

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL
DISTRICT

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

June 30, 2004

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Independent Auditor's Report

To the Board of Education of
[Hartley-Melvin-Sanborn](#) Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of [Hartley-Melvin-Sanborn](#) Community School District, [Hartley](#), Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of [Hartley-Melvin-Sanborn](#) Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 11 to the financial statements, during the year ended June 30, 2004, [Hartley-Melvin-Sanborn](#) Community School District adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement Number 38, Certain Financial Statement Note Disclosures; Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated [October 19, 2004](#), on our consideration of [Hartley-Melvin-Sanborn](#) Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 40 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hartley-Melvin-Sanborn Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

October 19, 2004

Hartley-Melvin-Sanborn Community School District

Management Discussion & Analysis

This section of the Hartley-Melvin-Sanborn Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2004. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Because the Hartley-Melvin-Sanborn Community School District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- *Fiduciary funds statements* provide information about the relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

Figure A-1

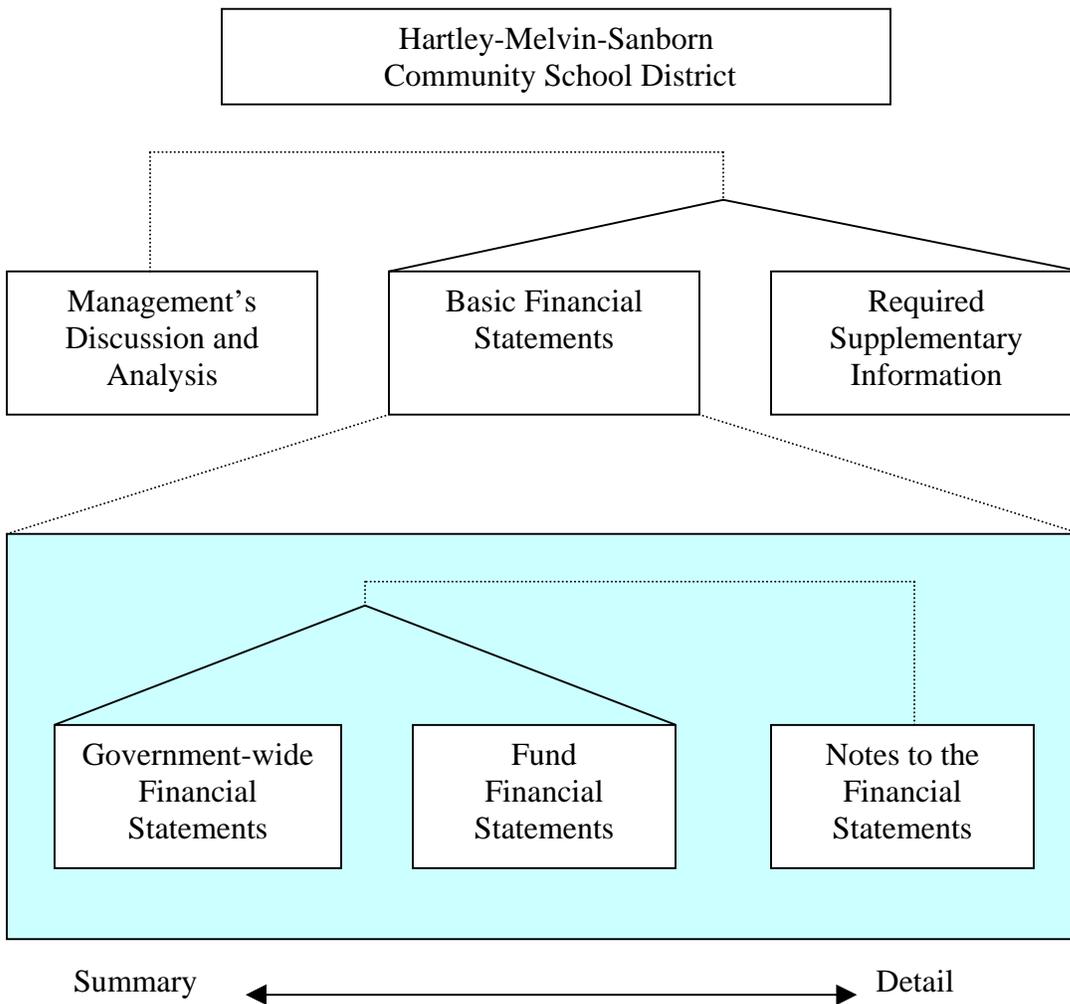


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

*Figure A-2
Major Features of the Government-wide and Fund Financial Statements*

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

Government-wide Statements

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

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a

detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund and Special Revenue Funds that consist of Activity, Management, and Physical Plant and Equipment Levy funds.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise fund, one type of a proprietary fund, is the same as its business-type activities but provides more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship funds. The District accounts for outside donations for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets. The District's combined net assets were slightly larger on June 30, 2004, than they were the year before, increasing 7.2% (*see Figure A-3*). The largest increase is noted in the restricted area where the use of funds are limited by legislation.

Figure A-3

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2003	2004	2003	2004	2003	2004	2003-2004
Current and other assets	\$ 4,675,804	\$4,512,676	\$70,792	\$51,626	\$4,746,596	\$4,564,302	(3.9%)
Capital assets	\$4,821,143	\$4,679,948	\$27,045	\$22,376	\$4,848,188	\$4,702,324	(3.0%)
Total Assets	\$9,496,947	\$9,192,624	\$97,837	\$74,002	\$9,594,784	\$9,266,626	(3.5%)
Long-term liabilities	\$2,875,334	\$2,543,547	0	0	\$2,875,334	\$2,543,547	(11.5%)
Other liabilities	\$2,941,257	\$2,671,962	\$4,175	\$4,637	\$2,945,432	\$2,676,599	(9.1%)
Total liabilities	\$5,816,591	\$5,215,509	\$4,175	\$4,637	\$5,820,766	\$5,220,146	(10.3%)
Net Assets:							
Invested in capital assets, net of related debt	\$1,965,301	\$2,170,106	\$27,045	\$22,376	\$1,992,346	\$2,192,482	10%
Restricted	\$613,190	\$737,194	0	0	\$613,190	\$737,194	20.2%
Unrestricted	\$1,101,865	\$1,069,815	\$66,617	\$46,989	\$1,168,482	\$1,116,804	(4.4%)
TOTAL NET ASSETS	\$3,680,356	\$3,977,115	\$93,662	\$69,365	\$3,774,018	\$4,046,480	7.2%

Changes in net assets. Fiscal year 2003-2004 marks the initial District implementation of the GASB-34 financial reporting model. As a result, prior year comparisons are not available but will be provided in all subsequent years. *Figure A-4* reflects only totals from the current fiscal year ending June 30, 2004.

Governmental Activities -

Referring to *Figure A-4*, revenues for the District's governmental activities were \$6,614,328 for fiscal year 2004. Total governmental expenditures were \$6,317,569.

In a difficult budget year, the District did a remarkable job trimming expenses to match available revenues in a year when the Board of Directors lowered the overall District tax rate from \$12.59 per thousand dollars of taxable valuation to \$12.13.

(Figure A-4 and A-5 amounts are from 2004 audit report Exhibit B.)

<i>Figure A-4</i>			
Changes in Net Assets from Operating Results			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total School District</u>
	<u>2004</u>	<u>2004</u>	<u>2004</u>
Revenues			
Program Revenues			
Charges for services	\$445,208	\$142,267	\$587,475
Operating Grants & Contributions	\$759,956	\$128,800	\$888,756
Capital Grants & Contributions	0	0	0
General Revenues			
Property taxes & other taxes	\$2,749,559	0	\$2,749,559
Unrestricted State Grants	\$2,611,602	0	\$2,611,602
Unrestricted Investment Earnings	\$44,947	\$686	\$45,633
Other Revenue	\$3,056	0	\$3,056
Total Revenues	\$6,614,328	\$271,753	\$6,886,081
Expenses			
Instruction	\$4,226,152	0	\$4,226,152
Support Services	\$1,572,574	0	\$1,572,574
Non-Instructional Programs	0	\$296,050	\$296,050
Other Expenses	\$518,843	-	\$518,843
Total Expenses	\$6,317,569	\$296,050	\$6,613,619
Transfers	0	0	0
Change in Net Assets	\$296,759	(\$24,297)	\$272,462

Figure A-5
Net Cost of Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction	\$4,226,152	\$3,313,633
Support Services	\$1,572,574	\$1,539,377
Non-instructional Programs	\$0	\$0
Other Expenses	\$518,843	\$259,395
TOTAL	\$6,317,569	\$5,112,405

Figure A-5 presents the cost of the District’s major governmental activities: instruction, support services, non-instruction programs and other expenses. The table shows each activity’s net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District’s taxpayers by each of these functions. (As with *Figure A-4*, a two-year comparison with the prior fiscal year is not possible under the new GASB 34 format. In the future a two-year comparison will be provided.)

- The cost of all governmental activities this year was \$6,317,569.
- Some of the cost was financed by the users of the District’s programs (\$445,208).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$759,956).
- Most of the District’s costs (\$5,112,405), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$2,749,559 in property and other taxes, and \$2,611,602 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

Business-Type Activities -

The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income. The District’s business-type activities show a slight decrease in net assets with expenses exceeding revenues \$24,983 (refer to *Figure A-4*). The Board of Education did not increase school meal prices for fiscal year 2004, but made a decision to increase meal prices \$0.10 for fiscal year 2005.

Financial Analysis of the District’s Funds

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$1,808,167, slightly more than last year’s ending fund balances of \$1,724,145.

Governmental Fund Highlights

The General Fund balance decreased from \$1,084,400 to \$1,031,481, due in part to the reduction in student enrollment, negotiated salary and benefit settlement, and events such as the Governor's 2.5% rollback and the elimination of Phase III funding. In response to the Governor's 2.5% rollback, General Fund purchases for materials and travel were restricted.

The Nonmajor Governmental Funds balance increased \$232,581 to \$395,900. The increase was due in large part to increased revenues in the Capitol Projects Fund from the Local Option Sales Tax and in the Debt Service Fund.

The Physical Plant and Equipment Levy (PPEL) Fund balance decreased \$26,378 to \$380,786. Revenues decreased slightly (decrease of \$46,386), while expenditures increased by \$62,124 due to mainly to the construction of a bus garage completed during the summer break.

Business Type Fund Highlights

The School Nutrition Fund net assets decreased from \$93,662 at June 30, 2003 to \$69,365 at June 30, 2004, representing a decrease of 26%. The cost of salaries and benefits increased by \$7,868. The cost of supplies increased by \$8,247, while the sales of lunches and breakfasts decreased by \$1,177. Revenue from the national school lunch and breakfast programs decreased \$25,533.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

During FY04, total revenues were far below expectations held when the FY04 budget was assembled in February 2003. This was due to a variety of factors that could not have been anticipated when a budget estimate was assembled. For example, in November, 2003, the Governor announced a 2.5% across the board cut. Open enrollment income had been overestimated, The District also found out after the budget was established that Phase III revenues were going to be eliminated. On the expense side, the District began adjusting to all of these factors, and succeeded in keeping total disbursements below total receipts. When a preliminary budget is set, the District always requests the ability to expend its full budget if necessary, but has the goal of keeping disbursements in line with revenues as actual revenue accumulates. As a result, the District's certified budget should always exceed the actual expenditures during the year. It is apparent that even in such a difficult fiscal year in which to accurately predict revenues, the District was able to keep total disbursements (\$6,509,437) slightly below total receipts (\$6,593,459).

Capital Asset and Debt Administration

Capital Assets

By the end of 2004, the District had invested \$4,702,324, in a broad range of assets, including school buildings, athletic facilities, transportation equipment, and computer and audio-visual equipment (see *Figure A-6*). This amount represents a net decrease of \$145,864 or 3% from last year. (More detailed information about capital assets can be found in Note 4 to the financial statements.)

At June 30, 2004 the District had committed \$125,494 for window replacement.

Figure A-6

	<i>Capital Assets (net of depreciation)</i>						Total Percentage Change 2003-04
	Governmental Activities		Business--type Activities		Total School District		
	2003	2004	2003	2004	2003	2004	
Land	\$81,804	\$81,804	0	0	\$81,804	\$81,804	0
Construction in progress Improvements other than Buildings	0	0	0	0	0	0	0
Buildings	\$225,936	\$202,917	0	0	\$225,936	\$202,917	10.4%
Buildings	\$4,137,284	\$4,088,325	0	0	\$4,137,284	\$4,088,325	1.2%
Equipment & Furniture	\$376,119	\$306,902	\$27,045	\$22,376	\$403,164	\$329,278	1.8%
TOTAL	\$4,821,143	\$4,679,948	\$27,045	\$22,376	\$4,848,188	\$4,702,324	3%

Long-Term Debt

At June 30, 2004, the District had \$2,543,547 in general obligation and other long-term debt outstanding (Figure A-7). Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7

	<i>Long-Term Debt</i>	
	Balance End of 2004	Due Within One Year
General obligation bonds	\$2,500,000	\$230,000
Local option sales tax revenue bonds	0	0
Revenue bond anticipation notes	0	0
Early retirement	\$33,705	\$15,363
EPA asbestos removal loan	\$9,842	\$6,000
Total	\$2,543,547	\$251,363

Factors Bearing on the District's Future

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

- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid to schools (allowable growth), will be predicated upon the condition of the national and state economy. State funding growth for public schools for fiscal year 2005 and 2006, has been set at 4%.
- District enrollment has had modest decline the last two years. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Future projected enrollment declines will make maintaining a sound financial foundation difficult. It will be critical to plan for this decrease in enrollment by decreasing expenditures.
- The budget guarantee will begin receding at a rate of 10% annually until it is no longer in existence. This, combined with declining enrollment, will translate in a negative new money for the new few years, or until enrollment stabilizes.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact Lynn Evans, Superintendent, Hartley-Melvin-Sanborn Community School District, 173 S. Central Avenue, Hartley, Iowa 51346.

BASIC FINANCIAL STATEMENTS

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Government al Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	2,027,878	48,871	2,076,749
Receivables:			
Property tax:			
Delinquent	37,033	-	37,033
Succeeding year	2,267,582	-	2,267,582
Accounts	2,166	-	2,166
Accrued interest	51	-	51
Due from other governments	177,966	-	177,966
Inventories	-	2,755	2,755
Capital assets, net of accumulated depreciation	4,679,948	22,376	4,702,324
Total assets	9,192,624	74,002	9,266,626
Liabilities			
Accounts payable	15,196	141	15,337
Salaries and benefits payable	332,691	-	332,691
Accrued interest payable	9,192	-	9,192
Deferred revenue:			
Succeeding year property tax	2,267,582	-	2,267,582
Other	47,301	4,496	51,797
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	230,000	-	230,000
Capital loan notes payable	-	-	-
EPA asbestos removal loan	6,000	-	6,000
Early retirement	15,363	-	15,363
Portion due after one year:			
General obligation bonds payable	2,270,000	-	2,270,000
EPA asbestos removal loan	3,842	-	3,842
Early retirement	18,342	-	18,342
Total liabilities	5,215,509	4,637	5,220,146

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Government al Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	2,170,106	22,376	2,192,482
Restricted for:			
Phase III	3,405	-	3,405
Management levy	1,955	-	1,955
Physical plant and equipment levy	380,786	-	380,786
Other special revenue purposes	139,182	-	139,182
Local option sales tax capital projects	76,953	-	76,953
Debt service	134,913	-	134,913
Unrestricted	<u>1,069,815</u>	<u>46,989</u>	<u>1,116,804</u>
Total net assets	<u><u>3,977,115</u></u>	<u><u>69,365</u></u>	<u><u>4,046,480</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Instruction:				
Regular instruction	2,868,653	183,776	412,281	-
Special instruction	691,774	59,639	40,416	-
Other instruction	665,725	200,068	16,339	-
	<u>4,226,152</u>	<u>443,483</u>	<u>469,036</u>	<u>-</u>
Support services:				
Student services	138,479	-	288	-
Instructional staff services	155,709	-	-	-
Administration services	571,597	-	-	-
Operation and maintenance of plant services	440,788	1,725	-	-
Transportation services	266,001	-	31,184	-
	<u>1,572,574</u>	<u>1,725</u>	<u>31,472</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	8,840	-	-	-
Long-term debt interest	125,243	-	3,876	-
AEA flowthrough	255,572	-	255,572	-
Depreciation (unallocated)*	129,188	-	-	-
	<u>518,843</u>	<u>-</u>	<u>259,448</u>	<u>-</u>
Total governmental activities	6,317,569	445,208	759,956	-
Business type activities				
Non-instructional programs:				
Food service operations	296,050	142,267	128,800	-
Total	<u>6,613,619</u>	<u>587,475</u>	<u>888,756</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Governmental Activities	Business Type Activities	Total
(2,272,596)	-	(2,272,596)
(591,719)	-	(591,719)
(449,318)	-	(449,318)
<u>(3,313,633)</u>	<u>-</u>	<u>(3,313,633)</u>
(138,191)	-	(138,191)
(155,709)	-	(155,709)
(571,597)	-	(571,597)
(439,063)	-	(439,063)
(234,817)	-	(234,817)
<u>(1,539,377)</u>	<u>-</u>	<u>(1,539,377)</u>
(8,840)	-	(8,840)
(121,367)	-	(121,367)
-	-	-
(129,188)	-	(129,188)
<u>(259,395)</u>	<u>-</u>	<u>(259,395)</u>
(5,112,405)	-	(5,112,405)
-	(24,983)	(24,983)
<u>(5,112,405)</u>	<u>(24,983)</u>	<u>(5,137,388)</u>
2,006,003	-	2,006,003
362,313	-	362,313
181,726	-	181,726
42,254	-	42,254
157,263	-	157,263
2,611,602	-	2,611,602
44,947	686	45,633
3,056	-	3,056
<u>5,409,164</u>	<u>686</u>	<u>5,409,850</u>
296,759	(24,297)	272,462
<u>3,680,356</u>	<u>93,662</u>	<u>3,774,018</u>
<u>3,977,115</u>	<u>69,365</u>	<u>4,046,480</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	1,317,165	378,239	332,474	2,027,878
Receivables:				
Property tax:				
Delinquent	28,499	2,547	5,987	37,033
Succeeding year	1,828,516	133,764	305,302	2,267,582
Accounts	650	-	1,516	2,166
Accrued interest	-	-	51	51
Due from other governments	77,090	41,739	59,137	177,966
Total assets	<u>3,251,920</u>	<u>556,289</u>	<u>704,467</u>	<u>4,512,676</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	11,931	-	3,265	15,196
Salaries and benefits payable	332,691	-	-	332,691
Deferred revenue:				
Succeeding year property tax	1,828,516	133,764	305,302	2,267,582
Other	47,301	41,739	-	89,040
Total liabilities	<u>2,220,439</u>	<u>175,503</u>	<u>308,567</u>	<u>2,704,509</u>
Fund balances:				
Reserved for:				
Phase III	3,405	-	-	3,405
Debt service	-	-	144,105	144,105
Unreserved	1,028,076	380,786	251,795	1,660,657
Total fund balances	<u>1,031,481</u>	<u>380,786</u>	<u>395,900</u>	<u>1,808,167</u>
Total liabilities and fund balances	<u>3,251,920</u>	<u>556,289</u>	<u>704,467</u>	<u>4,512,676</u>

HARTLEY-MELVIN-SANBORN Community SCHOOL DISTRICT

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

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	1,808,167
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,679,948
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	41,739
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(9,192)
Long-term liabilities, including bonds payable, notes payable and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(2,543,547)</u>
Net assets of governmental activities (Exhibit A)	<u><u>3,977,115</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,944,720	203,170	581,680	2,729,570
Tuition	207,060	-	-	207,060
Other	64,513	16,024	206,434	286,971
State sources	3,148,345	157	366	3,148,868
Federal sources	220,990	-	-	220,990
Total revenues	<u>5,585,628</u>	<u>219,351</u>	<u>788,480</u>	<u>6,593,459</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	2,796,677	42,418	7,381	2,846,476
Special instruction	691,506	-	-	691,506
Other instruction	455,830	-	207,000	662,830
	<u>3,944,013</u>	<u>42,418</u>	<u>214,381</u>	<u>4,200,812</u>
Support services:				
Student services	138,479	-	-	138,479
Instructional staff services	146,321	5,921	-	152,242
Administration services	564,238	-	-	564,238
Operation and maintenance of plant services	366,453	-	69,601	436,054
Transportation services	223,471	-	-	223,471
	<u>1,438,962</u>	<u>5,921</u>	<u>69,601</u>	<u>1,514,484</u>
Other expenditures:				
Facilities acquisition	-	66,050	-	66,050
Long-term debt:				
Principal	-	-	346,000	346,000
Interest and fiscal charges	-	-	126,519	126,519
AEA flowthrough	255,572	-	-	255,572
	<u>255,572</u>	<u>66,050</u>	<u>472,519</u>	<u>794,141</u>
Total expenditures	<u>5,638,547</u>	<u>114,389</u>	<u>756,501</u>	<u>6,509,437</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(52,919)</u>	<u>104,962</u>	<u>31,979</u>	<u>84,022</u>
Other financing sources (uses):				
Operating transfers in	-	-	218,040	218,040
Operating transfers out	-	(131,340)	(86,700)	(218,040)
Total other financing sources (uses)	<u>-</u>	<u>(131,340)</u>	<u>131,340</u>	<u>-</u>
Net change in fund balances	(52,919)	(26,378)	163,319	84,022
Fund balances beginning of year, as restated	<u>1,084,400</u>	<u>407,164</u>	<u>232,581</u>	<u>1,724,145</u>
Fund balances end of year	<u>1,031,481</u>	<u>380,786</u>	<u>395,900</u>	<u>1,808,167</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		84,022
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	57,210	
Depreciation expense	<u>(198,405)</u>	(141,195)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		20,869
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		346,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		1,276
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement		<u>(14,213)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>296,759</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2004

	<u>Nonmajor School Nutrition</u>
	\$
Assets	
Cash and cash equivalents	48,871
Inventories	2,755
Capital assets, net of accumulated depreciation	<u>22,376</u>
Total assets	<u>74,002</u>
Liabilities	
Accounts payable	141
Deferred revenue	<u>4,496</u>
Total liabilities	<u>4,637</u>
Net assets	
Invested in capital assets, net of related debt	22,376
Unrestricted	<u>46,989</u>
Total net assets	<u><u>69,365</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund

Year ended June 30, 2004

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>142,267</u>
Operating expenses:	
Non-instructional programs:	
Salaries	96,440
Benefits	35,576
Purchased services	506
Supplies	157,943
Depreciation	<u>5,585</u>
	<u>296,050</u>
Operating gain (loss)	<u>(153,783)</u>
Non-operating revenue:	
State sources	4,149
Federal sources	124,651
Interest income	<u>686</u>
Total non-operating revenue	<u>129,486</u>
Change in net assets	(24,297)
Net assets beginning of year	<u>93,662</u>
Net assets end of year	<u><u>69,365</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Nonmajor School Nutrition \$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	142,665
Cash payments to employees for services	(132,016)
Cash payments to suppliers for goods or services	(130,089)
Net cash used by operating activities	<u>(119,440)</u>
Cash flows from non-capital financing activities:	
State grants received	4,149
Federal grants received	97,131
Net cash provided by non-capital financing activities	<u>101,280</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(916)</u>
Cash flows from investing activities:	
Interest on investments	<u>686</u>
Net increase (decrease) in cash and cash equivalents	(18,390)
Cash and cash equivalents at beginning of year	<u>67,261</u>
Cash and cash equivalents at end of year	<u><u>48,871</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(153,783)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	27,520
Depreciation	5,585
Decrease (increase) in inventories	776
(Decrease) increase in accounts payable	64
(Decrease) increase in deferred revenue	398
Net cash used in operating activities	<u><u>(119,440)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$27,520 of federal commodities.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Fund

June 30, 2004

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	570
Liabilities	
	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>570</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

Year ended June 30, 2004

	Private Purpose Trust Scholarship <u>\$</u>
Additions:	
Local sources:	
Interest	19
Deductions:	
Support services:	
Scholarships awarded	<u>110</u>
Change in net assets	(91)
Net assets beginning of year	<u>661</u>
Net assets end of year	<u><u>570</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

Hartley-Melvin-Sanborn Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Hartley, Melvin, and Sanborn, Iowa and the predominately agricultural territory in a portion of O'Brien, Osceola, Clay and Dickinson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

The District reports the following major governmental funds:

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

The Physical Plant and Equipment Levy Fund is a special revenue fund that is established to account for the proceeds and uses of the physical plant and equipment property tax levy.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003, through June 30, 2004, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

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

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

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

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

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

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures in the other expenditures function exceeded the amount budgeted.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
		\$
Debt Service	Special Revenue: Physical Plant and Equipment Levy Fund	131,340
Debt Service	Capital Projects	86,700

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	81,804	-	-	81,804
Capital assets being depreciated:				
Buildings	5,902,931	57,210	22,197	5,937,944
Improvements other than buildings	507,218	-	-	507,218
Furniture and equipment	1,221,292	-	-	1,221,292
Total capital assets being deprec.	7,631,441	57,210	22,197	7,666,454

Less accumulated depreciation for:				
Buildings	1,765,647	106,169	22,197	1,849,619
Improvements other than buildings	281,282	23,019	-	304,301
Furniture and equipment	845,173	69,217	-	914,390
Total accumulated depreciation	<u>2,892,102</u>	<u>198,405</u>	<u>22,197</u>	<u>3,068,310</u>
 Total capital assets being depreciated, net	<u>4,739,339</u>	<u>(141,195)</u>	<u>-</u>	<u>4,598,144</u>
 Governmental activities capital assets, net	<u>4,821,143</u>	<u>(141,195)</u>	<u>-</u>	<u>4,679,948</u>
	Balance			Balance End
	Beginning of			of Year
	Year	Increases	Decreases	
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	98,204	916	-	99,120
Less accumulated depreciation	<u>71,159</u>	<u>5,585</u>	<u>-</u>	<u>76,744</u>
 Business type activities capital assets, net	<u>27,045</u>	<u>(4,669)</u>	<u>-</u>	<u>22,376</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	7,964
Special	268
Other	2,895
Support Services:	
Instructional staff services	3,467
Administration services	7,359
Operation and maintenance of plant services	4,734
Transportation	<u>42,530</u>
	69,217
Unallocated depreciation	<u>129,188</u>
 Total depreciation expense – governmental activities	<u>198,405</u>
 Business type activities:	
Food services	<u>5,585</u>

5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	2,720,000	-	220,000	2,500,000	230,000
Capital loan notes	120,000	-	120,000	-	-
EPA asbestos removal loan	15,842	-	6,000	9,842	6,000
Early retirement	19,492	18,178	3,965	33,705	15,363
Total	2,875,334	18,178	349,965	2,543,547	251,363

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age [fifty-five](#) and must have completed [fifteen](#) years of continuous service to the District, [except for administrators who must have completed ten years](#). Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on [percentage of current salary](#). Early retirement expenditures for the year ended June 30, [2004](#) totaled [\\$3,965](#)

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issues of May, 1994 and August 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2005	4.375-5.100	230,000	110,301	340,301
2006	4.375	240,000	99,550	339,550
2007	4.375	250,000	89,050	339,050
2008	4.375	265,000	78,113	343,113
2009	4.375	275,000	66,519	341,519
2010-2013	4.375-4.000	1,240,000	139,627	1,379,627
		<u>2,500,000</u>	<u>583,160</u>	<u>3,083,160</u>

EPA Asbestos Removal Loans Payable

The District received two interest free loans from the Environmental Protection Agency. The proceeds were used for asbestos abatement. The following is a schedule of loan repayments at June 30, 2004:

Year Ending June 30,	Principal
	\$
2005	6,000
2006	3,489
2007	353
	<u>9,842</u>

6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$207,813, \$208,518 and \$209,636 respectively, equal to the required contributions for each year.

7. Risk Management

Hartley-Melvin-Sanborn Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision, and prescription drugs.

Each member's contributions to ISEBA fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. The District's annual contributions to ISEBA for the year ended June 30, 2004, were \$447,410.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

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

8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$255,572 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

9. Construction Commitment

The District has entered into contracts totaling \$125,494 for window replacements. Work on the project had not started at June 30, 2004.

10. Related Party Transaction

A District board member owns a portion of the insurance agency from which the District purchases its property, liability and workmen's compensation insurance. The District paid \$69,601 in premiums to this agency during the year ended June 30, 2004.

11. Accounting Change and Restatement

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities, and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund			Total
	General	PPEL	Nonmajor	
	\$		\$	\$
Net assets, June 30, 2003, as previously reported	1,084,400	407,164	231,921	1,723,485
GASB Interpretation 6 adjustments	-	-	660	660
Net assets, July 1, 2003, as restated for governmental funds	<u>1,084,400</u>	<u>407,164</u>	<u>232,581</u>	1,724,145
GASB 34 adjustments:				
Capital assets net of accumulated depreciation of \$2,892,102				4,821,143
Long-term liabilities:				
Bonds			2,720,000	
Capital loan notes			120,000	
EPA asbestos removal loan			15,842	
Early retirement			<u>19,492</u>	(2,875,334)
Accrued interest payable				(10,468)
Deferred revenue				<u>20,870</u>
Net assets, July 1, 2003, as restated				<u>3,680,356</u>

REQUIRED SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Revenues:						
Local sources	3,223,601	142,953	3,366,554	3,334,438	3,334,438	32,116
Intermediate sources	-	-	-	30,000	30,000	(30,000)
State sources	3,148,868	4,149	3,153,017	3,569,830	3,569,830	(416,813)
Federal sources	220,990	124,651	345,641	291,000	291,000	54,641
Total revenues	<u>6,593,459</u>	<u>271,753</u>	<u>6,865,212</u>	<u>7,225,268</u>	<u>7,225,268</u>	<u>(360,056)</u>
Expenditures:						
Instruction	4,200,812	-	4,200,812	4,391,160	4,391,160	190,348
Support services	1,514,484	-	1,514,484	1,882,800	1,882,800	368,316
Non-instructional programs	-	296,050	296,050	302,000	302,000	5,950
Other expenditures	794,141	-	794,141	720,263	720,263	(73,878)
Total expenditures	<u>6,509,437</u>	<u>296,050</u>	<u>6,805,487</u>	<u>7,296,223</u>	<u>7,296,223</u>	<u>490,736</u>
Excess (deficiency) of revenues over (under) expenditures	84,022	(24,297)	59,725	(70,955)	(70,955)	130,680
Other financing sources (uses) net	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,660</u>	<u>3,660</u>	<u>(3,660)</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	84,022	(24,297)	59,725	(67,295)	(67,295)	127,020
Balance beginning of year	<u>1,724,145</u>	<u>93,662</u>	<u>1,817,807</u>	<u>920,775</u>	<u>920,775</u>	<u>897,032</u>
Balance end of year	<u><u>1,808,167</u></u>	<u><u>69,365</u></u>	<u><u>1,877,532</u></u>	<u><u>853,480</u></u>	<u><u>853,480</u></u>	<u><u>1,024,052</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared in accordance with generally accepted accounting principals. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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

During the year ended June 30, 2004, disbursements in the [other expenditures](#) function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

	Special Revenue Funds		Capital Projects Fund	Debt Service	Total
	Management Levy	Student Activity Fund	Local Option Sales Tax		
Assets	\$	\$	\$	\$	\$
Cash and pooled investments	34,752	140,880	17,816	139,026	332,474
Receivables:					
Property tax:					
Delinquent	908	-	-	5,079	5,987
Succeeding year	70,000	-	-	235,302	305,302
Accounts	-	1,516	-	-	1,516
Accrued interest	-	51	-	-	51
Due from other governments	-	-	59,137	-	59,137
Total assets	<u>105,660</u>	<u>142,447</u>	<u>76,953</u>	<u>379,407</u>	<u>704,467</u>
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	-	3,265	-	-	3,265
Deferred revenue:					
Succeeding year property tax	70,000	-	-	235,302	305,302
Total liabilities	<u>70,000</u>	<u>3,265</u>	<u>-</u>	<u>235,302</u>	<u>308,567</u>
Fund balances:					
Reserved for debt service	-	-	-	144,105	144,105
Unreserved fund balance	35,660	139,182	76,953	-	251,795
Total fund balances	<u>35,660</u>	<u>139,182</u>	<u>76,953</u>	<u>144,105</u>	<u>395,900</u>
Total liabilities and fund balances	<u>105,660</u>	<u>142,447</u>	<u>76,953</u>	<u>379,407</u>	<u>704,467</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2004

	Special Revenue Funds		Capital Projects Fund	Debt Service	Total
	Management Levy	Student Activity Fund	Local Option Sales Tax		
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	61,986	-	157,263	362,431	581,680
Other	546	201,866	146	3,876	206,434
State sources	53	-	-	313	366
Total revenues	<u>62,585</u>	<u>201,866</u>	<u>157,409</u>	<u>366,620</u>	<u>788,480</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	7,381	-	-	-	7,381
Other instruction	-	207,000	-	-	207,000
Support services:					
Operation and maintenance of plant services	69,601	-	-	-	69,601
Other expenditures:					
Long-term debt:					
Principal	-	-	-	346,000	346,000
Interest and fiscal charges	-	-	-	126,519	126,519
Total expenditures	<u>76,982</u>	<u>207,000</u>	<u>-</u>	<u>472,519</u>	<u>756,501</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,397)</u>	<u>(5,134)</u>	<u>157,409</u>	<u>(105,899)</u>	<u>31,979</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	218,040	218,040
Operating transfers out	-	-	(86,700)	-	(86,700)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(86,700)</u>	<u>218,040</u>	<u>131,340</u>
Net change in fund balances	(14,397)	(5,134)	70,709	112,141	163,319
Fund balances beginning of year, as restated	<u>50,057</u>	<u>144,316</u>	<u>6,244</u>	<u>31,964</u>	<u>232,581</u>
Fund balances end of year	<u><u>35,660</u></u>	<u><u>139,182</u></u>	<u><u>76,953</u></u>	<u><u>144,105</u></u>	<u><u>395,900</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance	Revenues	Expenditures	Intra-fund Transfers	Balance
	Beginning of Year				End of Year
	\$	\$	\$	\$	\$
All athletics	19,889	2,687	21,259	375	1,692
Cross country	434	205	554	250	335
Football	8,486	13,506	14,919	3,000	10,073
Volleyball	4,142	7,260	6,860	1,814	6,356
Boys basketball	4,609	5,937	6,554	1,500	5,492
Girls basketball	7,507	6,374	5,457	1,500	9,924
Boys track	1,012	2,049	3,698	900	263
Girls track	1,582	1,477	2,568	900	1,391
Boys golf	5	-	324	400	81
Girls golf	-	334	565	400	169
Baseball	-	8,091	10,176	3,000	915
Softball	1,182	671	4,098	3,000	755
Wrestling	2,591	4,771	4,226	1,000	4,136
Band	225	1,809	4,623	4,997	2,408
Band revenue	1,201	-	-	(1,201)	-
Chorus	687	195	3,087	2,299	94
Senior class	422	-	865	831	388
Junior class	1,253	654	2,115	1,588	1,380
Sophomore class	2,541	2,690	1,249	(1,716)	2,266
Freshman class	325	-	-	25	350
Class special	4,249	-	131	422	4,540
HS activities	-	36,059	6,669	(28,751)	639
Art club	1,853	1,936	3,057	19	751
Cheerleaders	1,402	1,247	1,193	-	1,456
Community youth organization	333	-	-	(333)	-
Computer club	1,270	-	-	-	1,270
Drama club	473	807	1,178	1,200	1,302
FCA	1,751	7,257	4,651	-	4,357
FFA	-	28,107	28,153	(198)	(244)
Industrial tech. club	318	999	1,333	688	672
Library reading club	818	175	106	-	887
Marketing club	178	856	627	-	407
Oracle yearbook organization	10,248	6,871	9,037	-	8,082
Science club	945	-	-	-	945
Spanish club	7,390	2,418	3,727	-	6,081
Student council-HS	626	9,126	8,683	5,958	7,027
Speech club	397	394	1,462	958	287
Elementary activities	778	-	-	(778)	-
Elementary special	2,843	-	-	(2,843)	-
Student council K-4	3,581	10,271	10,639	5,730	8,943
Elem. library reading club	738	-	-	(738)	-

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance	Revenues	Expenditures	Intra-fund Transfers	Balance
	Beginning of Year				End of Year
	\$	\$	\$	\$	\$
Unallocated interest	8,765	1,535	1,904	(1,057)	7,339
Board of education	432	96	543	60	45
Candy	2,096	-	-	(2,096)	-
Student pop	3,103	-	-	(3,103)	-
MS all athletics	-	31	494	463	-
MS football	-	-	953	953	-
MS volleyball	-	585	733	148	-
MS basketball	403	-	2,341	1,938	-
MS wrestling	-	960	1,081	121	-
MS track	-	240	229	-	11
MS golf	113	-	-	-	113
MS baseball	-	518	1,770	1,252	-
Bowling	44	2,160	2,072	-	132
MS softball	-	290	1,146	856	-
MS cheerleading	-	-	-	-	-
MS vocal music	-	-	93	93	-
MS band	1,393	1,726	2,726	1,538	1,931
Middle school activities	-	19,433	12,566	6,188	13,055
MS magazine sales	10,630	-	-	(10,630)	-
MS special	3,251	-	-	(3,251)	-
MS student council	1,168	4,416	3,406	3,272	5,450
MS JFH club	242	-	-	(242)	-
MS reading club	753	-	-	(753)	-
Sixth grade	-	1,840	1,026	332	1,146
Seventh grade	-	585	293	-	292
Eighth grade	95	2,119	1,548	-	666
MS UPC club	2,278	-	-	(2,278)	-
Checking interest	12,825	475	-	-	13,300
Concessions	1,530	-	-	-	1,530
Teachers	-	613	613	-	-
June 30, 2003 accrual entries	(3,089)	(2,556)	(5,645)	-	-
June 30, 2004 accrual entries	-	1,567	3,265	-	(1,698)
Totals	144,316	201,866	207,000	-	139,182

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,729,570	2,659,332	2,385,486	2,307,642
Tuition	207,060	200,570	154,211	127,658
Other	286,971	357,336	323,674	445,697
Intermediate sources	-	1,050	22,001	12,033
State sources	3,148,868	3,268,693	3,211,543	3,196,922
Federal sources	220,990	197,944	312,308	187,447
Total revenues	<u>6,593,459</u>	<u>6,684,925</u>	<u>6,409,223</u>	<u>6,277,399</u>
Expenditures:				
Instruction:				
Regular instruction	2,846,476	2,680,751	2,868,135	2,845,749
Special instruction	691,506	683,360	600,836	507,778
Other instruction	662,830	664,963	627,449	647,732
Support services:				
Student services	138,479	145,355	174,071	165,089
Instructional staff services	152,242	161,676	170,151	174,622
Administration services	564,238	667,238	641,145	628,602
Operation and maintenances of plant services	436,054	436,340	393,757	398,917
Transportation services	223,471	206,788	285,122	259,936
Non-instructional programs				
Other expenditures:				
Facilities acquisition	66,050	36,486	100,387	384,199
Long-term debt:				
Principal	346,000	336,000	306,000	301,000
Interest and other charges	126,519	141,339	154,745	167,640
AEA flowthrough	255,572	276,625	274,285	281,110
Total expenditures	<u>6,509,437</u>	<u>6,436,921</u>	<u>6,596,083</u>	<u>6,762,374</u>

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Education of the
[Hartley-Melvin-Sanborn](#) Community School District

We have audited the financial statements of the [Hartley-Melvin-Sanborn](#) Community School District as of and for the year ended June 30, 2004, and have issued our report dated [October 19, 2004](#). We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether [Hartley-Melvin-Sanborn](#) Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. [However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.](#)

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for items [04-II-B](#), [04-II-E](#), [04-II-H](#) and [04-II-L](#).

Internal Control over Financial Reporting

In planning and performing our audit, we considered [Hartley-Melvin-Sanborn](#) Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items [04-I-A](#), [04-I-B](#), [04-I-C](#) and [04-I-D](#) are material weaknesses. Prior year reportable conditions have all been resolved except for item [04-I-A](#).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the [Hartley-Melvin-Sanborn](#) Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of [Hartley-Melvin-Sanborn](#) Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

[October 19, 2004](#)

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

04-I-B Signature Stamp: We noted that a stamp bearing the signature of the Board President is used to cosign checks. The board secretary, the other co-signor of checks has access to the stamp. This practice negates the internal control procedure established by requiring two signatures on a check

Recommendation: We recommend that this practice cease. The board may designate a person other than the board president to cosign checks. If a signature stamp is used, it should remain under the control of the person whose name the stamp bears at all times.

District Response: We will discuss methods to limit access to the signature stamp.

Conclusion: Response accepted.

04-I-C Internal Control of Trust Accounts: The District has one small scholarship trust fund that is not accounted for in the District's financial accounting software.

Recommendation: All District funds should be included in the computer accounting records.

District Responses: We will add this fund to the accounting software.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements (continued):

Conclusion: Response accepted.

04-I-D Signatures on Checks: The Code of Iowa requires that all District checks be signed by the board secretary and the board president. The board may appoint persons to sign instead of the board president. We noted that the December, 2003 Student Activity Fund Checks were signed only by the board president.

Recommendation: All checks should be reviewed for proper signatures before being released to the payees.

District Responses: The omission of the board secretary's signature on these checks was an oversight. We will review all checks for proper signatures prior to mailing.

Conclusion: Response accepted.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget: Expenditures for the year ended June 30, 2004, exceeded the amount budgeted in the other expenditures functional area.

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

District Response: We will amend future budgets before actual expenditures exceed the amount budgeted.

Conclusion: Response accepted.

04-II-C Questionable Expenditures: We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Bill Treimer, Board Member, Co-Owner of local insurance agency	School Insurance Policy	69,601

This transaction appears to represent a conflict of interest since the dollar amount was more than \$2,500 and the insurance contract was not bid.

Recommendation: Business with district officials is not a conflict of interest if bids are taken or if the total amount is less than \$2,500. The District should consult legal council regarding this matter.

District Response: We have consulted with our attorney and received an opinion that this is not a conflict of interest. Bill Treimer does not handle the commercial insurance for the business, but does receive a benefit of less than \$2,500 from the insurance contract with the school. Bill Treimer will reclude himself in all votes where the Board is considering commercial insurance policies.

Conclusion: Response accepted.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

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

04-II-F Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.

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

04-II-H Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education for September 2003, was overstated by four students.

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

District Response: We will contact these departments.

Conclusion: Response accepted.

04-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, the District needs to update their investment policy.

Recommendation: The District should revise their investment policy to include the items required by Chapter 12B.10 of the Code of Iowa.

District Response: We will update our investment policy.

Conclusion: Response accepted.

04-II-J Certified Annual Report (CAR): The CAR was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

04-II-K Fund Transfers: We noted fund transfers between the capital projects and debt service funds for which we could find no documentation of approval by the board.

Recommendation: Fund transfers should be approved by the board and documented in the minutes.

District Response: We will document approval of all fund transfers in the future.

Conclusion: Response accepted.

04-II-L Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extra-curricular student activity program. We noted accounts in the Student Activity Fund that do not appear to be for extra-curricular student activities.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

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

Recommendation: The District should review the types of transactions that are being recorded in the Student Activity Fund. Any transactions for items other than student activity expenses should be recorded in the General Fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.

04-II-M

Physical Plant and Equipment Levy Fund (PPEL): The Code of Iowa specifies the types of items that may be paid from the Physical Plant and Equipment Levy Fund. The Fund may be used to purchase individual pieces of equipment with a cost exceeding \$500. We noted that expenditures from this fund included \$5,924 of purchases for tables and chairs with a cost of less than \$500 for each unit and purchases included \$1,410 for computer software. The Code of Iowa does not list computer software as an allowable expense from the PPEL Fund.

Recommendation: The District should review the types of expenses that may be made from the PPEL Fund and should reimburse the PPEL Fund from the General Fund for these expenses.

District Response: We will review the types of items that we are purchasing from the PPEL Fund.

Conclusion: Response accepted.