

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Hartley-Melvin-Sanborn Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2005, 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, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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, 2004, (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 6, 2005

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, 2005. 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.

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

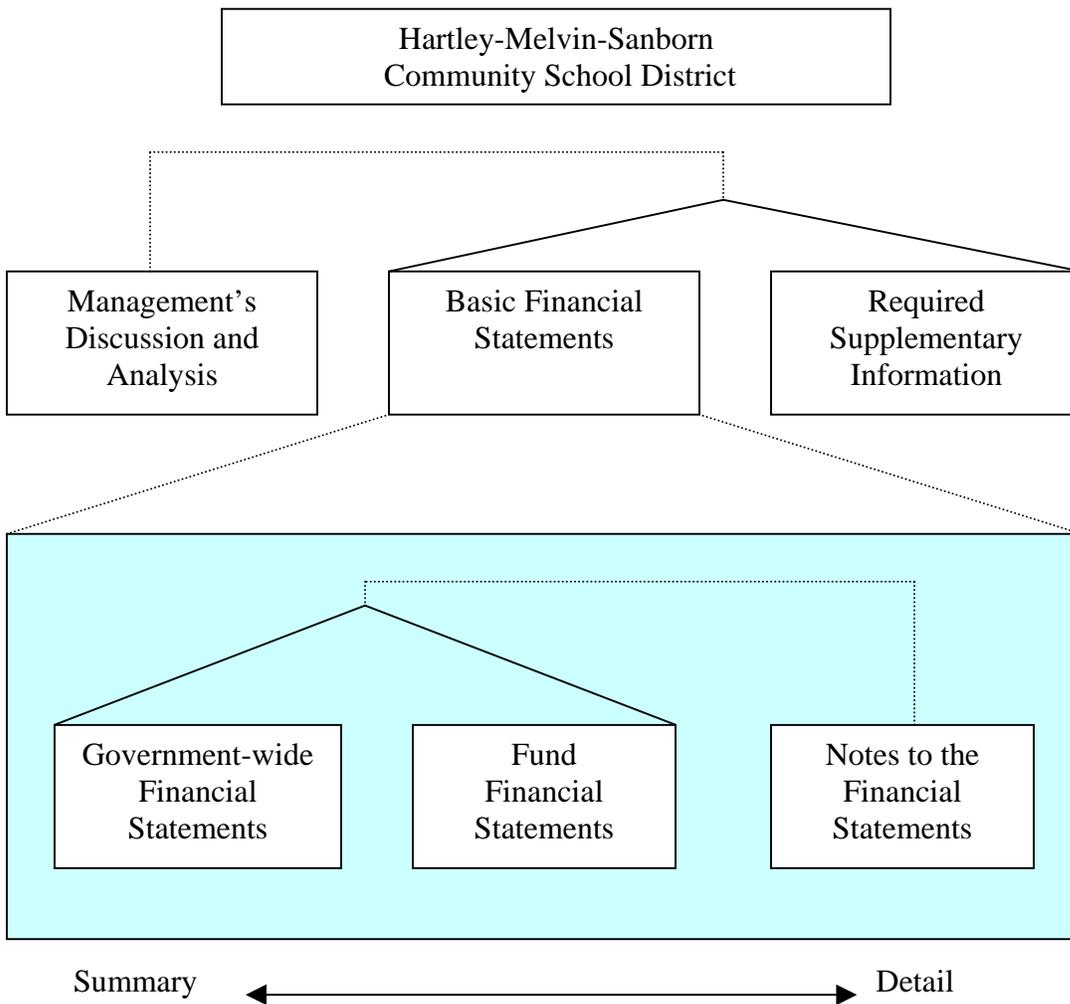


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents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

Figure A-3 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2004.

		Condensed Statement of Net Assets				Total School District		Total Percentage Change 2003-2004
		Governmental Activities		Business-type Activities				
		2004	2005	2004	2005	2004	2005	
Current and other assets		\$4,512,676	\$5,027,634	\$51,626	\$20,840	\$4,564,302	\$5,048,474	10.6%
Capital assets		\$4,679,948	\$4,634,500	\$22,376	\$18,497	\$4,702,324	\$4,652,997	(1.0%)
Total Assets		\$9,192,624	\$9,662,134	\$74,002	\$39,337	\$9,266,626	\$9,701,471	4.7%
Long-term liabilities		\$2,543,547	\$2,306,381	0	0	\$2,543,547	\$2,306,381	(9.3%)
Other liabilities		\$2,671,962	\$3,111,172	\$4,637	\$3,585	\$2,676,599	\$3,114,757	16.4%
Total liabilities		\$5,215,509	\$5,417,553	\$4,637	\$3,585	\$5,220,146	\$5,421,138	3.9%
Net Assets:								
Invested in capital assets, net of related debt		\$2,170,106	\$2,360,653	\$22,376	\$18,497	\$2,192,482	\$2,379,150	8.5%
Restricted		\$737,194	\$1,054,624	0	0	\$737,194	\$1,054,624	43.1%
Unrestricted		\$1,069,815	\$829,304	\$46,989	\$17,255	\$1,116,804	\$846,559	(24.2%)
TOTAL NET ASSETS		\$3,977,115	\$4,244,581	\$69,365	\$35,752	\$4,046,480	\$4,280,333	5.8%

The District's combined net assets were slightly larger on June 30, 2005, than they were the year before, increasing 5.8% (see Figure A-3). The largest increase is noted in the restricted area where the use of funds are limited by legislation. The large increase in restricted net assets occurred because approximately \$378,000 of fiscal year 2005 local option sales tax revenues were not spent during fiscal year 2005. The use of the local option sales tax revenues is restricted by the Code of Iowa.

Unrestricted net assets are the part of total net assets that may be used to finance day-to day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	2004	2005	2004	2005	2004	2005
Revenues						
Program Revenues						
Charges for services	\$445,208	\$440,063	\$142,267	\$143,935	\$587,475	\$583,998
Operating Grants & Contributions	\$759,956	\$811,133	\$128,800	\$132,409	\$888,756	\$943,542
Capital Grants & Contributions	0	0	0	0	0	0
General Revenues						
Property taxes & other taxes	\$2,749,559	\$2,754,346	0	0	\$2,749,559	\$2,754,346
Unrestricted State Grants	\$2,611,602	\$2,778,814	0	0	\$2,611,602	\$2,778,814
Unrestricted Investment Earnings	\$44,947	\$48,054	\$686	\$439	\$45,633	\$48,493
Other Revenue	\$3,056	\$26,101	0	0	\$3,056	\$26,101
Total Revenues	\$6,614,328	\$6,858,511	\$271,753	\$276,783	\$6,886,081	\$7,135,294
Expenses						
Instruction	\$4,226,152	\$4,469,457	0	\$0	\$4,226,152	\$4,469,457
Support Services	\$1,572,574	\$1,622,829	0	\$0	\$1,572,574	\$1,622,829
Non-Instructional Programs	0	\$4,337	\$296,050	\$310,396	\$296,050	\$314,733
Other Expenses	\$518,843	\$494,422	-		\$518,843	\$494,422
Total Expenses	\$6,317,569	\$6,591,045	\$296,050	\$310,396	\$6,613,619	\$6,901,441
Transfers	0	0	0	0	0	0
Change in Net Assets	\$296,759	\$267,466	(\$24,297)	(\$33,613)	\$272,462	\$233,853

Governmental Activities -

Referring to *Figure A-4*, revenues for the District's governmental activities were \$6,858,511 for fiscal year 2005. Total governmental expenditures were \$6,591,045.

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 \$12.13 per thousand dollars of taxable valuation to \$11.78.

Figure A-5

Net Cost of Governmental Activities

	Total Cost of Services 2004	Total Cost of Services 2005	Net Cost of Services 2004	Net Cost of Services 2005
Instruction	\$4,226,152	\$4,469,457	\$3,313,633	\$3,503,890
Support Services	\$1,572,574	\$1,622,829	\$1,539,377	\$1,594,635
Non-instructional Programs	\$0	\$4,337	\$0	\$4,337
Other Expenses	\$518,843	\$494,422	\$259,395	\$236,987
TOTAL	\$6,317,569	\$6,591,045	\$5,112,405	\$5,339,849

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

- The cost of all governmental activities this year was \$6,591,045.
- Some of the cost was financed by the users of the District’s programs (\$440,063).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$811,133).
- Most of the District’s costs (\$5,339,849), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$2,754,346 in property and other taxes, and \$2,778,814 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 decrease in net assets with expenses exceeding revenues \$33,613 (refer to *Figure A-4*). The Board of Education did increase school meal prices for fiscal year 2005 by \$0.10 per meal.

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 \$1,863,134, slightly more than last year’s ending fund balances of \$1,808,166.

Governmental Fund Highlights

The General Fund balance decreased from \$1,031,480 to \$805,997, due in part to the reduction in student enrollment, negotiated salary and benefit settlement, and events such as the Iowa School Employee Benefits Association (ISEBA) assessment of \$138,045 due to the district's termination of the 28E agreement for medical benefits.

The Non-major Governmental Funds balance increased from \$395,900 to \$646,918. The increase was due in large part to increased revenues in the Capitol Projects Fund from the Local Option Sales Tax. A portion of this fund has been reserved for the completion of a middle school window replacement project an elementary office remodeling project, replacement of an elementary hallway flooring and roof repairs on all three school buildings.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased \$29,433.

Business Type Fund Highlights

The School Nutrition Fund net assets decreased from \$69,365 at June 30, 2004 to \$35,752 at June 30, 2005, representing a decrease of 48 %. The cost of salaries and benefits increased by \$4,541. The cost of supplies increased by \$10,843, while the sales of lunches and breakfasts increased by \$1,668. Revenue from the national school lunch and breakfast programs increased \$3,609.

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 FY05, the continued student enrollment decline along with the additional 10% reduction in the budget guarantee contributed to a decrease in revenue to the district while the cost of instruction continues to increase. Additional State and Federal competitive grants were used to fund specific initiatives contributing to an overall increase in revenues, but keeping in mind that these grant funds are designated for specific purposes. 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, the District was able to keep total disbursements (\$7,085,750) slightly below total receipts (\$7,090,212)

Capital Asset and Debt Administration

Capital Assets

By the end of 2005, the District had invested \$4,652,997, net of accumulated depreciation, 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 \$49,327 or 1% from last year. (More detailed information about capital assets can be found in Note 5 to the financial statements.)

At June 30, 2005 the District had committed approximately \$100,000 for window replacement.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business--type Activities		Total School District		Total Percentage Change 2004-05
	2004	2005	2004	2005	2004	2005	
	Land	\$81,804	\$81,804	0	0	\$81,804	
Construction in progress	0	0	0	0	0	0	0
Improvements other than Buildings	\$202,917	\$179,897	0	0	\$202,917	\$179,897	(11.3%)
Buildings	\$4,088,325	\$4,035,133	0	0	\$4,088,325	\$4,035,133	(1.3%)
Equipment & Furniture	\$306,902	\$337,666	\$22,376	\$18,497	\$329,278	\$356,163	8.2%
TOTAL	\$4,679,948	\$4,634,500	\$22,376	\$18,497	\$4,702,324	\$4,652,997	1.0%

Long-Term Debt

At June 30, 2005, the District had \$2,306,381 in general obligation and other long-term debt outstanding (Figure A-7). This is a 9% reduction from the prior year. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7

Long-Term Debt

	Balance End of 2005	Due Within One Year
General obligation bonds	\$2,270,000	\$240,000
Local option sales tax revenue bonds	0	0
Revenue bond anticipation notes	0	0
Early retirement	\$32,539	\$21,590
EPA asbestos removal loan	\$3,842	\$3,489
Total	\$2,306,381	\$265,079

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 2006 and 2007, 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 continue to recede 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 next 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, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	2,576,510	50,473	2,626,983
Receivables:			
Property tax:			
Delinquent	40,833	-	40,833
Succeeding year	2,129,072	-	2,129,072
Accounts	1,181	-	1,181
Due from other governments	247,362	-	247,362
Interfund receivable/payable	32,676	(32,676)	-
Inventories	-	3,043	3,043
Capital assets, net of accumulated depreciation	4,634,500	18,497	4,652,997
Total assets	9,662,134	39,337	9,701,471
Liabilities			
Accounts payable	219,958	101	220,059
Salaries and benefits payable	648,744	-	648,744
Accrued interest payable	8,296	-	8,296
Deferred revenue:			
Succeeding year property tax	2,129,072	-	2,129,072
Other	105,102	3,484	108,586
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	240,000	-	240,000
EPA asbestos removal loan	3,489	-	3,489
Early retirement	21,590	-	21,590
Portion due after one year:			
General obligation bonds payable	2,030,000	-	2,030,000
EPA asbestos removal loan	353	-	353
Early retirement	10,949	-	10,949
Total liabilities	5,417,553	3,585	5,421,138

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	2,360,653	18,497	2,379,150
Restricted for:			
Phase III	3,405	-	3,405
Gifted and talented program	19,000	-	19,000
Physical plant and equipment levy	410,219	-	410,219
Other special revenue purposes	131,540	-	131,540
Local option sales tax capital projects	454,982	-	454,982
Debt service	35,478	-	35,478
Unrestricted	829,304	17,255	846,559
Total net assets	<u>4,244,581</u>	<u>35,752</u>	<u>4,280,333</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revent Operating Grants, Contributions and Restricted Interest</u>
Governmental activities:			
Instruction:			
Regular instruction	3,074,823	189,488	476,794
Special instruction	742,373	40,129	43,023
Other instruction	652,261	202,348	13,785
	<u>4,469,457</u>	<u>431,965</u>	<u>533,602</u>
Support services:			
Student services	137,792	-	-
Instructional staff services	166,550	-	-
Administration services	603,236	-	-
Operation and maintenance of plant services	464,617	8,098	-
Transportation services	250,634	-	20,096
	<u>1,622,829</u>	<u>8,098</u>	<u>20,096</u>
Non-instructional programs	<u>4,337</u>	-	-
Other expenditures:			
Long-term debt interest	110,205	-	5,107
AEA flowthrough	252,328	-	252,328
Depreciation (unallocated)*	131,889	-	-
	<u>494,422</u>	-	<u>257,435</u>
Total governmental activities	6,591,045	440,063	811,133
Business type activities:			
Non-instructional programs:			
Food service operations	<u>310,396</u>	<u>143,935</u>	<u>132,409</u>
Total	<u>6,901,441</u>	<u>583,998</u>	<u>943,542</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

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, 2005

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(2,408,541)	-	(2,408,541)
(659,221)	-	(659,221)
(436,128)	-	(436,128)
<u>(3,503,890)</u>	<u>-</u>	<u>(3,503,890)</u>
(137,792)	-	(137,792)
(166,550)	-	(166,550)
(603,236)	-	(603,236)
(456,519)	-	(456,519)
(230,538)	-	(230,538)
<u>(1,594,635)</u>	<u>-</u>	<u>(1,594,635)</u>
(4,337)	-	(4,337)
(105,098)	-	(105,098)
-	-	-
<u>(131,889)</u>	<u>-</u>	<u>(131,889)</u>
<u>(236,987)</u>	<u>-</u>	<u>(236,987)</u>
(5,339,849)	-	(5,339,849)
<u>-</u>	<u>(34,052)</u>	<u>(34,052)</u>
<u>(5,339,849)</u>	<u>(34,052)</u>	<u>(5,373,901)</u>
1,915,093	-	1,915,093
235,351	-	235,351
131,481	-	131,481
62,960	-	62,960
409,461	-	409,461
2,778,814	-	2,778,814
48,054	439	48,493
26,101	-	26,101
<u>5,607,315</u>	<u>439</u>	<u>5,607,754</u>
267,466	(33,613)	233,853
<u>3,977,115</u>	<u>69,365</u>	<u>4,046,480</u>
<u>4,244,581</u>	<u>35,752</u>	<u>4,280,333</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	1,617,454	408,071	550,985	2,576,510
Receivables:				
Property tax:				
Delinquent	33,645	2,148	5,040	40,833
Succeeding year	1,811,229	133,293	184,550	2,129,072
Accounts	1,032	-	149	1,181
Interfund receivable	32,676	-	-	32,676
Due from other governments	93,351	61,624	92,387	247,362
	<u>3,589,387</u>	<u>605,136</u>	<u>833,111</u>	<u>5,027,634</u>
Total assets				
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	218,315	-	1,643	219,958
Salaries and benefits payable	648,744	-	-	648,744
Deferred revenue:				
Succeeding year property tax	1,811,229	133,293	184,550	2,129,072
Other	105,102	61,624	-	166,726
Total liabilities	<u>2,783,390</u>	<u>194,917</u>	<u>186,193</u>	<u>3,164,500</u>
Fund balances:				
Reserved for:				
Phase III	3,405	-	-	3,405
Gifted and talented program	19,000	-	-	19,000
Debt service	-	-	43,774	43,774
Unreserved reported in:				
General fund	783,592	-	-	783,592
Special revenue funds	-	410,219	148,162	558,381
Capital projects funds	-	-	454,982	454,982
Total fund balances	<u>805,997</u>	<u>410,219</u>	<u>646,918</u>	<u>1,863,134</u>
	<u>3,589,387</u>	<u>605,136</u>	<u>833,111</u>	<u>5,027,634</u>
Total liabilities and fund balances				

HARTLEY-MELVIN-SANBORN Community SCHOOL DISTRICT

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

June 30, 2005

	\$
Total fund balances of governmental funds (Exhibit C)	1,863,134
<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.	4,634,500
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	61,624
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	(8,296)
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>(2,306,381)</u>
Net assets of governmental activities (Exhibit A)	<u><u>4,244,581</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,845,818	174,605	714,942	2,735,365
Tuition	190,060	8,063	-	198,123
Other	80,204	-	214,897	295,101
Intermediate sources	486	-	-	486
State sources	3,302,000	126	291	3,302,417
Federal sources	281,937	-	-	281,937
Total revenues	<u>5,700,505</u>	<u>182,794</u>	<u>930,130</u>	<u>6,813,429</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	2,999,574	49,948	19,769	3,069,291
Special instruction	742,105	-	-	742,105
Other instruction	436,689	-	212,677	649,366
	<u>4,178,368</u>	<u>49,948</u>	<u>232,446</u>	<u>4,460,762</u>
Support services:				
Student services	137,792	-	-	137,792
Instructional staff services	166,550	-	-	166,550
Administration services	594,727	8,898	-	603,625
Operation and maintenance of plant services	387,245	12,635	69,889	469,769
Transportation services	221,534	55,880	-	277,414
	<u>1,507,848</u>	<u>77,413</u>	<u>69,889</u>	<u>1,655,150</u>
Non-instructional programs	<u>4,337</u>	<u>-</u>	<u>-</u>	<u>4,337</u>
Other expenditures:				
Facilities acquisition	-	20,000	35,676	55,676
Long-term debt:				
Principal	-	-	236,000	236,000
Interest and fiscal charges	-	-	111,101	111,101
AEA flowthrough	252,328	-	-	252,328
	<u>252,328</u>	<u>20,000</u>	<u>382,777</u>	<u>655,105</u>
Total expenditures	<u>5,942,881</u>	<u>147,361</u>	<u>685,112</u>	<u>6,775,354</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	<u>(242,376)</u>	<u>35,433</u>	<u>245,018</u>	<u>38,075</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	14,453	-	-	14,453
Sales of real estate and equipment	2,440	-	-	2,440
Operating transfers in	-	-	6,000	6,000
Operating transfers out	-	(6,000)	-	(6,000)
Total other financing sources (uses)	<u>16,893</u>	<u>(6,000)</u>	<u>6,000</u>	<u>16,893</u>
Net change in fund balances	(225,483)	29,433	251,018	54,968
Fund balances beginning of year	<u>1,031,480</u>	<u>380,786</u>	<u>395,900</u>	<u>1,808,166</u>
Fund balances end of year	<u><u>805,997</u></u>	<u><u>410,219</u></u>	<u><u>646,918</u></u>	<u><u>1,863,134</u></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, 2005

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		54,968
<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:		
Gain on equipment traded in	8,304	
Expenditures for capital assets	131,774	
Depreciation expense	<u>(185,527)</u>	(45,449)
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.		19,885
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.		236,000
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.		896
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>1,166</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>267,466</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	50,473
Inventories	3,043
Capital assets, net of accumulated depreciation	<u>18,497</u>
Total assets	<u>72,013</u>
Liabilities	
Accounts payable	101
Interfund payable	32,676
Deferred revenue	<u>3,484</u>
Total liabilities	<u>36,261</u>
Net assets	
Invested in capital assets, net of related debt	18,497
Unrestricted	<u>17,255</u>
Total net assets	<u><u>35,752</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>143,935</u>
Operating expenses:	
Non-instructional programs:	
Salaries	97,581
Benefits	38,976
Purchased services	366
Supplies	168,786
Depreciation	4,687
	<u>310,396</u>
Operating gain (loss)	<u>(166,461)</u>
Non-operating revenue:	
State sources	4,101
Federal sources	128,308
Interest income	439
Total non-operating revenue	<u>132,848</u>
Change in net assets	(33,613)
Net assets beginning of year	<u>69,365</u>
Net assets end of year	<u><u>35,752</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	142,923
Cash payments to employees for services	(103,881)
Cash payments to suppliers for goods or services	(143,206)
Net cash used by operating activities	<u>(104,164)</u>
Cash flows from non-capital financing activities:	
State grants received	4,101
Federal grants received	102,034
Net cash provided by non-capital financing activities	<u>106,135</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(808)</u>
Cash flows from investing activities:	
Interest on investments	<u>439</u>
Net increase (decrease) in cash and cash equivalents	1,602
Cash and cash equivalents at beginning of year	<u>48,871</u>
Cash and cash equivalents at end of year	<u><u>50,473</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(166,461)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	26,274
Depreciation	4,687
Decrease (increase) in inventories	(288)
(Decrease) increase in accounts payable	(40)
(Decrease) increase in salaries and benefits payable to General Fund	32,676
(Decrease) increase in deferred revenue	(1,012)
Net cash used in operating activities	<u><u>(104,164)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$26,274 of federal commodities.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Fund

June 30, 2005

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	521
Liabilities	
	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>521</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

Year ended June 30, 2005

	Private Purpose Trust <u>Scholarship</u> \$
Additions:	
Local sources:	
Interest	11
Deductions:	
Support services:	
Scholarships awarded	<u>60</u>
Change in net assets	(49)
Net assets beginning of year	<u>570</u>
Net assets end of year	<u><u>521</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004, through June 30, 2005, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

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

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

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

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

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

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts 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.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 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 No. 40.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
General Fund	Enterprise: School Nutrition Fund	32,676

At June 30, 2005 the School Nutrition owed the General Fund \$32,676 for Nutrition Fund salaries and benefits.

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
		\$
Debt Service	Special Revenue: Physical Plant and Equipment Levy Fund	6,000

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

5. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	81,804	-	-	81,804
Capital assets being depreciated:				
Buildings	5,937,944	55,677	-	5,993,621
Improvements other than buildings	507,218	-	-	507,218
Furniture and equipment	1,221,292	94,083	106,331	1,209,044
Total capital assets being deprec.	<u>7,666,454</u>	<u>149,760</u>	<u>106,331</u>	<u>7,709,883</u>
Less accumulated depreciation for:				
Buildings	1,849,619	108,869	-	1,958,488
Improvements other than buildings	304,301	23,020	-	327,321
Furniture and equipment	914,390	53,638	96,650	871,378
Total accumulated depreciation	<u>3,068,310</u>	<u>185,527</u>	<u>96,650</u>	<u>3,157,187</u>
Total capital assets being depreciated, net	<u>4,598,144</u>	<u>(35,767)</u>	<u>9,681</u>	<u>4,552,696</u>
Governmental activities capital assets, net	<u>4,679,948</u>	<u>(35,767)</u>	<u>9,681</u>	<u>4,634,500</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	99,120	808	-	99,928
Less accumulated depreciation	<u>76,744</u>	<u>4,687</u>	-	<u>81,431</u>
Business type activities capital assets, net	<u>22,376</u>	<u>(3,879)</u>	-	<u>18,497</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	6,698
Special	268
Other	2,895
Support Services:	
Instructional staff services	
Administration services	7,988
Operation and maintenance of plant services	6,689
Transportation	<u>29,100</u>
	<u>53,638</u>

Unallocated depreciation	131,889
Total depreciation expense – governmental activities	<u>185,527</u>

Business type activities:	
Food services	<u>4,687</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	2,500,000	-	230,000	2,270,000	240,000
EPA asbestos removal loan	9,842	-	6,000	3,842	3,489
Early retirement	33,705	18,483	19,649	32,539	21,590
Total	<u>2,543,547</u>	<u>18,483</u>	<u>255,649</u>	<u>2,306,381</u>	<u>265,079</u>

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, 2005 totaled \$19,649

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of August 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
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	4.375	290,000	54,488	344,488
2011-2013	4.375-4.000	<u>950,000</u>	<u>85,140</u>	<u>1,035,140</u>
		<u>2,270,000</u>	<u>472,860</u>	<u>2,742,860</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, 2005:

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

7. Pension and Retirement Benefits

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

Plan members are required to contribute 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, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$182,859, \$207,813 and \$208,518 respectively, equal to the required contributions for each year.

8. Risk Management

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$138,045 which is recorded as a liability as of June 30, 2005.

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$252,328 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Construction Commitment

The District has entered into contracts totaling \$129,454 for window replacements. The project is being completed in phases. At June 30, 2005, \$55,676 of the project was completed.

11. 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 \$69,889 in premiums to this agency during the year ended June 30, 2005.

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, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Revenues:						
Local sources	3,228,589	144,374	3,372,963	3,021,366	3,021,366	351,597
Intermediate sources	486	-	486	1,100	1,100	(614)
State sources	3,302,417	4,101	3,306,518	3,471,382	3,471,382	(164,864)
Federal sources	281,937	128,308	410,245	336,000	336,000	74,245
Total revenues	<u>6,813,429</u>	<u>276,783</u>	<u>7,090,212</u>	<u>6,829,848</u>	<u>6,829,848</u>	<u>260,364</u>
Expenditures:						
Instruction	4,460,762	-	4,460,762	4,495,726	4,495,726	34,964
Support services	1,655,150	-	1,655,150	1,839,199	1,839,199	184,049
Non-instructional programs	4,337	310,396	314,733	354,062	354,062	39,329
Other expenditures	655,105	-	655,105	830,574	830,574	175,469
Total expenditures	<u>6,775,354</u>	<u>310,396</u>	<u>7,085,750</u>	<u>7,519,561</u>	<u>7,519,561</u>	<u>433,811</u>
Excess (deficiency) of revenues over (under) expenditures	38,075	(33,613)	4,462	(689,713)	(689,713)	694,175
Other financing sources (uses) net	<u>16,893</u>	<u>-</u>	<u>16,893</u>	<u>-</u>	<u>-</u>	<u>16,893</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	54,968	(33,613)	21,355	(689,713)	(689,713)	711,068
Balance beginning of year	<u>1,808,166</u>	<u>69,365</u>	<u>1,877,531</u>	<u>1,482,854</u>	<u>1,482,854</u>	<u>394,677</u>
Balance end of year	<u><u>1,863,134</u></u>	<u><u>35,752</u></u>	<u><u>1,898,886</u></u>	<u><u>793,141</u></u>	<u><u>793,141</u></u>	<u><u>1,105,745</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual and accrual basis. Encumbrances are not recognized on in this 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 the 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.

OTHER SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds		Capital Projects Fund	Debt Service	Total
	Management Levy	Student Activity Fund	Local Option Sales Tax		
	\$	\$	\$		
Cash and pooled investments	15,425	133,034	362,595	39,931	550,985
Receivables:					
Property tax:					
Delinquent	1,197	-	-	3,843	5,040
Succeeding year	75,000	-	-	109,550	184,550
Accounts	-	149	-	-	149
Due from other governments	-	-	92,387	-	92,387
Total assets	91,622	133,183	454,982	153,324	833,111
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	-	1,643	-	-	1,643
Succeeding year property tax	75,000	-	-	109,550	184,550
Total liabilities	75,000	1,643	-	109,550	186,193
Fund balances:					
Reserved for debt service	-	-	-	43,774	43,774
Unreserved reported in:					
Special revenue funds	16,622	131,540	-	-	148,162
Capital projects funds	-	-	454,982	-	454,982
Total fund balances	16,622	131,540	454,982	43,774	646,918
Total liabilities and fund balances	91,622	133,183	454,982	153,324	833,111

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	Special Revenue Funds		Capital Projects Fund	Debt Service	Total
	Management Levy	Student Activity Fund	Local Option Sales Tax		
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	70,043	-	409,461	235,438	714,942
Other	511	205,035	4,244	5,107	214,897
State sources	66	-	-	225	291
Total revenues	<u>70,620</u>	<u>205,035</u>	<u>413,705</u>	<u>240,770</u>	<u>930,130</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	19,769	-	-	-	19,769
Other instruction	-	212,677	-	-	212,677
Support services:					
Operation and maintenance of plant services	69,889	-	-	-	69,889
Other expenditures:					
Facilities acquisition	-	-	35,676	-	35,676
Long-term debt:					
Principal	-	-	-	236,000	236,000
Interest and fiscal charges	-	-	-	111,101	111,101
Total expenditures	<u>89,658</u>	<u>212,677</u>	<u>35,676</u>	<u>347,101</u>	<u>685,112</u>
Excess (deficiency) of revenues over (under) expenditures	(19,038)	(7,642)	378,029	(106,331)	245,018
Other financing sources (uses):					
Operating transfers in	-	-	-	6,000	6,000
Net change in fund balances	(19,038)	(7,642)	378,029	(100,331)	251,018
Fund balances beginning of year	<u>35,660</u>	<u>139,182</u>	<u>76,953</u>	<u>144,105</u>	<u>395,900</u>
Fund balances end of year	<u>16,622</u>	<u>131,540</u>	<u>454,982</u>	<u>43,774</u>	<u>646,918</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance	Revenues	Expenditures	Intra-fund Transfers	Balance
	Beginning of Year				End of Year
	\$	\$	\$	\$	\$
All athletics	1,692	7,563	3,167	(5,755)	333
Cross country	335	160	432	-	63
Football	10,073	20,353	17,741	(126)	12,559
Volleyball	6,356	6,517	9,805	-	3,068
Boys basketball	5,492	6,498	10,481	-	1,509
Girls basketball	9,924	6,654	6,096	-	10,482
Boys track	263	466	3,043	2,669	355
Girls track	1,391	348	2,134	402	7
Boys golf	81	-	299	234	16
Girls golf	169	498	1,410	750	7
Baseball	915	1,648	6,609	4,003	(43)
Softball	755	3,221	7,228	3,294	42
Wrestling	4,136	4,955	5,861	103	3,333
Band	2,408	1,342	4,802	1,310	258
Chorus	94	1,530	3,163	1,766	227
Senior class	388	499	1,043	992	836
Junior class	1,380	1,111	2,857	881	515
Sophomore class	2,266	2,339	1,044	(1,916)	1,645
Freshman class	350	-	-	(350)	-
Class special	4,540	25	985	387	3,967
HS activities	639	27,230	16,247	(11,488)	134
Art club	751	1,951	1,740	-	962
Cheerleaders	1,456	4,897	5,004	100	1,449
Computer club	1,270	-	-	-	1,270
Drama club	1,302	2,650	2,698	635	1,889
FCA	4,357	2,463	1,906	-	4,914
FFA	(244)	25,370	24,529	59	656
Industrial tech. club	672	501	1,250	100	23
Library reading club	887	166	29	-	1,024
Marketing club	407	-	100	-	307
Oracle yearbook organization	8,082	8,425	7,894	-	8,613
Science club	945	-	-	-	945
Spanish club	6,081	7,013	6,913	-	6,181
Student council-HS	7,027	7,922	7,831	77	7,195
Speech club	287	5,713	4,710	1,438	2,728
Student council K-4	8,943	7,910	9,306	937	8,484
Unallocated interest	7,339	2,713	1,415	(905)	7,732
Board of education	45	-	350	305	-
MS all athletics	-	588	895	307	-
MS football	-	1,062	1,600	538	-
MS volleyball	-	1,850	2,511	661	-

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance	Revenues	Expenditures	Intra-fund Transfers	Balance
	Beginning of Year				End of Year
	\$	\$	\$	\$	\$
MS basketball	-	20	2,121	2,101	-
MS wrestling	-	-	216	216	-
MS track	11	300	326	15	-
MS golf	113	-	-	-	113
MS baseball	-	250	980	730	-
Bowling	132	1,895	1,904	-	123
MS softball	-	240	1,177	937	-
MS vocal music	-	-	179	179	-
MS band	1,931	2,301	3,240	1,690	2,682
Middle school activities	13,055	24,357	16,860	(7,276)	13,276
MS student council	5,450	2,395	1,670	-	6,175
Sixth grade	1,146	-	267	-	879
Seventh grade	292	-	-	-	292
Eighth grade	666	118	231	-	553
Checking interest	13,300	426	-	-	13,726
Concessions	1,530	-	-	-	1,530
June 30, 2005 accrual entries	-	149	1,643	-	(1,494)
June 30, 2004 accrual entries	(1,698)	(1,567)	(3,265)	-	-
Totals	139,182	205,035	212,677	-	131,540

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			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,735,365	2,729,570	2,659,332	2,385,486
Tuition	198,123	207,060	200,570	154,211
Other	295,101	286,971	357,336	323,674
Intermediate sources	486	-	1,050	22,001
State sources	3,302,417	3,148,868	3,268,693	3,211,543
Federal sources	281,937	220,990	197,944	312,308
Total revenues	<u>6,813,429</u>	<u>6,593,459</u>	<u>6,684,925</u>	<u>6,409,223</u>
Expenditures:				
Instruction:				
Regular instruction	3,069,291	2,846,476	2,680,751	2,868,135
Special instruction	742,105	691,506	683,360	600,836
Other instruction	649,366	662,830	664,963	627,449
Support services:				
Student services	137,792	138,479	145,355	174,071
Instructional staff services	175,448	152,242	161,676	170,151
Administration services	606,568	564,238	667,238	641,145
Operation and maintenance of plant services	457,928	436,054	436,340	393,757
Transportation services	277,414	223,471	206,788	285,122
Non-instructional programs	4,337	-	-	-
Other expenditures:				
Facilities acquisition	55,676	66,050	36,486	100,387
Long-term debt:				
Principal	236,000	346,000	336,000	306,000
Interest and other charges	111,101	126,519	141,339	154,745
AEA flowthrough	252,328	255,572	276,625	274,285
Total expenditures	<u>6,775,354</u>	<u>6,509,437</u>	<u>6,436,921</u>	<u>6,596,083</u>

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

To the Board of Education of
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 as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 6, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 opinions on the financial statements and not to provide an opinion 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 judgment, 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 reportable 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 caused by error or fraud 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 05-I-A and 05-I-B are material weaknesses.

Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of 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 6, 2005

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

05-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.

05-I-B 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.

Conclusion: Response accepted.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

05-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, 2005.

05-II-B Certified Budget: Expenditures for the year ended June 30, 2005, did not exceed the amounts budgeted.

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

05-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.

05-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	69,889

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 recuse himself in all votes where the Board is considering commercial insurance policies.

Conclusion: Response accepted.

05-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.

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

05-II-H Certified Enrollment: The calculation for supplemental weighting for line 12 of the certified enrollment form included three, open enrollment in students.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

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.

05-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.

05-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.

05-II-K Physical Plant and Equipment Levy Fund (PEEL): 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 \$4,565 for computer software. The Code of Iowa does not list computer software as an allowable expense from the PEEL Fund.

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

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

Conclusion: Response accepted.

05-II-L Sale of Real Estate: The Code of Iowa specifies that proceeds from the sale of real estate be placed in the Physical Plant and Equipment Levy Fund. We noted that the District sold a lot for \$2,375 and placed the proceeds in the General Fund.

Recommendation: The \$2,375 should be transferred to the PEEL Fund.

District Response: This land was acquired years ago as a potential site for a student construction project. We will consult with our attorney to determine if the proceeds should be placed in the PEEL Fund.

Conclusion: Response accepted.

05-II-M Sale of Property: During the year ended June 30, 2004 the District sold certain equipment. The District did not publish notice of the sale for two consecutive weeks in accordance with Chapter 297.22 of the Code of Iowa.

Recommendation: The District should publish the required notices for sale of District property.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

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

District Response: We will comply with Chapter 297.22 of the Code of Iowa in the future.

Conclusion: Response accepted.

05-II-N Old outstanding checks: We noted that the District's bank reconciliations included approximately \$120 of old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

Recommendation: The District should investigate the status of all old outstanding checks. Checks that were issued in error or in duplicate should be voided and removed from the list of outstanding checks. The District should search for the owners of all other outstanding checks, then reissue new checks if the owners are found. If the owners can not be found, the District must file an unclaimed property report with and send the money to the Treasurer State of Iowa.

Response: We will begin investigating the status of old outstanding checks and we will file an unclaimed property report with the Treasurer of Iowa if necessary.

Conclusion: Response accepted.