

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

June 30, 2008

## Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	16
Statement of Activities	B	17-18
Governmental Fund Financial Statements:		
Balance Sheet	C	19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	20
Statement of Revenues, Expenditures and Changes in Fund Balances	E	21-22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	24
Statement of Revenues, Expenses, and Changes in Fund Net Assets	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	27
Statement of Changes in Fiduciary Net Assets	K	28
Notes to Financial Statements		29-38
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		40
Notes to Required Supplementary Information - Budgetary Reporting		41
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	43
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	44
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	45-46
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	47
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 <u>Government Auditing Standards</u>		48-49
Schedule of Findings and Responses		50-53



Gary E. Horton CPA

PO Box 384  
902 Central Ave. East  
Clarion, IA 50525-0384  
(515)532-6681 Phone  
(515) 532-2405 Fax  
[BETCO@mchsi.com](mailto:BETCO@mchsi.com) E-mail

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, 2008, 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 at June 30, 2008, 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 March 12, 2009, 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 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 14 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 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, 2007, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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

March 12, 2009

## 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, 2008. 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

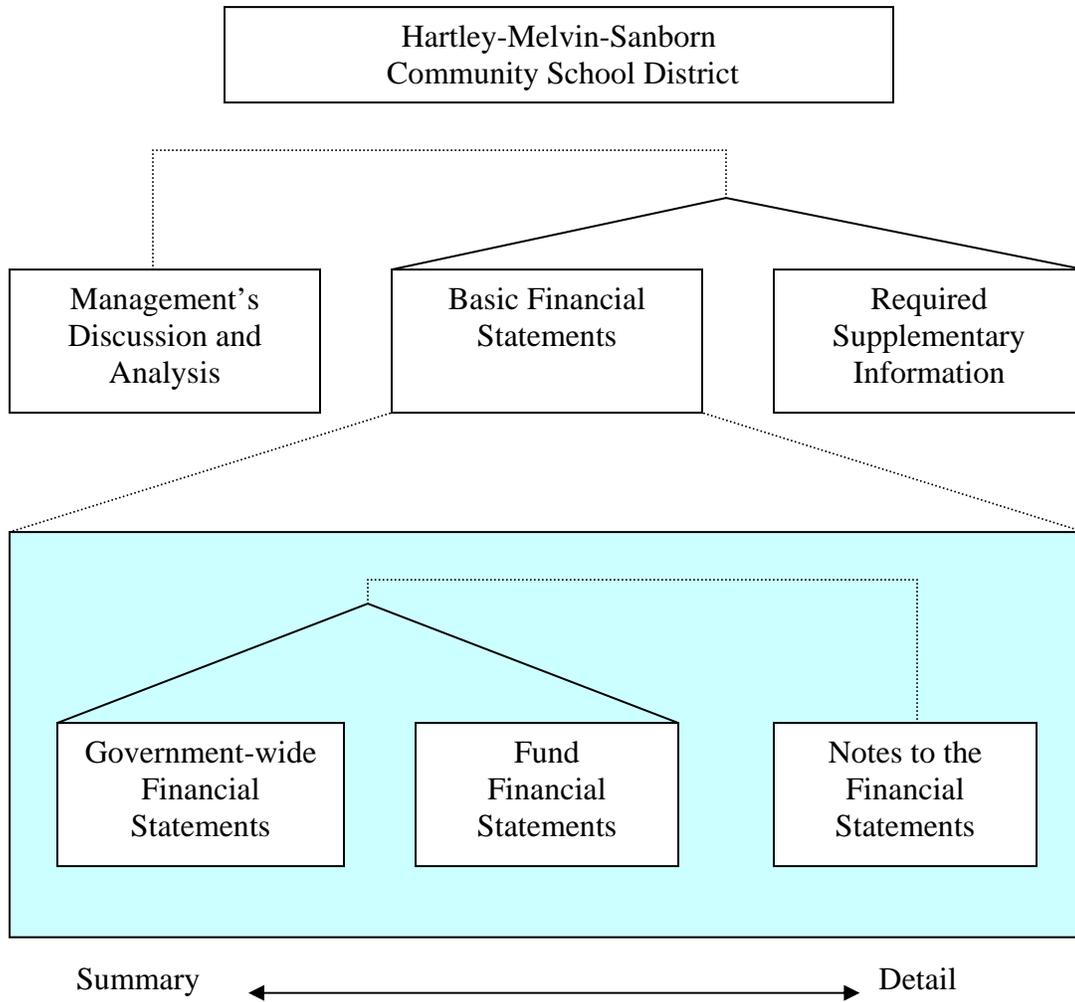


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

<i>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</i>				
	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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balance</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flow</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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, 2008 compared to June 30, 2007.

*Figure A-3*

**Condensed Statement of Net Assets**

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2005-2006
	2007	2008	2007	2008	2007	2008	
Current and other assets	\$5,282,818	\$5,899,794	\$25,095	\$19,458	\$5,307,913	\$5,919,252	11.52%
Capital assets	\$4,568,267	\$4,724,094	\$13,336	\$10,392	\$4,581,603	\$4,734,486	3.34%
<b>Total Assets</b>	<b>\$9,851,085</b>	<b>\$10,623,888</b>	<b>\$38,431</b>	<b>\$29,850</b>	<b>\$9,889,516</b>	<b>\$10,653,738</b>	<b>7.73%</b>
Long-term liabilities	\$1,801,959	\$2,480,301	0	0	\$1,801,959	\$2,480,301	37.64%
Other liabilities	\$3,154,768	\$3,248,265	\$27,364	\$25,762	\$3,182,132	\$3,274,027	2.89%
<b>Total liabilities</b>	<b>\$4,956,727</b>	<b>\$5,728,566</b>	<b>\$27,364</b>	<b>\$25,762</b>	<b>\$4,984,091</b>	<b>\$5,754,328</b>	<b>15.45%</b>
Net Assets:							
Invested in capital assets, net of related debt	\$2,788,267	\$3,019,094	\$13,336	\$10,392	\$2,801,603	\$3,029,486	8.13%
Restricted	\$1,548,805	\$1,603,099	0	0	\$1,548,805	\$1,603,099	3.51%
Unrestricted	\$557,286	\$273,129	(\$2,269)	(\$6,304)	\$555,017	\$266,825	(51.92%)
<b>TOTAL NET ASSETS</b>	<b>\$4,894,358</b>	<b>\$4,895,322</b>	<b>\$11,067</b>	<b>\$4,088</b>	<b>\$4,905,425</b>	<b>\$4,899,410</b>	<b>(0.12%)</b>

The District's combined net assets were slightly less on June 30, 2008, than they were the year before; decreasing 0.12% (*see Figure A-3*). The largest decrease is noted in the unrestricted area. 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, 2008 and 2007.

*Figure A-4*

**Changes in Net Assets**

	Governmental		Business-type		Total	
	2007	2008	2007	2008	2007	2008
<b>Revenues</b>						
Program Revenues						
Charges for services	\$422,204	\$473,349	\$158,929	\$164,416	\$581,133	\$637,765
Operating Grants & Contributions	\$1,031,235	\$867,074	\$130,107	\$134,869	\$1,161,342	\$1,001,943
Capital Grants & Contributions	0	\$3,350	0	0	\$0	\$3,350
General Revenues						
Property taxes & other taxes	\$2,885,519	\$2,963,176	0	0	\$2,885,519	\$2,963,176
Unrestricted State Grants	\$2,678,333	\$2,446,515	0	0	\$2,678,333	\$2,446,515
Unrestricted Investment Earnings	\$127,728	\$137,403	\$772	\$556	\$128,500	\$137,403
Other Revenue	\$12,143	\$9,484	0	0	\$12,143	\$9,484
<b>Total Revenues</b>	<b>\$7,157,162</b>	<b>\$6,900,351</b>	<b>\$289,808</b>	<b>\$299,841</b>	<b>\$7,446,970</b>	<b>\$7,200,192</b>
<b>Expenses</b>						
Instruction	\$4,518,650	\$4,699,231	0	\$0	\$4,518,650	\$4,699,231
Support Services	\$1,649,970	\$1,634,201	0	\$0	\$1,649,970	\$1,634,201
Non-Instructional Programs	\$0	\$0	\$294,058	\$306,820	\$294,058	\$306,820
Other Expenses	\$568,053	\$565,955	-	-	\$568,053	\$565,955
<b>Total Expenses</b>	<b>\$6,736,673</b>	<b>\$6,899,387</b>	<b>\$294,058</b>	<b>\$306,820</b>	<b>\$7,030,731</b>	<b>\$7,206,207</b>
Transfers	0	0	0	0	0	0
<b>Change in Net Assets</b>	<b>\$420,489</b>	<b>\$964</b>	<b>(\$4,250)</b>	<b>(\$6,979)</b>	<b>\$416,239</b>	<b>\$(6,015)</b>

*Governmental Activities -*

Referring to *Figure A-4*, revenues for the District's governmental activities were \$6,900,351 for fiscal year 2007. Total governmental expenditures were \$6,899,387

Expenses were kept to a minimum to match available revenues in a year when the Board of Directors raised the overall District tax rate from \$12.02 per thousand dollars of taxable valuation to \$12.29 and enrollment declined from 737.5 to 701.2.

Figure A-5

**Net Cost of Governmental Activities**

	<b>Total Cost of Services 2007</b>	<b>Total Cost of Services 2008</b>	<b>Net Cost of Services 2007</b>	<b>Net Cost of Services 2008</b>
Instruction	\$4,518,650	\$4,699,231	\$3,352,766	\$3,637,066
Support Services	\$1,649,970	\$1,634,201	\$1,620,150	\$1,618,164
Non-instructional Programs	\$0	\$0	\$0	\$0
Other Expenses	\$568,053	\$565,955	\$310,318	\$300,384
<b>TOTAL</b>	<b>\$6,736,673</b>	<b>\$6,899,387</b>	<b>\$5,283,234</b>	<b>\$5,555,614</b>

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 \$6,899,387
- Some of the cost was financed by the users of the District’s programs (\$473,269).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$867,074).
- Most of the District’s costs (\$5,555,614), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$2,963,176 in property and other taxes, and \$2,446,515 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 \$6,979 (refer to Figure A-4). The Board of Education did increase school meal prices for fiscal year 2008.

## **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 \$2,500,313, slightly more than last year's ending fund balances of \$1,971,970.

### **Governmental Fund Highlights**

The General Fund balance decreased from \$501,408 to \$236,709, due in part to the reduction in student enrollment, increase in negotiated salary and benefit settlement and additional increased operational costs.

The Non-major Governmental Funds balance in 2008 reported the combined fund balance of Capital Projects Sales Tax and Non-major Governmental Funds. The combined Non-major Governmental Funds and Capital Projects Sales Tax decreased from \$855,952 to \$727,387. The decreases was due in large part to capital improvements to lighting and heat systems district wide. A portion of this fund has been reserved for property tax reduction, and continued energy cost saving repairs and improvements.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased \$928,174 due in large part to revenue from a bond to be used for district wide energy improvements. A portion of the PPEL fund has been reserved for the replacement of a bus, small vehicles, tuck pointing and roof repairs.

### **Business Type Fund Highlights**

The School Nutrition Fund net assets decreased from \$11,067 at June 30, 2007 to \$4,088 at June 30, 2008, representing a decrease of 47 %. Overall operating expenses increased by \$12,762.

### **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 FY08, 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. 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.

### Capital Asset and Debt Administration

#### Capital Assets

By the end of 2008, the District had invested \$4,724,094 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 increase of \$152,883 or 3.3% from last year. (More detailed information about capital assets can be found in Note 5 to the financial statements.)

During fiscal year the District began work and incurred \$348,625 of expenditures for energy saving capital improvements. The District has committed approximately \$600,000 to complete the projects.

**Figure A-6**

*Capital Assets (net of depreciation)*

	Governmental Activities		Business--type Activities		Total School District		Total Percentage Change 2007-08
	2007	2008	2007	2008	2007	2008	
	Land	\$81,804	\$81,804	0	0	\$81,804	
Improvements other than Buildings	\$146,102	\$129,204	0	0	\$146,102	\$129,204	(11.6%)
Buildings	\$3,969,029	\$3,859,119	0	0	\$3,969,029	\$3,859,119	(2.8%)
Equipment & Furniture	\$371,332	\$305,342	\$13,336	\$10,392	\$384,668	\$315,734	(17.9%)
Construction in Progress	0	\$348,625	0	0	0	\$348,625	n/a
<b>TOTAL</b>	<b>\$4,568,267</b>	<b>\$4,724,094</b>	<b>\$13,336</b>	<b>\$10,392</b>	<b>\$4,581,603</b>	<b>\$4,734,486</b>	<b>3.3%</b>

## Long-Term Debt

At June 30, 2008, the District had \$2,480,301 in general obligation and other long-term debt outstanding (Figure A-7). This is a 37.6% increase from the prior year. During fiscal year 2008 the District issued \$175,000 of revenue bonds and \$730,000 of capital loan notes. This debt is being used to finance energy saving capital improvements. The District also issued \$1,530,000 of general obligation refunding bonds. The proceeds from the refunding bonds were used to pay off previous bonds with a higher interest rate. The refunding will save \$44,014 of interest costs over the next five years. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

*Figure A-7*

	Balance End of 2007	Due Within One Year
General obligation bonds	\$1,530,000	\$285,000
Revenue bonds	\$175,000	25,000
Capital Loan Notes	\$730,000	\$30,000
Early retirement	\$45,301	\$28,678
Total	<u>\$2,480,301</u>	<u>\$368,678</u>

### 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 condition of 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 2009, was set at 4%. Future years will most likely be set at a number below 4%.
- District enrollment has suffered substantial decline the last ten 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 Mr. Lynn Evans, Superintendent, Hartley-Melvin-Sanborn Community School District, 240 1st Street SE, Hartley, Iowa 51346.

## BASIC FINANCIAL STATEMENTS

## HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2008

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	3,215,393	13,715	3,229,108
Receivables:			
Property tax:			
Delinquent	41,629	-	41,629
Succeeding year	2,315,948	-	2,315,948
Accounts	4,067	-	4,067
Due from other governments	322,757	410	323,167
Inventories	-	5,333	5,333
Capital assets, net of accumulated depreciation	4,724,094	10,392	4,734,486
<b>Total assets</b>	<b>10,623,888</b>	<b>29,850</b>	<b>10,653,738</b>
<b>Liabilities</b>			
Accounts payable	277,555	171	277,726
Salaries and benefits payable	625,910	21,615	647,525
Accrued interest payable	28,852	-	28,852
Deferred revenue:			
Succeeding year property tax	2,315,948	-	2,315,948
Other	-	3,976	3,976
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	285,000	-	285,000
Revenue bonds payable	25,000	-	25,000
Capital loan notes payable	30,000	-	30,000
Termination benefits	28,678	-	28,678
Portion due after one year:			
General obligation bonds payable	1,245,000	-	1,245,000
Revenue bonds payable	150,000	-	150,000
Capital loan notes payable	700,000	-	700,000
Termination benefits	16,623	-	16,623
<b>Total liabilities</b>	<b>5,728,566</b>	<b>25,762</b>	<b>5,754,328</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	3,019,094	10,392	3,029,486
Restricted for:			
State categorical aid	37,624	-	37,624
Management levy	5,119	-	5,119
Physical plant and equipment levy	883,389	-	883,389
Other special revenue purposes	121,496	-	121,496
Local option sales tax capital projects	555,471	-	555,471
Unrestricted	273,129	(6,304)	266,825
<b>Total net assets</b>	<b>4,895,322</b>	<b>4,088</b>	<b>4,899,410</b>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2008

<b>Functions/Programs</b>	<b>Program Revenues</b>			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	3,180,029	240,479	446,964	-
Special	895,815	52,637	54,298	-
Other	623,387	180,153	87,634	-
	<u>4,699,231</u>	<u>473,269</u>	<u>588,896</u>	<u>-</u>
Support services:				
Student	92,051	-	-	-
Instructional staff	120,406	-	-	-
Administration	610,870	-	-	-
Operation and maintenance of plant	526,502	80	-	-
Transportation	284,372	-	15,957	-
	<u>1,634,201</u>	<u>80</u>	<u>15,957</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	76,014	-	-	3,350
Long-term debt interest	101,006	-	94	-
AEA flowthrough	262,127	-	262,127	-
Depreciation (unallocated)*	126,808	-	-	-
	<u>565,955</u>	<u>-</u>	<u>262,221</u>	<u>3,350</u>
Total governmental activities	6,899,387	473,349	867,074	3,350
Business type activities:				
Non-instructional programs:				
Food service operations	306,820	164,416	134,869	-
Total	<u>7,206,207</u>	<u>637,765</u>	<u>1,001,943</u>	<u>3,350</u>

**General Revenues:**

Property taxes levied for:	
General purposes	
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.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(2,492,586)	-	(2,492,586)
(788,880)	-	(788,880)
(355,600)	-	(355,600)
<u>(3,637,066)</u>	<u>-</u>	<u>(3,637,066)</u>
(92,051)	-	(92,051)
(120,406)	-	(120,406)
(610,870)	-	(610,870)
(526,422)	-	(526,422)
(268,415)	-	(268,415)
<u>(1,618,164)</u>	<u>-</u>	<u>(1,618,164)</u>
(72,664)	-	(72,664)
(100,912)	-	(100,912)
-	-	-
(126,808)	-	(126,808)
<u>(300,384)</u>	<u>-</u>	<u>(300,384)</u>
(5,555,614)	-	(5,555,614)
-	(7,535)	(7,535)
<u>(5,555,614)</u>	<u>(7,535)</u>	<u>(5,563,149)</u>
2,243,131	-	2,243,131
124,468	-	124,468
209,157	-	209,157
386,420	-	386,420
2,446,515	-	2,446,515
137,403	556	137,959
9,484	-	9,484
<u>5,556,578</u>	<u>556</u>	<u>5,557,134</u>
964	(6,979)	(6,015)
<u>4,894,358</u>	<u>11,067</u>	<u>4,905,425</u>
<u>4,895,322</u>	<u>4,088</u>	<u>4,899,410</u>

## HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2008

	General Fund	Physical Plant and Equipment Levy	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	852,165	1,493,139	697,592	172,497	3,215,393
Receivables:					
Property tax:					
Delinquent	38,032	2,097	-	1,500	41,629
Succeeding year	2,061,721	124,227	-	130,000	2,315,948
Accounts	465	3,350	-	225	4,040
Interfund receivable	27	38,817	-	-	38,844
Due from other governments	165,350	77,172	80,235	-	322,757
<b>Total assets</b>	<b>3,117,760</b>	<b>1,738,802</b>	<b>777,827</b>	<b>304,222</b>	<b>5,938,611</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	51,707	1,186	222,356	2,306	277,555
Salaries and benefits payable	625,910	-	-	-	625,910
Interfund payable	38,817	-	-	-	38,817
Deferred revenue:					
Succeeding year property tax	2,061,721	124,227	-	130,000	2,315,948
Other	102,896	77,172	-	-	180,068
Total liabilities	2,881,051	202,585	222,356	132,306	3,438,298
Fund balances:					
Reserved for:					
State categorical aid	37,624	-	-	-	37,624
Unreserved reported in:					
General fund	199,085	-	-	-	199,085
Special revenue funds	-	1,536,217	-	171,916	1,708,133
Capital projects funds	-	-	555,471	-	555,471
Total fund balances	236,709	1,536,217	555,471	171,916	2,500,313
<b>Total liabilities and fund balances</b>	<b>3,117,760</b>	<b>1,738,802</b>	<b>777,827</b>	<b>304,222</b>	<b>5,938,611</b>

## HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

June 30, 2008

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	2,500,313
<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.	4,724,094
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	180,068
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.	(28,852)
Long-term liabilities, including bonds payable, capital loan notes payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(2,480,301)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>4,895,322</u></u>

## HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	General Fund	Physical Plant and Equipment Levy	Capital Projects Sales Tax	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	2,267,295	206,890	386,420	-	85,092	2,945,697
Tuition	252,675	-	-	-	-	252,675
Other	89,814	53,516	31,950	94	195,431	370,805
Intermediate sources	200	-	-	-	-	200
State sources	3,133,594	112	-	-	75	3,133,781
Federal sources	179,714	-	-	-	-	179,714
Total revenues	<u>5,923,292</u>	<u>260,518</u>	<u>418,370</u>	<u>94</u>	<u>280,598</u>	<u>6,882,872</u>
Expenditures:						
Current:						
Instruction:						
Regular	3,140,864	-	-	-	9,800	3,150,664
Special	895,547	-	-	-	-	895,547
Other	425,958	-	-	-	196,344	622,302
	<u>4,462,369</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,144</u>	<u>4,668,513</u>
Support services:						
Student	92,051	-	-	-	-	92,051
Instructional staff	115,049	-	-	-	-	115,049
Administration	592,422	100	-	11,172	-	603,694
Operation and maintenance of plant	418,210	24,377	-	-	76,443	519,030
Transportation	245,763	-	-	-	-	245,763
	<u>1,463,495</u>	<u>24,477</u>	<u>-</u>	<u>11,172</u>	<u>76,443</u>	<u>1,575,587</u>
Other expenditures:						
Facilities acquisition	-	44,434	380,205	-	-	424,639
Long-term debt:						
Principal	-	-	-	1,780,000	-	1,780,000
Interest and fiscal charges	-	-	-	78,663	-	78,663
AEA flowthrough	262,127	-	-	-	-	262,127
	<u>262,127</u>	<u>44,434</u>	<u>380,205</u>	<u>1,858,663</u>	<u>-</u>	<u>2,545,429</u>
Total expenditures	<u>6,187,991</u>	<u>68,911</u>	<u>380,205</u>	<u>1,869,835</u>	<u>282,587</u>	<u>8,789,529</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(264,699)</u>	<u>191,607</u>	<u>38,165</u>	<u>(1,869,741)</u>	<u>(1,989)</u>	<u>(1,906,657)</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2008

	General Fund	Physical Plant and Equipment Levy	Capital Projects Sales Tax	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$	\$
Other financing sources (uses):						
Proceeds from long-term loans	-	730,000	-	-	-	730,000
Bonds issued	-	-	175,000	-	-	175,000
Refunding bonds issued	-	-	-	1,530,000	-	1,530,000
Operating transfers in	-	-	-	337,692	-	337,692
Operating transfers out	-	-	(337,692)	-	-	(337,692)
Total other financing sources (uses)	-	730,000	(162,692)	1,867,692	-	2,435,000
Net change in fund balances	(264,699)	921,607	(124,527)	(2,049)	(1,989)	528,343
Fund balances beginning of year	501,408	614,610	679,998	2,049	173,905	1,971,970
Fund balances end of year	236,709	1,536,217	555,471	-	171,916	2,500,313

## 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, 2008

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		528,343
<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 Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:		
Expenditures for capital assets	356,125	
Depreciation expense	<u>(200,298)</u>	155,827
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.		
		17,479
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.		
		1,780,000
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.		
		(22,343)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		(23,342)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		
		<u>(2,435,000)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>964</u></u>

## HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Fund

June 30, 2008

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	13,715
Due from other governments	410
Inventories	5,333
Capital assets, net of accumulated depreciation	<u>10,392</u>
<b>Total assets</b>	<u>29,850</u>
<b>Liabilities</b>	
Accounts payable	171
Salaries and benefits payable	21,615
Deferred revenue	<u>3,976</u>
<b>Total liabilities</b>	<u>25,762</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	10,392
Unrestricted	<u>(6,304)</u>
<b>Total net assets</b>	<u><u>4,088</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Fund

Year ended June 30, 2008

	Nonmajor School Nutrition
	\$
Operating revenue:	
Local sources:	
Charges for service	164,416
Operating expenses:	
Non-instructional programs:	
Salaries	99,786
Benefits	36,205
Purchased services	2,666
Supplies	165,219
Depreciation	2,944
Total operating expenses	306,820
Operating gain (loss)	(142,404)
Non-operating revenues:	
State sources	3,504
Federal sources	131,365
Interest income	556
Total non-operating revenues	135,425
Change in net assets	(6,979)
Net assets beginning of year	11,067
Net assets end of year	4,088

## HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2008

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	164,579
Cash payments to employees for services	(136,176)
Cash payments to suppliers for goods or services	(139,555)
Net cash used by operating activities	<u>(111,152)</u>
Cash flows from non-capital financing activities:	
State grants received	3,504
Federal grants received	98,897
Net cash provided by non-capital financing activities	<u>102,401</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>556</u>
Net increase (decrease) in cash and cash equivalents	(8,195)
Cash and cash equivalents at beginning of year	<u>21,910</u>
Cash and cash equivalents at end of year	<u><u>13,715</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(142,404)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	32,058
Depreciation	2,944
Decrease (increase) in inventories	(2,148)
(Decrease) increase in accounts payable	(1,580)
(Decrease) increase in salaries and benefits payable	(185)
(Decrease) increase in deferred revenue	163
Net cash used by operating activities	<u><u>(111,152)</u></u>

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

During the year ended June 30, 2008, the District received \$32,058 of federal commodities.

## HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Fund

June 30, 2008

	Private Purpose Trust
	<u>\$</u>
<b>Assets</b>	
Cash and pooled investments	4,677
<b>Liabilities</b>	
Interfund payable	<u>27</u>
<b>Net Assets</b>	
Reserved for scholarships	528
Reserved for student books	<u>4,122</u>
<b>Total net assets</b>	<u><u>4,650</u></u>

## HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund

Year ended June 30, 2008

	Private Purpose Trust
	<u>\$</u>
Additions:	
Local sources:	
Interest	68
Deductions	<u>-</u>
Change in net assets	68
Net assets beginning of year	<u>4,582</u>
Net assets end of year	<u><u>4,650</u></u>

# HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2008

### 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 attributable to the acquisition, construction, or improvement of those assets.

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

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

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

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

The District reports the following major governmental funds:

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

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

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 and the purchase of a book for each kindergarten student.

#### C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the

current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

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

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

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

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

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

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 not available for appropriation or legally restricted by outside parties for use for a specific purpose.

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the other expenditures functional area exceeded the amount budgeted.

## 2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2008 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 as amended by Statement No. 40.

### 3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Physical Plant and Equipment Levy Fund	General Fund	38,817
General Fund	Private Purpose Trust Fund	27

These interfund transactions represent reimbursements due for expenditures paid from the wrong fund.

### 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer To	Transfer From	Amount
		\$
Debt Service Fund	Capital Projects Sales Tax Fund	337,692

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, 2008 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Construction in progress	-	348,625	-	348,625
Land	81,804	-	-	81,804
Total capital assets not being depr.	<u>81,804</u>	<u>348,625</u>	<u>-</u>	<u>430,429</u>
Capital assets being depreciated:				
Buildings	6,149,207	-	-	6,149,207
Improvements other than buildings	507,218	-	-	507,218
Furniture and equipment	1,225,929	7,500	57,041	1,176,388
Total capital assets being deprec.	<u>7,882,354</u>	<u>7,500</u>	<u>57,041</u>	<u>7,832,813</u>
Less accumulated depreciation for:				
Buildings	2,180,178	109,910	-	2,290,088
Improvements other than buildings	361,116	16,898	-	378,014
Furniture and equipment	854,597	73,490	57,041	871,046
Total accumulated depreciation	<u>3,395,891</u>	<u>200,298</u>	<u>57,041</u>	<u>3,539,148</u>
Total capital assets being depreciated, net	<u>4,486,463</u>	<u>(192,798)</u>	<u>-</u>	<u>4,293,665</u>
Governmental activities capital assets, net	<u>4,568,267</u>	<u>155,827</u>	<u>-</u>	<u>4,724,094</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	100,603	-	-	100,603
Less accumulated depreciation	<u>87,267</u>	<u>2,944</u>	-	<u>90,211</u>
Business type activities capital assets, net	<u>13,336</u>	<u>(2,944)</u>	-	<u>10,392</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	6,023
Special	268
Other	1,085
Support services:	
Instructional staff services	5,357
Administration services	7,176
Operation and maintenance of plant services	7,472
Transportation	<u>46,109</u>
	73,490
Unallocated depreciation	<u>126,808</u>
Total depreciation expense – governmental activities	<u><u>200,298</u></u>
Business type activities:	
Food services	<u><u>2,944</u></u>

## 6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,780,000	1,530,000	1,780,000	1,530,000	285,000
Revenue bonds	-	175,000	-	175,000	25,000
Capital loan notes	-	730,000	-	730,000	30,000
Termination benefits	<u>21,959</u>	<u>38,475</u>	<u>15,133</u>	<u>45,301</u>	<u>28,678</u>
Total	<u><u>1,801,959</u></u>	<u><u>2,473,475</u></u>	<u><u>1,795,133</u></u>	<u><u>2,480,301</u></u>	<u><u>368,678</u></u>

### Termination Benefits

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

Early retirement benefits are equal to 80% of the difference between the applicant's current salary schedule amount and that year's base pay.

Early retirement benefits will be paid in two equal installments beginning in July following the start of retirement. The second payment will be paid the following January.

At June 30, 2008, the District has obligations to three participants with a total liability of \$45,301. Actual early retirement expenditures for the year ended June 30, 2008 totaled \$15,133.

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Refunding Bond Issue of May 2008				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2009	3.150	285,000	50,337	335,337
2010	3.150	295,000	39,218	334,218
2011	3.150	305,000	29,925	334,925
2012	3.150	315,000	20,317	335,317
2013	3.150	330,000	10,395	340,395
		1,530,000	150,192	1,680,192

Revenue Bonds Payable

Details of the District's June 30, 2008 local option sales and services tax revenue bonded indebtedness are as follows:

Bond Issue of November 2007				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2009	3.950	25,000	7,915	32,915
2010	4.050	30,000	6,375	36,375
2011	4.150	30,000	5,160	35,160
2012	4.250	30,000	3,915	33,915
2013	4.350	30,000	2,640	32,640
2014	4.450	30,000	1,335	31,335
		175,000	27,340	202,340

The District has pledged future local option sales and services tax revenues to repay the \$175,000 bonds issued in November 2007. The bonds were issued for the purpose of financing school renovations. The bonds are payable solely from the proceeds of the local options sales and services tax revenues received by the District and are payable through 2014. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the binds are expected to require nearly 10% of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$202,340. For the current year, no principal or interest was paid on the bonds and total local option sales and services tax revenues were \$386,420.

The resolution providing for the issuance of the local option sales and services revenue bonds include the following provisions:

- Proceeds from the local option sales and services tax shall be placed in a revenue account. Monies in the revenue account shall be transferred from the revenue account to the sinking account. Money in the sinking account shall be used to pay the interest and principal on the bonds. Any surplus monies remaining in the revenue fund, after the required transfer to the sinking account, may be used for any lawful purpose for which the local option sales tax may be used. The sinking fund is part of the Capital Projects Fund.

### Capital Loan Notes

The District issued \$730,000 of capital loan notes during the year ended June 30, 2008. These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2009	4.00	30,000	44,698	74,698
2010	4.00	50,000	28,765	78,765
2011	4.00	50,000	26,765	76,765
2012	4.00	55,000	24,765	79,765
2013	4.00	60,000	22,565	82,565
2014-2020	4.00-4.30	485,000	84,730	569,730
		<u>730,000</u>	<u>232,288</u>	<u>962,288</u>

During the year ended June 30, 2008 the District made no principal and interest payments on the notes.

### Debt Defeasance

On May 15, 2008 the District issued \$1,530,000 of general obligation refunding bonds with an interest rate of 3.150%. The District issued the bonds to refund \$1,515,000 of the outstanding August, 1998 general obligation bonds with interest rates of 4.375% to 4.400%. The District used the net proceeds to call and pay the balance of the 1998 issue.

The refunding reduced total debt service payments over the next five years by \$44,104. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$40,691.

## **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 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$231,228, \$208,141 and \$212,882 respectively, equal to the required contributions for each year.

## **8. Risk Management**

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 \$262,127 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## **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 \$74,693 in premiums to this agency during the year ended June 30, 2008.

## **11. Construction Commitment**

The District has entered into contracts totaling \$632,112 for capital improvements. As of June 30, 2008 costs of \$38,930 had been incurred against the contracts. The balances remaining at June 30, 2008 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,569,177	164,972	3,734,149	3,753,595	3,753,595	(19,446)
Intermediate sources	200	-	200	500	500	(300)
State sources	3,133,781	3,504	3,137,285	3,410,704	3,410,704	(273,419)
Federal sources	179,714	131,365	311,079	571,000	571,000	(259,921)
Total revenues	<u>6,882,872</u>	<u>299,841</u>	<u>7,182,713</u>	<u>7,735,799</u>	<u>7,735,799</u>	<u>(553,086)</u>
Expenditures/Expenses:						
Instruction	4,668,513	-	4,668,513	5,526,651	5,526,651	858,138
Support services	1,575,587	-	1,575,587	2,283,994	2,283,994	708,407
Non-instructional programs	-	306,820	306,820	417,047	417,047	110,227
Other expenditures	2,545,429	-	2,545,429	1,397,696	1,397,696	(1,147,733)
Total expenditures/expenses	<u>8,789,529</u>	<u>306,820</u>	<u>9,096,349</u>	<u>9,625,388</u>	<u>9,625,388</u>	<u>529,039</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(1,906,657)	(6,979)	(1,913,636)	(1,889,589)	(1,889,589)	(24,047)
Other financing sources (uses) net	<u>2,435,000</u>	<u>-</u>	<u>2,435,000</u>	<u>-</u>	<u>-</u>	<u>2,435,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	528,343	(6,979)	521,364	(1,889,589)	(1,889,589)	2,410,953
Balance beginning of year	<u>1,971,970</u>	<u>11,067</u>	<u>1,983,037</u>	<u>1,889,589</u>	<u>1,889,589</u>	<u>93,448</u>
Balance end of year	<u><u>2,500,313</u></u>	<u><u>4,088</u></u>	<u><u>2,504,401</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>2,504,401</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2008

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides 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, 2008, expenditures 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, 2008

Assets	Special Revenue Funds		
	Management	Student	Total
	Levy	Activity	
	\$	\$	\$
Cash and pooled investments	48,920	123,577	172,497
Receivables:			
Property tax:			
Delinquent	1,500	-	1,500
Succeeding year	130,000	-	130,000
Accounts	-	225	225
<b>Total assets</b>	<u>180,420</u>	<u>123,802</u>	<u>304,222</u>
<b>Liabilities &amp; Fund Balances</b>			
Liabilities:			
Accounts payable	-	2,306	2,306
Deferred revenue:			
Succeeding year property tax	130,000	-	130,000
Total liabilities	<u>130,000</u>	<u>2,306</u>	<u>132,306</u>
Fund balances:			
Unreserved reported in:			
Special revenue funds	<u>50,420</u>	<u>121,496</u>	<u>171,916</u>
<b>Total liabilities and fund balances</b>	<u>180,420</u>	<u>123,802</u>	<u>304,222</u>

## HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	<u>Special Revenue Funds</u>		<u>Total</u>
	Management	Student	
	Levy	Activity Fund	
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	85,092	-	85,092
Other	9,862	185,569	195,431
State sources	75	-	75
Total revenues	<u>95,029</u>	<u>185,569</u>	<u>280,598</u>
Expenditures:			
Current:			
Instruction:			
Regular	9,800	-	9,800
Other	-	196,344	196,344
Support services:			
Operation and maintenance of plant	76,443	-	76,443
Total expenditures	<u>86,243</u>	<u>196,344</u>	<u>282,587</u>
Net change in fund balances	8,786	(10,775)	(1,989)
Fund balances beginning of year	<u>41,634</u>	<u>132,271</u>	<u>173,905</u>
Fund balances end of year	<u><u>50,420</u></u>	<u><u>121,496</u></u>	<u><u>171,916</u></u>

## HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
All athletics	63	9,009	5,547	(2,887)	638
Cross country	202	791	1,275	282	-
Football	6,687	11,195	10,000	(3,705)	4,177
Volleyball	3,853	6,022	10,847	3,505	2,533
Boys basketball	5,894	5,708	6,544	(1,200)	3,858
Girls basketball	4,086	8,929	6,396	(1,200)	5,419
Boys track	2,005	2,105	4,670	672	112
Girls track	677	1,716	4,708	2,487	172
Boys golf	559	-	205	-	354
Girls golf	681	-	155	-	526
Baseball	188	2,780	5,450	2,733	251
Softball	254	3,042	8,566	5,370	100
Wrestling	74	3,396	6,492	3,600	578
Band	1,825	2,593	7,114	4,147	1,451
Chorus	1,603	161	5,291	4,328	801
Senior class	337	246	1,674	1,588	497
Junior class	2,061	2,197	2,831	(16)	1,411
Sophomore class	1,909	3,580	1,989	(1,939)	1,561
Class special	1,273	-	496	(623)	154
HS activities	1,601	24,112	5,737	(19,461)	515
Art club	728	1,142	1,167	480	1,183
Cheerleaders	1,974	17,848	17,116	1,738	4,444
Community youth	-	-	-	333	333
Computer club	1,270	-	-	-	1,270
Drama club	3,700	2,060	2,471	-	3,289
FCA	4,602	-	70	-	4,532
FFA	1,825	12,381	8,794	(30)	5,382
Industrial tech. club	22	599	525	-	96
Library reading club	726	203	163	-	766
Marketing club	2,131	6,322	6,762	-	1,691
Oracle yearbook	12,906	7,345	7,279	-	12,972
Science club	924	-	-	-	924
Spanish club	2,259	5,898	2,402	(40)	5,715
Student council-HS	6,100	2,438	7,163	(334)	1,041
Speech club	5,141	-	1,002	1,685	5,824
Student council K-4	10,842	8,514	6,238	864	13,982
Unallocated interest	6,557	3,916	3,257	(2,556)	4,660
MS all athletics	-	4	831	827	-
MS football	-	-	1,108	1,108	-
MS volleyball	-	-	2,792	2,792	-

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2008

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
MS basketball	-	-	3,361	3,361	-
MS wrestling	81	-	450	369	-
MS track	-	180	1,400	1,220	-
MS golf	113	-	-	-	113
MS baseball	-	170	1,983	1,813	-
Bowling	179	1,699	1,691	-	187
MS softball	-	170	1,769	1,599	-
MS vocal music	-	-	911	911	-
MS band	943	1,011	2,519	978	413
Middle school activities	8,577	22,591	17,345	(13,105)	718
MS student council	7,875	2,032	1,260	2,881	11,528
Sixth grade	1,981	-	-	(1,981)	-
Seventh grade	288	-	-	(288)	-
Eighth grade	418	-	-	(418)	-
Checking interest	16,265	1,499	-	(1,888)	15,876
Concessions	1,530	-	-	-	1,530
June 30, 2007 accrual entries	(3,518)	(260)	(3,778)	-	-
June 30, 2008 accrual entries	-	225	2,306	-	(2,081)
	<u>132,271</u>	<u>185,569</u>	<u>196,344</u>	<u>-</u>	<u>121,496</u>
Totals	<u>132,271</u>	<u>185,569</u>	<u>196,344</u>	<u>-</u>	<u>121,496</u>

## 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			
	2008	2007	2006	2005
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,945,697	2,786,862	2,637,393	2,735,365
Tuition	252,675	213,057	204,989	198,123
Other	370,805	344,053	369,380	295,101
Intermediate sources	200	514	378	486
State sources	3,133,781	3,293,384	3,300,505	3,302,417
Federal sources	179,714	415,670	459,728	281,937
<b>Total revenues</b>	<b>6,882,872</b>	<b>7,053,540</b>	<b>6,972,373</b>	<b>6,813,429</b>
Expenditures:				
Instruction:				
Regular instruction	3,150,664	3,104,891	2,955,437	3,069,291
Special instruction	895,547	781,369	809,660	742,105
Other instruction	622,302	701,793	711,725	649,366
Support services:				
Student services	92,051	83,672	99,065	137,792
Instructional staff services	115,049	124,973	202,088	175,448
Administration services	603,694	629,847	607,126	606,568
Operation and maintenance of plant services	519,030	504,485	489,417	457,928
Transportation services	245,763	315,604	318,798	277,414
Non-instructional programs	-	-	-	4,337
Other expenditures:				
Facilities acquisition	424,639	151,556	137,350	55,676
Long-term debt:				
Principal	1,780,000	250,353	243,489	236,000
Interest and other charges	78,663	89,450	99,950	111,101
AEA flowthrough	262,127	257,735	252,209	252,328
<b>Total expenditures</b>	<b>8,789,529</b>	<b>6,995,728</b>	<b>6,926,314</b>	<b>6,775,354</b>

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, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 12, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Hartley-Melvin-Sanborn Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hartley-Melvin-Sanborn Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hartley-Melvin-Sanborn Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Hartley-Melvin-Sanborn Community School District's financial statements that is more than inconsequential will not be prevented or detected by Hartley-Melvin-Sanborn Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Hartley-Melvin-Sanborn Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 08-I-A, 08-I-B, and 08-I-C 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 and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 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.

Hartley-Melvin-Sanborn Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Hartley-Melvin-Sanborn Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of 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

March 12, 2009

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

08-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, preparing and posting general journal entries, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

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

Conclusion: Response accepted.

08-I-B Financial Reporting: During the audit, we identified material amounts of receivables and payables not correctly recorded in the District's financial records. Adjustments were subsequently made by the District to correct these amounts in the financial statements.

Recommendation: The District should implement procedures to ensure all receivables and payables are identified and included in the District's financial statements.

District Response: We will double check these in the future to avoid missing any receivables, payables or deferred revenues.

Conclusion: Response accepted.

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

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

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

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

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

08-II-A Certified Budget: Expenditures for the year ended June 30, 2008, exceeded the amount budgeted in the other expenditures function.

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

District Response: The District did a bond refunding at the end of the year without time to amend the budget. Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

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

08-II-C 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.

08-II-D 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	74,696

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.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

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

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

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

08-II-G Certified Enrollment: The calculations for supplemental weighting on line 12 of the October 2007 Certified Enrollment Form included open enrollment in students.

Recommendation: The District should review its procedures for compiling the lists of students to be counted for supplemental weighting.

District Response: We will review our procedures.

Conclusion: Response accepted.

08-II-H 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.

08-II-I Certified Annual Report: The Certified Annual Report was not certified to the Iowa Department of Education by October 9, 2008. We noted no significant deficiencies in the amounts reported.

Recommendation: In the future, the District should ensure the Certified Annual Report is timely certified to the Iowa Department of Education.

District Response: We will do so in the future.

Conclusion: Response accepted.