,275	636,189
Total Revenues	6,634,852	810,578	7,445,430
EXPENDITURES			
Current			
Instruction	3,654,490	150,658	3,805,148
Instruction-related services			
Instructional supervision and administration	5,112	-	5,112
Instructional library, media, and technology	183,510	-	183,510
School site administration	787,055	26,369	813,424
Pupil services			
Home-to-school transportation	59,381	-	59,381
Food services	20,891	469,425	490,316
All other pupil services	103,763	-	103,763
General administration			
All other general administration	366,122	-	366,122
Plant services	671,956	19,622	691,578
Facilities acquisition and maintenance	5,289	18,706	23,995
Ancillary services	5,000	-	5,000
Community services	2,690	-	2,690
Transfers to other agencies	337,874	-	337,874
Debt service			
Principal	-	50,000	50,000
Interest and other	-	65,899	65,899
Total Expenditures	6,203,133	800,679	7,003,812
Excess (Deficiency) of Revenues Over Expenditures	431,719	9,899	441,618
Other Financing Sources (Uses)			
Transfers In	-	53,970	53,970
Other Sources	-	886,200	886,200
Transfers Out	(53,970)	-	(53,970)
Other Uses	-	(860,000)	(860,000)
Net Financing Sources (Uses)	(53,970)	80,170	26,200
NET CHANGE IN FUND BALANCE	377,749	90,069	467,818
Fund Balance - Beginning	2,828,746	299,769	3,128,515
Prior Period Adjustment	(234,622)	234,622	-
Fund Balance - Ending	\$ 2,971,873	\$ 624,460	\$ 3,596,333

The accompanying notes are an integral part of these financial statements.

**HAMILTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Governmental Funds \$ 467,818

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	\$ 84,218	
Depreciation expense:	<u>(456,570)</u>	(372,352)

Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

910,000

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(886,200)

Debt issue costs:

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:

Issue costs incurred during the period:	\$ 22,587	
Issue costs amortized for the period:	<u>(26,953)</u>	(4,366)

The accompanying notes are an integral part of these financial statements.

**HAMILTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2012**

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 3,885

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: 12,717

Other expenditures relating to prior periods:

Certain expenditures recognized in governmental funds relating to prior periods. Typical examples are payments on structured legal settlements or retirement incentives paid over time. These expenditures are recognized in the government-wide statement of activities in the period in which the obligations were first incurred, so they must not be recognized again in the current period. Expenditures relating to prior periods were:

PARS retirement incentive:	\$ 13,256	
CalSTRS retirement incentive:	(54,239)	(40,983)

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: 3,325

Change in Net Assets of Governmental Activities

\$ 93,844

HAMILTON UNIFIED SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Agency Funds</u>
	<u>Student Body</u>
	<u>Fund</u>
ASSETS	
Cash and cash equivalents	\$ 113,219
LIABILITIES	
Due to student groups	\$ 113,219

The accompanying notes are an integral part of these financial statements.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Hamilton Unified School District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization’s relationship with the District is such that exclusion would cause the District’s financial statements to be misleading or incomplete. The District has no such component units.

C. Basis of Presentation

Government-Wide Statements. The statement of net assets and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. **Basis of Presentation** (*continued*)

Fund Financial Statements. The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (Education Code Sections 52616[b] and 52501.5[a]).

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (Education Code Section 8200 et seq.) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section 8328*).

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds (*continued*)

Special Revenue Funds (*continued*):

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

Deferred Maintenance Fund: This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections 17582–17587*). In addition, whenever the state funds provided pursuant to *Education Code Sections 17584 and 17585* (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections 17582 and 17583*).

Capital Project Funds: Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

County School Facilities Fund: This fund is established pursuant to *Education Code Section 17070.43* to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code Section 17070 et seq.*).

Special Reserve Fund for Capital Outlay Projects: This fund exists primarily to provide for the accumulation of General Fund moneys for capital outlay purposes (*Education Code Section 42840*).

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds (*continued*)

Debt Service Funds: Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus

Government-Wide and Fiduciary Financial Statements

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

All governmental-type activities of the District follow the FASB and AICPA pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, “available” means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, Liabilities, Fund Balance and Net Assets

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Inventories

Inventories are valued at historical cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

HAMILTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Liabilities, Fund Balance and Net Assets (*continued*)

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	25 – 50 years
Furniture and Equipment	15 – 20 years
Vehicles	8 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net assets.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Liabilities, Fund Balance and Net Assets (*continued*)

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Deferred Issuance Costs, Premiums, and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Liabilities, Fund Balance and Net Assets (*continued*)

Fund Balance (*continued*)

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

F. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

HAMILTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Cash in county	\$ 2,058,283	\$ -
Cash on hand and in banks	26,017	113,219
Cash in revolving fund	10,000	-
Total cash and cash equivalents	<u>\$ 2,094,300</u>	<u>\$ 113,219</u>

B. Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Glenn County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U. S. Treasury Obligations	5 years	None	None
U. S. Agency Securities	5 years	None	None
Banker’s Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$2,057,747.

HAMILTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS (continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2012, the pooled investments in the County Treasury were not rated.

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, the District's bank balance was not exposed to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 consisted of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>
Federal Government			
Categorical aid	\$ 55,131	\$ 42,882	\$ 98,013
State Government			
Apportionment	1,423,446	-	1,423,446
Categorical aid	63,119	53,772	116,891
Lottery	19,188	-	19,188
Local Government			
Other Local Sources	71,810	6,388	78,198
Total	<u>\$ 1,632,694</u>	<u>\$ 103,042</u>	<u>\$ 1,735,736</u>

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 01, 2011	Additions	Deletions	Balance June 30, 2012
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 293,887	\$ -	\$ -	\$ 293,887
Total Capital Assets not Being Depreciated	293,887	-	-	293,887
Capital assets being depreciated				
Land improvements	548,393	23,089	-	571,482
Buildings & improvements	8,907,728	6,088	-	8,913,816
Furniture & equipment	1,034,520	55,041	15,000	1,074,561
Total Capital Assets Being Depreciated	10,490,641	84,218	15,000	10,559,859
Less Accumulated Depreciation				
Land improvements	317,929	20,604	-	338,533
Buildings & improvements	3,016,318	348,626	-	3,364,944
Furniture & equipment	776,736	87,340	15,000	849,076
Total Accumulated Depreciation	4,110,983	456,570	15,000	4,552,553
Governmental Activities				
Capital Assets, net	\$ 6,673,545	\$ (372,352)	\$ -	\$ 6,301,193

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2012 were as follows:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>
Non-Major Governmental Funds	General Fund
	\$ 12,481

The Non-Major Cafeteria Fund owed the General Fund for secretarial support including partial salary and statutory benefits.

\$ 12,481

HAMILTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

Interfund transfers for the year ended June 30, 2012 consisted of the following:

<u>Interfund Transfers Out</u>	<u>Interfund Transfers In</u>
	<u>Non-Major Governmental Funds</u>
General Fund	\$ 53,970
 The General Fund transferred to the Non-Major Deferred Maintenance Fund for future deferred maintenance projects.	 \$ 53,970

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2012 consisted of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>District-Wide</u>	<u>Total Governmental Activities</u>
Payroll	\$ 97,512	\$ -	\$ -	\$ 97,512
Vendors payable	104,375	8,099	-	112,474
Unmatured interest	-	-	15,878	15,878
Total	<u>\$ 201,887</u>	<u>\$ 8,099</u>	<u>\$ 15,878</u>	<u>\$ 225,864</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2012, consisted of the following:

	<u>General Fund</u>
Federal sources	\$ 20,519
State categorical sources	3,102
Total	<u>\$ 23,621</u>

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2012 consisted of the following:

	Balance			Balance			Balance Due
	July 01, 2011	Additions	Deductions	July 01, 2011	June 30, 2012		In One Year
Governmental Activities							
General obligation bonds	\$ 910,000	\$ 886,200	\$ 910,000	\$ 886,200	\$	62,300	
Compensated absences	37,511	-	12,717	24,794		-	
PARS retirement	39,768	-	13,256	26,512		13,256	
CalSTRS retirement	75,631	63,693	9,454	129,870		17,416	
Net OPEB obligation	160,029	-	3,325	156,704		-	
Total	\$ 1,222,939	\$ 949,893	\$ 948,752	\$ 1,224,080	\$	92,972	

A. Bonded Debt

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2011	Additions	Deductions	Outstanding June 30, 2012
Election 1998, Series 1998	August 6, 1998	August 1, 2023	3.90% - 5.25%	\$1,340,000	\$ 910,000	\$ -	\$ 910,000	\$ -
2011 Refunding	August 30, 2011	August 1, 2023	4.30%	886,200	-	886,200	-	886,200
					\$ 910,000	\$ 886,200	\$ 910,000	\$ 886,200

Election 1998

In an election held April 14, 1998, the voters authorized the District to issue and sell \$1,340,000 of principal amount of general obligation bonds. These bonds were issued for the purpose of constructing and acquiring a new library and classrooms for Hamilton High School.

There was one issuance under this election, Series 1998, which was issued on August 6, 1998 with interest rates ranging from 3.90% to 4.70%. The original issuance consisted of \$430,000 in current interest serial bonds and \$910,000 in current interest term bonds. Interest accrues from August 1, 1998 and is payable semi-annually on February 1 and August 1 of each year, commencing February 1, 1999. Principal is payable annually on August 1, commencing August 1, 2000 through the final maturity date of August 1, 2023. On August 30, 2011, the District issued Refunding Notes to redeem the outstanding bonds.

2011 Refunding Notes

On August 30, 2011, the District issued \$886,200 of refunding notes. The notes were issued to redeem the outstanding Election 1998, Series 1998 bonds. The bonds were issued as current interest serial bonds and carry interest of 4.30%. The transaction resulted in an economic gain (difference between the present value of debt service on the old bonds and the new notes) of \$30,720. The principal balance outstanding on June 30, 2012 amounted to \$886,200.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 8 – LONG-TERM DEBT (continued)

B. Debt Service Requirements to Maturity – Bonds

The bonds mature through 2024 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 62,300	\$ 36,767	\$ 99,067
2014	59,000	34,159	93,159
2015	63,700	31,521	95,221
2016	63,400	28,789	92,189
2017	68,000	25,963	93,963
2018 - 2022	387,100	82,343	469,443
2023 - 2024	182,700	7,944	190,644
Total	\$ 886,200	\$ 247,486	\$ 1,133,686

C. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2012 amounted to \$24,794. This amount is included as part of long-term liabilities in the government-wide financial statements.

D. PARS retirement

In March 2010, the District entered into a supplementary retirement plan with Public Agency Retirement Services (PARS) whereby 1 employee of the District elected to take early retirement in exchange for supplementary retirement benefits. Future payments for the PARS supplementary retirement plan are as follows:

<u>Year Ended June 30,</u>	<u>Payment</u>
2013	\$ 13,256
2014	13,256
Total	\$ 26,512

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 8 – LONG-TERM DEBT (continued)

E. CalSTRS retirement

The District entered into a supplementary retirement plan with the California State Teachers’ Retirement System (CalSTRS) whereby 4 employees (2 in the 2010-11 fiscal year and 2 in the 2011-12 fiscal year) of the District elected to take early retirement in exchange for supplementary retirement benefits. Future payments for the CalSTRS retirement plan are as follows:

<u>Year Ended June 30,</u>	<u>Payment</u>
2013	\$ 27,646
2014	26,273
2015	24,899
2016	23,526
2017	22,153
2018 - 2019	48,763
Total	173,260
Less: Amount representing interest	(43,390)
Present value of minimum payments	\$ 129,870

F. Other Postemployment Benefits (OPEB)

The District follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District’s annual required contribution for the year ended June 30, 2012, was \$155,615, with net interest and other adjustments of (\$2,409) for a net OPEB cost of \$153,206. Contributions made by the District during the year were \$156,531, which resulted in a decrease to Net OPEB obligation of \$3,325. The ending OPEB balance at June 30, 2012 was \$156,704. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefit plan.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2012:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable			
Revolving cash	\$ 10,000	\$ -	\$ 10,000
Stores inventory	-	12,990	12,990
Total non-spendable	10,000	12,990	22,990
Restricted			
Educational programs	671,287	10,987	682,274
Capital projects	-	40,061	40,061
Debt service	-	155,205	155,205
All others	-	121,586	121,586
Total restricted	671,287	327,839	999,126
Committed			
Other commitments	-	283,631	283,631
Total committed	-	283,631	283,631
Assigned			
Other assignments	320,303	-	320,303
Total assigned	320,303	-	320,303
Unassigned			
Reserve for economic uncertainties	292,797	-	292,797
Remaining unassigned	1,677,486	-	1,677,486
Total unassigned	1,970,283	-	1,970,283
Total	\$ 2,971,873	\$ 624,460	\$ 3,596,333

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 4 percent of General Fund expenditures and other financing uses.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 10 –POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employees for Postemployment Benefit Plans Other Than Pension Plans*, in the 2009-2010 fiscal year under the unified status.

Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	12
Active plan members	68
Total	<u>80</u>
 Number of participating employers	 1

The District provides postemployment health care benefits based on the age and the years of service. All employees may retire with District-paid benefits at age 55 and 20 years of minimum District service. Combined services in CalSTRS or CalPERS benefits are paid until age 65.

B. Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District and District’s bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011-12 to 2012-13, the District contributed \$156,531 to the Plan, all of which was used for current premiums.

As of June 30, 2012, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of 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 accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation to the Plan:

Annual required contribution	\$	155,615
Interest on net OPEB obligation		8,001
Adjustment to annual required contribution		<u>(10,410)</u>
Annual OPEB cost (expense)		153,206
Contributions made		<u>(156,531)</u>
Decrease in net OPEB obligation		(3,325)
Net OPEB obligation, beginning of the year		<u>160,029</u>
Net OPEB obligation, end of the year	\$	<u>156,704</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2012 and the preceding two years were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2012	\$ 153,206	102%	\$ 156,704
2011	\$ 153,473	88%	\$ 160,029
2010	\$ 155,615	66%	\$ 142,285

**HAMILTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2012**

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2010	\$ -	\$ 1,415,519	\$ 1,415,519	0%	\$ 4,973,564	28%

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, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer 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 following the notes to financial statements, presents 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.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (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 that are 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.

In the July 1, 2010, actuarial valuation, the alternative measurement method was used. The actuarial assumptions included a discount rate of 5 percent per year. For medical costs a 7 percent trend rate was used and for dental and vision a 4 percent trend rate was used. A 30 year amortization period was used to allocate the liability. Because there has not been a previous valuation to comply with GASB 43 and/or 45, it was not necessary at this time for the District to make an election with respect to whether to use an “open” or “closed” amortization period; or whether to use different amortization periods for different sources of the UAAL.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS).

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2011-12	\$ 222,864	100%
2010-11	\$ 231,809	100%
2009-10	\$ 244,270	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$115,268 to CalSTRS (4.267% of salaries subject to CalSTRS in 2011-12).

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (continued)

California Public Employees’ Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012 was 10.923% of annual payroll. The contribution requirements of the plan members are established by state statute. The District’s contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2011-12	\$ 93,771	100%
2010-11	\$ 94,691	100%
2009-10	\$ 89,826	100%

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of two joint powers authorities (JPAs). The first is the California's Valued Trust to provide health and welfare benefits, and the other is the Golden State Risk Management Authority to provide property and liability insurance and workers' compensation insurance. The relationship is such that the JPAs are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these financial statements. Audited financial statements are available from the respective entities.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 14 – STRS EARLY RETIREMENT INCENTIVE

During the fiscal year ending June 30, 2012, the District offered teachers an early retirement incentive from the State Teachers' Retirement System (STRS) in anticipation of net salary savings of approximately \$551,039. 2 employees opted into the program. The District has completed its certification required by Education Code Sections 22714, 22714.5, and 44929 as summarized below:

Type of Position	Age	Service Credit	Admin Fee Plus Any Interest	Early Retirement Incentive	Retiree Salary	Retiree Benefits	Replacement Employee Salary	Replacement Employee Benefits	Number of Years	Salary and Benefits Savings	
1 Teacher	57.465	17.87	\$ 9,874	\$ 28,305	\$ 60,872	\$ -	\$ -	\$ -	5	\$ 304,360	
2 Teacher	59.532	19.68	12,344	35,388	66,518	-	-	-	5	332,590	
										Savings	636,950
										Total Costs	85,911
										Net Savings	\$ 551,039

NOTE 15 – PRIOR PERIOD RESTATEMENTS

The District implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the fiscal year 2010-11, at the time of implementation the District's Board did not elect to commit the fund balance of the Adult Education Fund or the Deferred Maintenance Fund. During 2011-12, the District's Board has chosen to commit the fund balances of the Adult Education Fund and the Deferred Maintenance Fund, the effect of which was to reclassify and restate the following balances:

	General Fund	Non-Major Governmental Funds
FUND BALANCE		
Fund Balance - June 30, 2011, as originally stated	\$ 2,828,746	\$ 299,769
Change in fund type classification per implementation of GASB Statement No. 54	(234,622)	234,622
Fund Balance - June 30, 2011, as restated	\$ 2,594,124	\$ 534,391

**REQUIRED SUPPLEMENTARY
INFORMATION**

**HAMILTON UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
Revenue limit sources				
State aid	\$ 3,270,985	\$ 3,249,479	\$ 3,356,692	\$ 107,213
Local sources	1,127,071	1,089,772	1,064,251	(25,521)
Transfers	21,445	13,566	11,670	(1,896)
Federal sources	561,619	595,484	581,957	(13,527)
Other State sources	838,099	790,527	1,081,100	290,573
Other local sources	234,118	216,798	422,577	205,779
Total Revenues	6,053,337	5,955,626	6,518,247	562,621
EXPENDITURES				
Certificated salaries	2,816,185	2,927,399	2,779,945	147,454
Classified salaries	646,542	669,287	684,140	(14,853)
Employee benefits	1,265,082	1,314,920	1,272,541	42,379
Books and supplies	343,727	563,567	273,369	290,198
Services and other operating expenditures	696,061	783,213	679,666	103,547
Capital outlay	5,000	52,289	60,330	(8,041)
Other outgo				
Excluding transfers of indirect costs	382,985	382,985	337,874	45,111
Total Expenditures	6,155,582	6,693,660	6,087,865	605,795
Excess (Deficiency) of Revenues				
Over Expenditures	(102,245)	(738,034)	430,382	1,168,416
Other Financing Sources (Uses)				
Transfers Out	-	-	(53,970)	(53,970)
NET CHANGE IN FUND BALANCE				
Fund Balance - Beginning	2,291,091	2,291,091	2,291,091	-
Fund Balance - Ending	\$ 2,188,846	\$ 1,553,057	\$ 2,667,503	\$ 1,114,446

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- On behalf payments of \$115,268 are not included in the actual revenues and expenditures reported in this schedule.
- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

See accompanying note to required supplementary information.

**HAMILTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2010	\$ -	\$ 1,415,519	\$ 1,415,519	0%	\$ 4,973,564	28%

See accompanying note to required supplementary information.

**HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District’s budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2012, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Classified salaries	\$ 669,287	\$ 684,140	\$ 14,853
Capital outlay	\$ 52,289	\$ 60,330	\$ 8,041

**SUPPLEMENTARY
INFORMATION**

**HAMILTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected Adult Education Cluster:	84.010	14329	\$ 138,645
Adult Education: Adult Basic Education & ESL	84.002A	14508	6,016
Adult Education: Adult Secondary Education	84.002A	13978	5,338
Adult Education: English Literacy and Civics Education	84.002A	14109	10,000
Subtotal Adult Education Cluster			<u>21,354</u>
Title I, Part C, Migrant Education - Regular and Summer Program	84.011	14326	5,039
Title II, Part A Cluster:			
Title II, Part A, Administrator Training	84.367	14344	981
Title II, Part A, Teacher Quality	84.367A	14341	43,439
Subtotal Title II, Part A Cluster			<u>44,420</u>
Educational Technology State Grants Cluster:			
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.318	14334	4,047
Title II, Part D, Enhancing Education Through Technology, Competitive Grants	84.318	14368	12,981
ARRA - Education Technology State Grants	84.386	15019	2,813
Subtotal Education Technology State Grants Cluster			<u>19,841</u>
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	26,546
Title V, Part A, Innovative Education Strategies	84.298A	14354	384
Education Jobs Fund	84.410	25152	173,235
Total U. S. Department of Education			<u>429,464</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	23668	102,408
National School Lunch Program	10.555	13391	226,736
Meal Supplements	10.555	13392	12,571
Commodities	10.555	*	22,597
Subtotal Child Nutrition Cluster			<u>364,312</u>
Forest Reserve Funds	10.665	10044	3,441
Total U. S. Department of Agriculture			<u>367,753</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Health Services:</i>			
Medi-Cal Administrative Activities	93.788	10060	109,031
Total U. S. Department of Health & Human Services			<u>109,031</u>
Total Federal Expenditures			<u>\$ 906,248</u>

* - PCS Number not available or not applicable

**HAMILTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
 FOR THE YEAR ENDED JUNE 30, 2012**

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	54	54
First through third	133	133
Fourth through sixth	157	157
Seventh through eighth	94	93
Total Elementary	438	437
SECONDARY		
Regular classes	278	277
Continuation education	13	12
Total Secondary	291	289
Average Daily Attendance Total	729	726

See accompanying note to supplementary information.

**HAMILTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83		1986-87		2011-12 Actual Minutes	Number of Days	Status
	Actual Minutes	Actual Minutes Reduced	Minutes Requirement	Minutes Requirement Reduced			
Kindergarten	36,750	34,300	36,000	33,600	49,960	175	Complied
Grade 1	46,375	43,283	50,400	47,040	49,960	175	Complied
Grade 2	46,375	43,283	50,400	47,040	49,960	175	Complied
Grade 3	46,375	43,283	50,400	47,040	49,960	175	Complied
Grade 4	46,375	43,283	54,000	50,400	54,335	175	Complied
Grade 5	46,375	43,283	54,000	50,400	54,335	175	Complied
Grade 6	46,375	43,283	54,000	50,400	54,335	175	Complied
Grade 7	46,375	43,283	54,000	50,400	54,353	175	Complied
Grade 8	46,375	43,283	54,000	50,400	54,353	175	Complied
Grade 9	56,912	53,118	64,800	60,480	66,085	175	Complied
Grade 10	56,912	53,118	64,800	60,480	66,085	175	Complied
Grade 11	56,912	53,118	64,800	60,480	66,085	175	Complied
Grade 12	56,912	53,118	64,800	60,480	66,085	175	Complied

See accompanying note to supplementary information.

**HAMILTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

	2013 (Budget)	2012	2011	2010
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 5,268,982	\$ 6,518,247	\$ 6,618,125	\$ 6,290,158
Expenditures And Other Financing Uses	5,555,088	6,141,835	6,183,676	6,320,318
Net change in Fund Balance	\$ (286,106)	\$ 376,412	\$ 434,449	\$ (30,160)
Ending Fund Balance	\$ 2,381,398	\$ 2,667,503	\$ 2,291,091	\$ 1,856,642
Available Reserves*	\$ 1,684,177	\$ 1,970,283	\$ 1,813,169	\$ 1,917,676
Available Reserves As A Percentage Of Outgo	30.32%	32.08%	29.32%	30.34%
Long-term Debt	\$ 1,131,108	\$ 1,224,080	\$ 1,196,927	\$ 1,190,054
Average Daily Attendance At P-2	729	729	755	806

The General Fund balance has increased by \$810,861 over the past two years. The fiscal year 2012-13 budget projects a decrease of \$286,106. For a District this size, the State recommends available reserves of at least 4% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2012-13 fiscal year. Total long term obligations have increased by \$34,026 over the past two years.

Average daily attendance has decreased by 77 ADA over the past two years. No change in ADA is anticipated during the 2012-13 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

**The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects and Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54. On behalf payments of \$115,268 are not included in the actual revenues and expenditures reported in this schedule.

**HAMILTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits
June 30, 2012, annual financial and budget report fund balance	\$ 2,667,503	\$ 161,745	\$ 142,625
Adjustments and reclassifications:			
Increase (decrease) in total fund balances:			
Fund balance transfer (GASB54)	304,370	(161,745)	(142,625)
Net adjustments and reclassifications	304,370	(161,745)	(142,625)
June 30, 2012, audited financial statement fund balance	<u>\$ 2,971,873</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying note to supplementary information.

**HAMILTON UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2012**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Non-Major Governmental Funds
ASSETS									
Cash and cash equivalents	\$ 91,187	\$ -	\$ 87,695	\$ 173,443	\$ 7,526	\$ 22,973	\$ 9,504	\$ 149,766	\$ 542,094
Accounts receivable	26,573	23,434	47,328	210	11	33	14	5,439	103,042
Stores inventory	-	-	12,990	-	-	-	-	-	12,990
Total Assets	\$ 117,760	\$ 23,434	\$ 148,013	\$ 173,653	\$ 7,537	\$ 23,006	\$ 9,518	\$ 155,205	\$ 658,126
LIABILITIES									
Deficit cash	\$ -	\$ 13,086	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,086
Accrued liabilities	2,307	16	956	4,820	-	-	-	-	8,099
Due to other funds	-	-	12,481	-	-	-	-	-	12,481
Total Liabilities	2,307	13,102	13,437	4,820	-	-	-	-	33,666
FUND BALANCES									
Non-spendable	-	-	12,990	-	-	-	-	-	12,990
Restricted	655	10,332	121,586	-	7,537	23,006	9,518	155,205	327,839
Committed	114,798	-	-	168,833	-	-	-	-	283,631
Total Fund Balances	115,453	10,332	134,576	168,833	7,537	23,006	9,518	155,205	624,460
Total Liabilities and Fund Balance	\$ 117,760	\$ 23,434	\$ 148,013	\$ 173,653	\$ 7,537	\$ 23,006	\$ 9,518	\$ 155,205	\$ 658,126

See accompanying note to supplementary information.

**HAMILTON UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2012**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Non-Major Governmental Funds
REVENUES									
Federal sources	\$ 21,354	\$ -	\$ 364,312	\$ -	\$ -	\$ -	\$ -	\$ -	385,666
Other State sources	83,883	100,257	28,335	-	-	-	-	162	212,637
Other local sources	1,274	9	103,602	597	5,163	101	43	101,486	212,275
Total Revenues	106,511	100,266	496,249	597	5,163	101	43	101,648	810,578
EXPENDITURES									
Current									
Instruction	51,123	99,535	-	-	-	-	-	-	150,658
Instruction-related services									
School site administration	26,369	-	-	-	-	-	-	-	26,369
Pupil services									
Food services	-	-	469,425	-	-	-	-	-	469,425
Plant services	1,037	750	2,750	15,085	-	-	-	-	19,622
Facilities acquisition and maintenance	-	-	-	17,800	906	-	-	-	18,706
Debt service									
Principal	-	-	-	-	-	-	-	50,000	50,000
Interest and other	-	-	-	-	-	-	-	65,899	65,899
Total Expenditures	78,529	100,285	472,175	32,885	906	-	-	115,899	800,679
Excess (Deficiency) of Revenues Over Expenditures	27,982	(19)	24,074	(32,288)	4,257	101	43	(14,251)	9,899
Other Financing Sources (Uses)									
Transfers In	-	-	-	53,970	-	-	-	-	53,970
Other Sources	-	-	-	-	-	-	-	886,200	886,200
Other Uses	-	-	-	-	-	-	-	(860,000)	(860,000)
Net Financing Sources (Uses)	-	-	-	53,970	-	-	-	26,200	80,170
NET CHANGE IN FUND BALANCE	27,982	(19)	24,074	21,682	4,257	101	43	11,949	90,069
Fund Balance - Beginning	-	10,351	110,502	-	3,280	22,905	9,475	143,256	299,769
Prior Period Adjustment	87,471	-	-	147,151	-	-	-	-	234,622
Fund Balance - Ending	\$ 115,453	\$ 10,332	\$ 134,576	\$ 168,833	\$ 7,537	\$ 23,006	\$ 9,518	\$ 155,205	\$ 624,460

See accompanying note to supplementary information.

**HAMILTON UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2012**

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2012 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2012.

	CFDA Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 967,623
Medi-Cal Administrative Activities	93.788	<u>(61,375)</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 906,248</u>

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections 46200 through 46206*.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code Section 46201*. For 2011-12, the instructional day and minute requirements have been reduced pursuant to *Education Code Sections 46201.2 and 46201.3*.

HAMILTON UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2012

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration. (Located in the front of the audit report)

**OTHER INDEPENDENT
AUDITORS' REPORTS**

INDEPENDENT AUDITORS' 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

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

*Licensed by the California
State Board of Accountancy*

Governing Board
Hamilton Unified School District
Hamilton City, California

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hamilton Unified School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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

Management of Hamilton Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Hamilton Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hamilton Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hamilton Unified School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as items #2012-01 through #2012-04 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hamilton Unified 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, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hamilton Unified 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 the Hamilton Unified School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
December 4, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

Governing Board
Hamilton Unified School District
Hamilton City, California

Compliance

We have audited Hamilton Unified 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 each of its major federal programs for the year ended June 30, 2012. Hamilton Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hamilton Unified School District's management. Our responsibility is to express an opinion on Hamilton Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 noncompliance 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 Hamilton Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Hamilton Unified School District's compliance with those requirements.

In our opinion, Hamilton Unified School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222
fax: 619.260.9085
www.cwacpa.com

*Licensed by the California
State Board of Accountancy*

Internal Control over Compliance

Management of Hamilton Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hamilton Unified School District's internal control over compliance with the 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 the Hamilton Unified School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control 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 that 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 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.

This report is intended solely for the information and use of the governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
December 4, 2012

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Hamilton Unified School District
 Hamilton City, California

We have audited Hamilton Unified School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K – 12 Local Education Agencies 2011-12*, issued by the California Education Audit Appeals Panel as regulations for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Hamilton Unified School District's management. Our responsibility is to express an opinion on Hamilton Unified School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K – 12 Local Education Agencies 2011-12*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Hamilton Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hamilton Unified School District's compliance with the state laws and regulations referred to above.

In connection with the audit referred to above, we selected and tested transactions and records to determine Hamilton Unified School District's compliance with the state laws and regulations applicable to the following items:

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No, see below
Continuation Education	10	Yes
Instructional Time for:		
School Districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials, general requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

2727 Camino Del Rio South
 Suite 219
 San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
 Suite 250
 Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
 Suite 201
 Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

*Licensed by the California
 State Board of Accountancy*

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Yes
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction (including in charter schools):		
General requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or charter schools with only one school serving K - 3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	5	Not Applicable
Before school	6	Not Applicable
Contemporaneous Records of Attendance; for charter schools	3	Not Applicable
Mode of Instruction; for charter schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	3	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	4	Not Applicable

We did not perform testing for Independent Study because the total ADA was less than the threshold required for testing.

In our opinion, Hamilton Unified School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2012.

This report is intended solely for the information and use of the governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
December 4, 2012

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**HAMILTON UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unqualified</u>

HAMILTON UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

FINDING #2012-01: CAPITAL ASSETS (20000)

Criteria: California Education Code Section 35168 states "The governing board of each school district, shall establish and maintain a historical inventory, or an audit trace inventory system, or any other inventory system authorized by the State Board of Education, which shall contain the description, name, identification numbers, and original cost of all items of equipment acquired by it whose current market value exceeds five hundred dollars (\$500) per item, the date of acquisition, the location of use, and the time and mode of disposal. A reasonable estimate of the original cost may be used if the actual original cost is unknown."

Condition: The capital asset listing was provided in two parts, one which represented the High School Assets, and the other listing represented the Elementary School Assets. It was noted that the High School listing appeared accurate and up to date, and auditor testing appears to support the accuracy. The Elementary School listing provided was last updated 6/30/2007 and therefore does not appear to be accurate.

Context: The District has not reconciled the differences identified in prior years between audited financial statements of the former Elementary District and the physical inventory records.

Effect: The capital asset listing may not be properly reported and therefore, capital assets listed on the audit report could be misstated.

Perspective: Review of the capital asset listings.

Recommendation: The District should perform a detailed inventory of all assets in excess of \$500 held under both former Districts to develop one unified asset listing. The listing should also be reviewed for obsolete items that should be removed.

District Response: The District continues to explore the possibility of hiring a consulting firm. Funding for the services and equipment needed are not supported in the budget at this time.

**HAMILTON UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS , continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2012-02: EXPENDITURES (30000)

Criteria: Internal controls over expenditures should include a purchase order and verification of receipt of goods. During our audit of Hamilton Unified School District, it was noted that expenditures tested were lacking purchase orders and verification of receipt of goods.

Condition: In testing expenditures, 4 out of 40 expenditures tested did not have a purchase order to verify approval of the purchase and encumber the funds for the purchase.

Cause: It appears that the District is not regularly using purchase orders to approve and encumber the funds for purchases. In addition, the District lacked indicating that expenditures were related to goods received as indicated by the lack of verification of receipt of goods.

Effect: Purchases that are not approved through a purchase order put the District at risk of making inappropriate expenditures. An improper approval process also increases the risk that there could be purchases made without the review of budget appropriateness. The lack of receipt of goods also increases the risk that goods will be paid for prior to the inspection of the completeness of the order.

Perspective: Review of a sample of expenditures.

Recommendation: We recommend the District adopt a policy to include the required use of purchase requisitions for purchases. Exceptions might be made for minor reimbursements, revolving expenditures, utilities and standing orders or contracts.

District Response: The purchase order process is enforced by the Superintendent, administrative staff and business staff. It is infrequent that a purchase order is not completed without authorization for purchases.

**HAMILTON UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS , continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2012-03: ASSOCIATED STUDENT BODY (ASB) FUNDS (30000)

Criteria: Maintaining sound internal control procedures over cash receipts, cash disbursements, bank reconciliations and minutes of council meetings reduces the opportunity for irregularities to go undetected. The Fiscal Crisis & Management Assistance Team (FCMAT) Associated Student Body Accounting Manual & Desk Reference outlines proper internal control procedures for associated student body accounts to follow.

Condition: Through our testing of the school site ASB accounts, we noted the following internal control deficiencies:

Hamilton High School

- 4/10 cash receipts tested lacked adequate supporting documentation, such as a tally sheet or sales report, to reconcile the amount of collections or sales to the amount deposited in the ASB bank account. Cash collection activities lacking proper documentation included cheerleading sweatshirt sales, Class of 2013 football concessions, Christmas tree sales, and volleyball tournament concessions.
- It was noted through inquiry that the ASB and other clubs do not prepare revenue potentials for fundraising activities.

Hamilton Elementary School

- 2/5 cash receipts tested were not deposited to the bank in a timely manner. We noted that the collections from the Carnival and Yearbook sales were deposited over a month after the date of collection.

Cause: Insufficient controls over student body activities.

Effect: The potential for irregularities in accounting to go undetected.

Perspective: Testing of ASBs at two school sites.

Recommendation: We recommend that the District implement procedures to ensure that adequate supporting documentation is maintained for ASB cash collections and those collections are deposited within 2 weeks of the event. The District should utilize ticket logs, tally sheets and/or sales detail forms that indicate number of items sold and the prices to support student funds cash collection activities. We also recommend that Hamilton High School develop ASB policies that require the implementation of revenue potential preparation. The District should provide each student body account clerk with the latest FCMAT Associated Student Body Accounting Manual & Desk Reference and reinforce the importance for sound internal control procedures to be implemented.

District Response: The District has sent seven staff members to an ASB workshop. In addition, the field auditor has provided sample forms that we will modify and put into practice. It is reasonable to have this implemented before the next school year.

**HAMILTON UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS , continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2012-04: BANK RECONCILIATIONS (30000)

Criteria: ASB and Scholarship account bank reconciliations should be prepared accurately and timely. These reconciliations should accurately reflect the ending book balance held in the account. In addition, there should be regular review of bank reconciliations to verify their accuracy.

Condition: It was noted that the bank statements for the High School ASB and Scholarship accounts had not been reconciled in a timely fashion. Our audit work performed in November 2012 showed that the High School ASB account had not been since March 2012 and the Scholarship account had not been reconciled all fiscal year 2011-12. In addition, there was no verification that the Revolving Account bank reconciliation is being reviewed following its preparation.

Cause: Untimely bank reconciliations due to lack of staff training.

Effect: The untimely and inaccurate preparation of the bank reconciliations can lead to an inaccurate representation of the ending book balance of the account. Bank reconciliations not being reviewed also increases the risk that bank reconciliations are not being prepared correctly.

Perspective: Review of ASB and scholarship bank reconciliations.

Recommendation: We recommend that bank reconciliations be prepared within the month following the bank statement date. A review process should be in place to verify that the reconciliations are being prepared accurately. If the CBO is charged with preparing the bank reconciliation, the superintendent should review the bank reconciliation for accuracy.

District Response: This issue will be resolved as the district implements a reorganization of clerk duties. This will take place in January when the ASB process is transitioned to another district clerk.

HAMILTON UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no federal award findings or questioned costs for the year ended June 30, 2012.

**HAMILTON UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
41000	CalSTRS
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no state award findings or questioned costs for the year ended June 30, 2012.

**HAMILTON UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-1: CAPITAL ASSETS (20000)

Criteria: California Education Code Section 35168 states “The governing board of each school district, shall establish and maintain a historical inventory, or an audit trace inventory system, or any other inventory system authorized by the State Board of Education, which shall contain the description, name, identification numbers, and original cost of all items of equipment acquired by it whose current market value exceeds five hundred dollars (\$500) per item, the date of acquisition, the location of use, and the time and mode of disposal. A reasonable estimate of the original cost may be used if the actual original cost is unknown.”

Condition: The capital asset listing was provided in two parts, one which represented the High School Assets, and the other listing represented the Elementary School Assets. It was noted that the High School listing appeared accurate and up to date, and auditor testing appears to support the accuracy. The Elementary school listing provided was last updated 6/30/2007 and therefore does not appear to be accurate and cannot be relied upon to state the proper balances at 6/30/2011.

Context: The District has not reconciled the differences identified in prior years between audited financial statements of the former Elementary District and the physical inventory records.

Effect: The capital asset listing may not be properly reported and therefore, capital assets listed on the audit report could be misstated.

Recommendation: The District should perform a detailed inventory of all assets in excess of \$500 held under both former Districts to develop one unified asset listing. The listing should also be reviewed for obsolete items that should be removed.

District Response: The District will explore the possibility of hiring a consulting firm to develop one unified asset listing that includes the elementary school and high school sites.

Current Status: Not implemented, see current year finding and recommendation #2012-01.

**HAMILTON UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-2: CLEARING ACCOUNT (30000)

Criteria: Internal controls over the General Fund and Cafeteria Fund clearing accounts should include the regular clearing of the accounts to the County Treasury. In addition, controls should be in place to monitor if checks written remain outstanding for more than 6 month. During our audit of Hamilton Unified School District, the auditor noted deficiencies in the internal controls over the General Fund and Cafeteria clearing accounts.

Condition: In testing cash for Hamilton Unified School District, the auditor noted that the General Fund and Cafeteria Fund clearing accounts were only cleared to the County Treasury once or twice during fiscal year 2010-11. The auditor also noted for the Cafeteria Fund clearing account that as of the July 31, 2011 bank statement, a check written on 8/29/11 remained outstanding.

Context: The District does not have a policy in place that requires the regular clearing of the General Fund and Cafeteria Fund clearing accounts to the County Treasury. The District also does not track checks that remain outstanding for more than 6 months.

Effect: Because the accounts are not being cleared regularly, the accounts are showing a high balance. If these balances were cleared to the county treasury, it would increase the cash in county treasury balance. When outstanding checks are not tracked, these checks will remain on the books when they should perhaps be written off.

Recommendation: We recommend that the District clear the clearing accounts to the county treasury close to once a month. By doing this the cash in county treasury will be more accurately reflected. We also recommend that the district track and look into checks written that remain outstanding for more than 6 months. These checks should be investigated and if it appears that they will not be cashed, the checks should be written off.

District Response: This finding has since been implemented; the new Chief Business Official has established and set into motion the practice of clearing the account multiple times per month. The reconciliation is done monthly, including the resolution of outstanding checks.

Current Status: Implemented.

**HAMILTON UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-3: REVOLVING CASH (30000)

Criteria: Revolving cash bank reconciliation should be prepared accurately and timely. These reconciliations should accurately reflect the ending book balance held in the account. In addition, checks written from the clearing account should contain dual signatures. During our audit of Hamilton Unified School District, the auditor noted that the revolving cash bank reconciliations were not prepared timely or accurately. Our audit also noted that a check written from the clearing account did not contain a dual signature.

Condition: In testing revolving cash, bank reconciliations were not prepared timely or accurately. During year-end audit field work in September 2011, bank reconciliations had not been prepared since March. When the bank reconciliations were prepared, the June 30, 2011 bank reconciliation was prepared incorrectly and did not accurately reflect the ending book balance of the account. In addition, during our control testing of revolving cash disbursements, a check was written to close the old revolving cash account and only contained one signature.

Effect: The untimely and inaccurate preparation of the revolving cash bank reconciliation can lead to an inaccurate representation of the ending book balance of the account. When a revolving cash disbursement contains only one signature, this could increase the risk of inappropriate usage of the revolving cash account.

Recommendation: We recommend that bank reconciliations be prepared within the month following the bank statement date. A review process should be in place to verify that the reconciliations are being prepared accurately. If the CBO is charged with preparing the bank reconciliation, the superintendent should review the bank reconciliation for accuracy. For revolving cash disbursement, the District should require all checks receive a double signature before they can be processed.

District Response: This finding has since been implemented, as documented in the response to finding #2011-2.

Current Status: Implemented.

HAMILTON UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2012

FINDING #2011-4: CASH RECEIPTS (30000)

Criteria: Cash receipts collected at the District Office should be deposited on a regular basis. During our audit of Hamilton Unified School District, deposits were not being made in a timely manner.

Condition: In testing cash receipts at the District Office, the auditor noted the three out of eight cash receipts tested were not deposited in a timely manner. Deposits of cash collected for the items noted above were occurring more than one month after the cash was collected.

Context: The District is not depositing cash collected on a timely basis.

Effect: Untimely deposits of cash collected can increase the risk of loss.

Recommendation: We recommend that all checks and cash collected for the clearing account be deposited within two weeks of receipt of funds. By doing so, this will reduce the risk of loss, theft and insufficient funds.

District Response: This finding has since been implemented; it is the District's goal to deposit cash receipts at a minimum of once every two weeks and more frequently as needed.

Current Status: Implemented.

**HAMILTON UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-5: EXPENDITURES (30000)

Criteria: Internal controls over expenditures should include a purchase order and verification of receipt of goods. During our audit of Hamilton Unified School District, it was noted that expenditures tested were lacking purchase orders and verification of receipt of goods.

Condition: In testing expenditures, seventeen out of twenty six expenditures tested did not have a purchase order to verify approval of the purchase and encumber the funds for the purchase. Two out of twenty six expenditures tested did not contain verification of the receipt of goods.

Context: It appears that the District is not regularly using purchase orders to approve and encumber the funds for purchases. In addition, the District lacked indicating that expenditures were related to goods received as indicated by the lack of verification of receipt of goods.

Effect: Purchases that are not approved through a purchase order put the District at risk of making inappropriate expenditures. An improper approval process also increases the risk that there could be purchases made without the review of budget appropriateness. The lack of receipt of goods also increases the risk that goods will be paid for prior to the inspection of the completeness of the order.

Recommendation: We recommend the District adopt a policy to include the required use of purchase requisitions for purchases and verification of the receipt of goods. Exceptions might be made for minor reimbursements, revolving expenditures, utilities and standing orders or contracts.

District Response: The Superintendent has issued a directive to all staff with specific guidelines as to the proper purchasing procedures. In addition, the District will continue to enforce the required steps outlined in the documented District purchase order process.

Current Status: Partially implemented, see current year finding and recommendation #2012-02.

**HAMILTON UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-6: ASSOCIATED STUDENT BODY (ASB) FUNDS (30000)

Criteria: Cash receipts collected by the ASB should be tracked and reconcilable to a deposit made into the ASB's bank account. During our audit of Hamilton Elementary and Hamilton High School, it was noted that cash receipts collected lack adequate supporting documentation. In addition, high school ASBs should have budgetary procedures in place to create and adopt a budget for activities planning during the fiscal year. At Hamilton High School, no budget was prepared and adopted for ASB activities.

Condition: During our audit testing, internal control deficiencies over ASB were noted:

Hamilton High School

- Three out of ten cash receipts tested lacked adequate supporting documentation, such as a tally sheet or sales report, to reconcile the amount of collections or sales to the amount deposited in the ASB bank account.
- It was noted through inquiry that the ASB had not develop and adopt a budget.

Hamilton Elementary

- One out of five cash receipts tested lacked adequate supporting documentation, such as a tally sheet or sales report, to reconcile the amount of collections or sales to the amount deposited in the ASB bank account.

Context: Internal controls appear to not be operating effectively over the documentation of cash receipts for student funds activity. Proper budgetary and cash receipt procedures have not been implemented.

Effect: Lack of proper procedures over the cash receipt and budgeting process leaves the ASB susceptible to potential loss or fraud.

Recommendation: We recommend that the District implement procedures to ensure that adequate supporting documentation is maintained for student cash receipts. The district should utilize ticket logs, tally sheets and/or sales detail forms that indicate number of items sold and the prices to support student funds cash collection activities. We also recommend that Hamilton High School develop ASB policies that require the implementation of budget preparation.

District Response: The District will strengthen the internal controls over the ASB accounts. Staff are attending the CASBO workshop on January 26, 2012, in an effort to establish proper budgetary and cash receipting procedures.

Current Status: Not implemented, see current year finding and recommendation #2012-03.