

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

June 30, 2009

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Independent Auditor's Report

To the Board of Education of
Hartley-Melvin-Sanborn Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Hartley-Melvin-Sanborn Community School District, Hartley, Iowa, as of and for the year ended June 30, 2009, 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, 2009, 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 30, 2010, 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 42 through 43 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 five years ended June 30, 2008, (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 30, 2010

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, 2009. 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

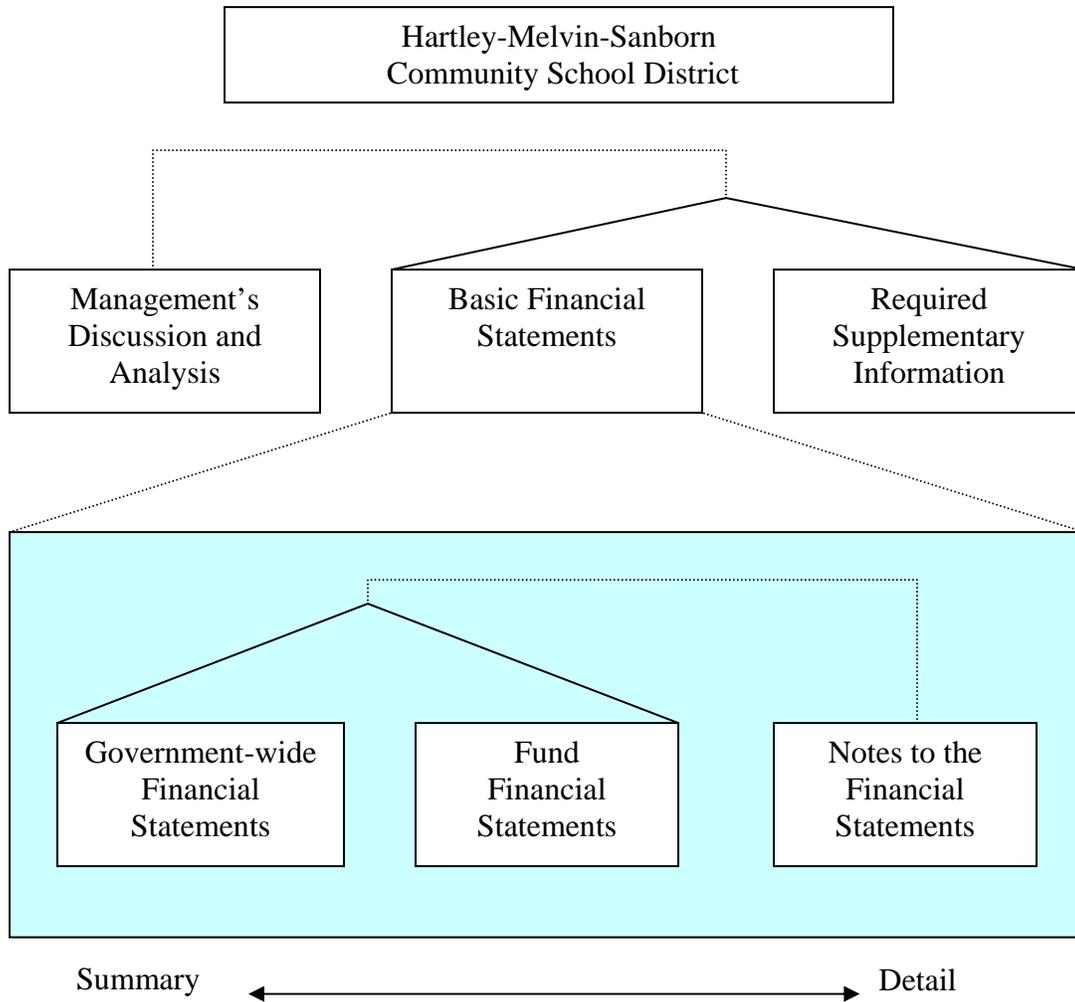


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents 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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balance 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flow 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund, Capital Projects Fund, Debt Service Fund, and Special Revenue Funds that consist of Activity, Management, and Physical Plant and Equipment Levy funds.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise fund, one type of a proprietary fund, is the same as its business-type activities but provides more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship funds. The District accounts for outside donations for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Figure A-3 below provides a summary of the District's net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change 2008-2009
	2008	2009	2008	2009	2008	2009	
Current and other assets	\$5,899,794	\$5,368,899	\$19,458	\$34,088	\$5,919,252	\$5,402,987	(8.72%)
Capital assets	\$4,724,094	\$5,440,989	\$10,392	\$15,660	\$4,734,486	\$5,456,649	15.25%
Total Assets	\$10,623,888	\$10,809,888	\$29,850	\$49,748	\$10,653,738	\$10,859,636	1.93%
Long-term liabilities	\$2,480,301	\$2,165,158	0	0	\$2,480,301	\$2,165,158	(12.71%)
Other liabilities	\$3,248,265	\$3,775,084	\$25,762	\$27,394	\$3,274,027	\$3,802,478	16.14%
Total liabilities	\$5,728,566	\$5,940,242	\$25,762	\$27,394	\$5,754,328	\$5,967,636	3.71%
Net Assets:							
Invested in capital assets, net of related debt	\$3,019,094	\$3,345,989	\$10,392	\$15,660	\$3,029,486	\$3,361,649	10.96%
Restricted	\$1,603,099	\$1,642,166	0	0	\$1,603,099	\$1,642,166	2.44%
Unrestricted	\$273,129	(\$118,509)	(\$6,304)	\$6,694	\$266,825	(\$111,815)	(141.91%)
TOTAL NET ASSETS	\$4,895,322	\$4,869,646	\$4,088	\$22,354	\$4,899,410	\$4,892,000	(0.15%)

The District's combined net assets were slightly less on June 30, 2009, than they were the year before; decreasing 0.15% (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, 2009 and 2008.

Figure A-4

Changes in Net Assets

	Governmental		Business-type		Total	
	2008	2009	2008	2009	2008	School District
Revenues						
Program Revenues						
Charges for services	\$473,349	\$671,373	\$164,416	\$184,307	\$637,765	\$855,680
Operating Grants & Contributions	\$867,074	\$957,553	\$134,869	\$146,847	\$1,001,943	\$1,104,400
Capital Grants & Contributions	\$3,350	\$5,000	0	0	\$3,350	\$5,000
General Revenues						
Property taxes & other taxes	\$2,963,176	\$3,013,260	0	0	\$2,963,176	\$3,013,260
Unrestricted State Grants	\$2,446,515	\$2,515,759	0	0	\$2,446,515	\$2,515,759
Unrestricted Investment Earnings	\$137,403	\$65,949	\$556	\$298	\$137,959	\$6,6247
Other Revenue	\$9,484	\$96,023	0	0	\$9,484	\$96,023
Total Revenues	\$6,900,351	\$7,324,917	\$299,841	\$331,452	\$7,200,192	\$7,656,369
Expenses						
Instruction	\$4,699,231	\$5,059,222	\$0	\$0	\$4,699,231	\$5,059,222
Support Services	\$1,634,201	\$1,635,373	\$0	\$0	\$1,634,201	\$1,635,373
Non-Instructional Programs	\$0	\$0	\$306,820	\$321,620	\$306,820	\$321,620
Other Expenses	\$565,955	\$647,564			\$565,955	\$647,564
Total Expenses	\$6,899,387	\$7,342,159	\$306,820	\$321,620	\$7,206,207	\$7,663,779
Transfers	0	(\$8,434)	0	\$8,434	0	0
Change in Net Assets	\$964	(\$25,676)	(\$6,979)	\$18,266	\$(6,015)	\$(7,410)

Governmental Activities -

Referring to *Figure A-4*, revenues for the District's governmental activities were \$7,324,917 for fiscal year 2009. Total governmental expenditures were \$7,342,159.

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 \$12.29 per thousand dollars of taxable valuation to \$12.47 and enrollment declined from 701 to 683.

Figure A-5

Net Cost of Governmental Activities

	Total Cost of Services 2008	Total Cost of Services 2009	Net Cost of Services 2008	Net Cost of Services 2008
Instruction	\$4,699,231	\$5,059,222	\$3,637,066	\$3,712,160
Support Services	\$1,634,201	\$1,635,373	\$1,618,164	\$1,622,488
Non-instructional Programs	\$0	\$0	\$0	\$0
Other Expenses	\$565,955	\$647,564	\$300,384	\$373,585
TOTAL	\$6,899,387	\$7,342,159	\$5,555,614	\$5,708,233

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 \$7,342,159.
- Some of the cost was financed by the users of the District’s programs (\$671,373).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$957,553).
- Most of the District’s costs (\$5,708,233), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$3,013,260 in property and other taxes, and \$2,515,759 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 an increase in net assets with expenses exceeding revenues \$18,266 (refer to Figure A-4). The Board of Education did increase school meal prices for fiscal year 2009.

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$1,408,650, which is less than last year's ending fund balances of \$2,500,313.

Governmental Fund Highlights

The General Fund balance decreased from \$236,709 to (\$87,307), due in part to the reduction in student enrollment, increase in negotiated salary and benefit settlement and additional increased operational costs.

Business Type Fund Highlights

The School Nutrition Fund net assets increased from \$4,088 at June 30, 2008 to \$22,354 at June 30, 2009, representing an increase of 447 %. Overall operating expenses increased by \$14,800 and revenues increased by \$31,611.

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 2009, the District had invested \$5,456,649 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 \$722,163 or 15.25% from last year. (More detailed information about capital assets can be found in Note 6 to the financial statements.)

During fiscal year 2009 the District completed boiler, ventilation and lighting retrofit projects totaling approximately \$1.1 million.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business--type Activities		Total School District		Total Percentage Change 2008-09
	2008	2009	2008	2008	2008	2009	
	Land	\$81,804	\$81,804	0	0	\$81,804	
Improvements other than Buildings	\$129,204	\$112,306	0	0	\$129,204	\$112,306	(13.08%)
Buildings	\$3,859,119	\$4,880,974	0	0	\$3,859,119	\$4,880,974	26.48%
Equipment & Furniture	\$305,342	\$365,905	\$10,392	\$15,660	\$315,734	\$381,565	20.85%
Construction in Progress	\$348,625	0	0	0	\$348,625	0	(100%)
TOTAL	\$4,724,094	\$5,440,989	\$10,392	\$15,660	\$4,734,486	\$5,456,649	15.25%

Long-Term Debt

At June 30, 2009, the District had \$2,165,158 in general obligation and other long-term debt outstanding (Figure A-7). This is a 12.7% decrease from the prior year. Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7

Long-Term Debt

	Balance End of 2009	Due Within One Year
General obligation bonds	\$1,245,000	\$295,000
Revenue bonds	\$150,000	\$30,000
Capital Loan Notes	\$700,000	\$50,000
Early retirement	\$70,158	\$61,709
Total	\$2,165,158	\$436,709

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 2010, was set at 2%. It is expected that the 2% allowable growth will be under funded at a rate of \$290 per weighted student enrollment. This is a potential loss of approximately \$200,000 in revenue.
- 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, 2009

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	429,698	-	429,698
Other	1,981,389	27,390	2,008,779
Receivables:			
Property tax:			
Delinquent	41,936	-	41,936
Succeeding year	2,502,657	-	2,502,657
Accounts	2,747	-	2,747
Accrued interest - ISCAP	53	-	53
Due from other governments	410,419	-	410,419
Inventories	-	6,698	6,698
Capital assets, net of accumulated depreciation	5,440,989	15,660	5,456,649
Total assets	10,809,888	49,748	10,859,636
Liabilities			
Accounts payable	153,605	-	153,605
Salaries and benefits payable	652,422	24,177	676,599
Accrued interest payable	5,665	-	5,665
Deferred revenue:			
Succeeding year property tax	2,502,657	-	2,502,657
Other	29,402	3,217	32,619
ISCAP warrants payable	423,000	-	423,000
ISCAP accrued interest payable	145	-	145
ISCAP premium	8,188	-	8,188
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	295,000	-	295,000
Revenue bonds payable	30,000	-	30,000
Capital loan notes payable	50,000	-	50,000
Termination benefits	61,709	-	61,709
Portion due after one year:			
General obligation bonds payable	950,000	-	950,000
Revenue bonds payable	120,000	-	120,000
Capital loan notes payable	650,000	-	650,000
Termination benefits	8,449	-	8,449
Total liabilities	5,940,242	27,394	5,967,636

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	3,345,989	15,660	3,361,649
Restricted for:			
Categorical funding	134,583	-	134,583
Management levy	26,980	-	26,980
Physical plant and equipment levy	783,436	-	783,436
Other special revenue purposes	112,557	-	112,557
Sales tax capital projects	584,610	-	584,610
Unrestricted	(118,509)	6,694	(111,815)
Total net assets	<u>4,869,646</u>	<u>22,354</u>	<u>4,892,000</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	3,168,277	400,877	546,259	-
Special	1,087,421	47,376	39,085	-
Other	803,524	222,805	90,660	-
	<u>5,059,222</u>	<u>671,058</u>	<u>676,004</u>	<u>-</u>
Support services:				
Student	101,907	-	-	-
Instructional staff	118,851	-	-	-
Administration	611,486	-	-	-
Operation and maintenance of plant	527,448	315	-	-
Transportation	275,681	-	12,570	-
	<u>1,635,373</u>	<u>315</u>	<u>12,570</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	107,226	-	-	5,000
Long-term debt interest	82,950	-	-	-
AEA flowthrough	268,979	-	268,979	-
Depreciation (unallocated)*	188,409	-	-	-
	<u>647,564</u>	<u>-</u>	<u>268,979</u>	<u>5,000</u>
Total governmental activities	7,342,159	671,373	957,553	5,000
Business type activities:				
Non-instructional programs:				
Food service operations	321,620	184,307	146,847	-
Total	7,663,779	855,680	1,104,400	5,000
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
ARRA stabilization - Recovery Act				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				
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
\$	\$	\$
(2,221,141)	-	(2,221,141)
(1,000,960)	-	(1,000,960)
(490,059)	-	(490,059)
<u>(3,712,160)</u>	<u>-</u>	<u>(3,712,160)</u>
(101,907)	-	(101,907)
(118,851)	-	(118,851)
(611,486)	-	(611,486)
(527,133)	-	(527,133)
(263,111)	-	(263,111)
<u>(1,622,488)</u>	<u>-</u>	<u>(1,622,488)</u>
(102,226)	-	(102,226)
(82,950)	-	(82,950)
-	-	-
<u>(188,409)</u>	<u>-</u>	<u>(188,409)</u>
<u>(373,585)</u>	<u>-</u>	<u>(373,585)</u>
(5,708,233)	-	(5,708,233)
-	9,534	9,534
<u>(5,708,233)</u>	<u>9,534</u>	<u>(5,698,699)</u>
2,194,991	-	2,194,991
124,391	-	124,391
213,773	-	213,773
480,105	-	480,105
2,515,759	-	2,515,759
57,140	-	57,140
65,949	298	66,247
38,883	-	38,883
5,690,991	298	5,691,289
<u>(8,434)</u>	<u>8,434</u>	<u>-</u>
<u>5,682,557</u>	<u>8,732</u>	<u>5,691,289</u>
(25,676)	18,266	(7,410)
<u>4,895,322</u>	<u>4,088</u>	<u>4,899,410</u>
<u>4,869,646</u>	<u>22,354</u>	<u>4,892,000</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2009

	General Fund	Physical Plant and Equipment Levy	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments:					
ISCAP	429,698	-	-	-	429,698
Other	502,301	749,936	521,058	208,094	1,981,389
Receivables:					
Property tax:					
Delinquent	37,433	2,142	-	2,361	41,936
Succeeding year	2,289,281	133,376	-	80,000	2,502,657
Accounts	1,635	-	-	1,085	2,720
Accrued interest - ISCAP	53	-	-	-	53
Interfund receivable	27	38,817	-	-	38,844
Due from other governments	260,854	81,784	67,781	-	410,419
Total assets	3,521,282	1,006,055	588,839	291,540	5,407,716
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	58,288	89,243	4,229	1,845	153,605
Salaries and benefits payable	652,422	-	-	-	652,422
Interfund payable	38,817	-	-	-	38,817
ISCAP premium	8,188	-	-	-	8,188
ISCAP warrants payable	423,000	-	-	-	423,000
ISCAP accrued interest payable	145	-	-	-	145
Deferred revenue:					
Succeeding year property tax	2,289,281	133,376	-	80,000	2,502,657
Income surtax	109,046	81,784	-	-	190,830
Other	29,402	-	-	-	29,402
Total liabilities	3,608,589	304,403	4,229	81,845	3,999,066
Fund balances:					
Reserved for:					
Categorical funding	134,583	-	-	-	134,583
Unreserved reported in:					
General fund	(221,890)	-	-	-	(221,890)
Special revenue funds	-	701,652	-	209,695	911,347
Capital projects funds	-	-	584,610	-	584,610
Total fund balances	(87,307)	701,652	584,610	209,695	1,408,650
Total liabilities and fund balances	3,521,282	1,006,055	588,839	291,540	5,407,716

See notes to financial statements.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

June 30, 2009

	\$
Total fund balances of governmental funds (Exhibit C)	1,408,650
<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.	5,440,989
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	190,830
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.	(5,665)
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>(2,165,158)</u>
Net assets of governmental activities (Exhibit A)	<u><u>4,869,646</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	General Fund	Physical Plant and Equipment Levy	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,180,524	211,686	480,105	130,183	3,002,498
Tuition	354,080	-	-	-	354,080
Other	113,607	40,639	7,387	237,693	399,326
State sources	3,281,472	106	-	109	3,281,687
Federal sources	248,765	-	-	-	248,765
Total revenues	<u>6,178,448</u>	<u>252,431</u>	<u>487,492</u>	<u>367,985</u>	<u>7,286,356</u>
Expenditures:					
Current:					
Instruction:					
Regular	3,117,969	-	-	17,631	3,135,600
Special	1,084,474	-	-	-	1,084,474
Other	565,669	-	-	234,665	800,334
	<u>4,768,112</u>	<u>-</u>	<u>-</u>	<u>252,296</u>	<u>5,020,408</u>
Support services:					
Student	101,907	-	-	-	101,907
Instructional staff	115,384	-	-	-	115,384
Administration	593,210	10,560	-	-	603,770
Operation and maintenance of plant	434,082	49,925	-	77,910	561,917
Transportation	220,790	76,211	-	-	297,001
	<u>1,465,373</u>	<u>136,696</u>	<u>-</u>	<u>77,910</u>	<u>1,679,979</u>
Other expenditures:					
Facilities acquisition	-	181,651	816,914	-	998,565
Long-term debt:					
Principal	-	-	-	340,000	340,000
Interest and fiscal charges	-	-	-	106,137	106,137
AEA flowthrough	268,979	-	-	-	268,979
	<u>268,979</u>	<u>181,651</u>	<u>816,914</u>	<u>446,137</u>	<u>1,713,681</u>
Total expenditures	<u>6,502,464</u>	<u>318,347</u>	<u>816,914</u>	<u>776,343</u>	<u>8,414,068</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(324,016)</u>	<u>(65,916)</u>	<u>(329,422)</u>	<u>(408,358)</u>	<u>(1,127,712)</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	General Fund	Physical Plant and Equipment Levy	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Other financing sources (uses):					
Sales of real estate	-	36,049	-	-	36,049
Operating transfers in	-	-	730,000	446,137	1,176,137
Operating transfers out	-	(804,698)	(371,439)	-	(1,176,137)
	<u>-</u>	<u>(768,649)</u>	<u>358,561</u>	<u>446,137</u>	<u>36,049</u>
Total other financing sources (uses)					
Net change in fund balances	(324,016)	(834,565)	29,139	37,779	(1,091,663)
Fund balances beginning of year	<u>236,709</u>	<u>1,536,217</u>	<u>555,471</u>	<u>171,916</u>	<u>2,500,313</u>
Fund balances end of year	<u>(87,307)</u>	<u>701,652</u>	<u>584,610</u>	<u>209,695</u>	<u>1,408,650</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(1,091,663)
<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:		
Basis in property sold	(8,250)	
Expenditures for capital assets	1,001,058	
Depreciation expense	<u>(275,913)</u>	716,895
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.		10,762
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.		340,000
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.		23,187
Termination benefits		<u>(24,857)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>(25,676)</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2009

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	27,390
Inventories	6,698
Capital assets, net of accumulated depreciation	<u>15,660</u>
Total assets	<u>49,748</u>
Liabilities	
Salaries and benefits payable	24,177
Deferred revenue	<u>3,217</u>
Total liabilities	<u>27,394</u>
Net assets	
Invested in capital assets	15,660
Unrestricted	<u>6,694</u>
Total net assets	<u><u>22,354</u></u>

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

Year ended June 30, 2009

	Nonmajor School Nutrition
	\$
Operating revenue:	
Local sources:	
Charges for service	184,307
Operating expenses:	
Non-instructional programs:	
Salaries	102,893
Benefits	41,306
Purchased services	529
Supplies	173,726
Depreciation	3,166
Total operating expenses	321,620
Operating gain (loss)	(137,313)
Non-operating revenues:	
State sources	3,629
Federal sources	143,218
Interest income	298
Total non-operating revenues	147,145
Gain (loss) before contributions	9,832
Capital contributions	8,434
Change in net assets	18,266
Net assets beginning of year	4,088
Net assets end of year	22,354

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2009

	Nonmajor School Nutrition <u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	183,548
Cash payments to employees for services	(141,637)
Cash payments to suppliers for goods or services	(142,761)
Net cash used by operating activities	<u>(100,850)</u>
Cash flows from non-capital financing activities:	
State grants received	3,629
Federal grants received	110,598
Net cash provided by non-capital financing activities	<u>114,227</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>298</u>
Net increase (decrease) in cash and cash equivalents	13,675
Cash and cash equivalents at beginning of year	<u>13,715</u>
Cash and cash equivalents at end of year	<u><u>27,390</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(137,313)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	33,030
Depreciation	3,166
Decrease (increase) in inventories	(1,365)
(Decrease) increase in accounts payable	(171)
(Decrease) increase in salaries and benefits payable	2,562
(Decrease) increase in deferred revenue	(759)
Net cash used by operating activities	<u><u>(100,850)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received \$33,030 of federal commodities.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Fund

June 30, 2009

	<u>Private Purpose Trust</u>
	\$
Assets	
Cash and pooled investments	4,148
Liabilities	
Interfund payable	<u>27</u>
Net Assets	
Reserved for student books	<u>4,121</u>
Total net assets	<u><u>4,121</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

Year ended June 30, 2009

	Private Purpose Trust
	<u>\$</u>
Additions:	
Local sources:	
Interest	13
Deductions	
Support services:	
Scholarships awarded	<u>542</u>
Change in net assets	(529)
Net assets beginning of year	<u>4,650</u>
Net assets end of year	<u><u>4,121</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2009

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 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, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2009, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	57,142

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2009 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
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, 2009 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
		\$
Nonmajor - Debt Service Fund	Capital Projects Sales Tax Fund	371,439
Nonmajor - Debt Service Fund	Physical Plant and Equipment Levy Fund	804,698

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

5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2009 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
			\$	\$	\$	\$
2009-10A	6/25/09	6/23/10	<u>429,698</u>	<u>53</u>	<u>423,000</u>	<u>145</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2009, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants %	Interest Rates on Investments %
2009-10A	2.500	0.902

6. Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance Beginning of Year \$	Increases \$	Decreases \$	Balance End of Year \$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	348,625	-	348,625	-
Land	81,804	-	-	81,804
Total capital assets not being depr.	<u>430,429</u>	<u>-</u>	<u>348,625</u>	<u>81,804</u>
Capital assets being depreciated:				
Buildings	6,149,207	1,201,616	11,000	7,339,823
Improvements other than buildings	507,218	-	-	507,218
Furniture and equipment	1,176,388	148,067	28,000	1,296,455
Total capital assets being deprec.	<u>7,832,813</u>	<u>1,349,683</u>	<u>39,000</u>	<u>9,143,496</u>
Less accumulated depreciation for:				
Buildings	2,290,088	171,511	2,750	2,458,849
Improvements other than buildings	378,014	16,898	-	394,912
Furniture and equipment	871,046	87,504	28,000	930,550
Total accumulated depreciation	<u>3,539,148</u>	<u>275,913</u>	<u>30,750</u>	<u>3,784,311</u>
Total capital assets being depreciated, net	<u>4,293,665</u>	<u>1,073,770</u>	<u>8,250</u>	<u>5,359,185</u>
Governmental activities capital assets, net	<u>4,724,094</u>	<u>1,073,770</u>	<u>356,875</u>	<u>5,440,989</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	100,603	8,434	-	109,037
Less accumulated depreciation	<u>90,211</u>	<u>3,166</u>	-	<u>93,377</u>
Business type activities capital assets, net	<u>10,392</u>	<u>5,268</u>	-	<u>15,660</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	7,820
Special	2,947
Other	3,190
Support services:	
Instructional staff services	3,467
Administration services	7,716
Operation and maintenance of plant services	7,473
Transportation	<u>54,891</u>
	87,504
Unallocated depreciation	<u>188,409</u>
Total depreciation expense – governmental activities	<u><u>275,913</u></u>
Business type activities:	
Food services	<u><u>3,166</u></u>

7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2009 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,530,000	-	285,000	1,245,000	295,000
Revenue bonds	175,000	-	25,000	150,000	30,000
Capital loan notes	730,000	-	30,000	700,000	50,000
Termination benefits	<u>45,301</u>	<u>53,536</u>	<u>28,679</u>	<u>70,158</u>	<u>61,709</u>
Total	<u><u>2,480,301</u></u>	<u><u>53,536</u></u>	<u><u>368,679</u></u>	<u><u>2,165,158</u></u>	<u><u>436,709</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, 2009, the District has obligations to seven participants with a total liability of \$70,158. Actual early retirement expenditures for the year ended June 30, 2009 totaled \$28,679.

General Obligation Bonds

Details of the District's June 30, 2009 general obligation bonded indebtedness are as follows:

Refunding Bond Issue of May 2008				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
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
		<u>1,245,000</u>	<u>99,855</u>	<u>1,344,855</u>

Revenue Bonds

Details of the District's June 30, 2009 local option (statewide) sales and services tax revenue bonded indebtedness are as follows:

Bond Issue of November 2007				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2010	4.050	30,000	3,184	33,184
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
		<u>150,000</u>	<u>16,234</u>	<u>166,234</u>

The District has pledged future local option (statewide) 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 (statewide) 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 bonds are expected to require nearly 10% of the local option (statewide) sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$166,234. For the current year, \$36,103 of principal and interest were paid on the bonds and total statewide sales and services tax revenues were \$480,105.

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

- Proceeds from the local option (statewide) 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 (statewide) 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</u> <u>June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
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	4.00	60,000	20,165	80,165
2015-2019	4.05-4.25	350,000	62,140	412,140
2020	4.30	75,000	2,425	77,425
		<u>700,000</u>	<u>187,590</u>	<u>887,590</u>

During the year ended June 30, 2009 the District made principal and interest payments of \$74,698 on the notes.

8. Pension and Retirement Benefits

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

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$258,485, \$231,228 and \$208,141 respectively, equal to the required contributions for each year.

9. 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.

10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$268,979 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Related Party Transaction

A District board member owns a portion of the insurance agency from which the District purchases its property, liability and workmen's compensation insurance. The District paid \$77,570 in premiums to this agency during the year ended June 30, 2009.

12. Deficit Fund Balances

At June 30, 2009 the District's General Fund had a \$221,890 deficit unreserved fund balance.

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, 2009

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,755,904	184,605	3,940,509	3,856,664	3,856,664	83,845
Intermediate sources	-	-	-	1,000	1,000	(1,000)
State sources	3,281,687	3,629	3,285,316	3,679,238	3,679,238	(393,922)
Federal sources	248,765	143,218	391,983	559,000	559,000	(167,017)
Total revenues	<u>7,286,356</u>	<u>331,452</u>	<u>7,617,808</u>	<u>8,095,902</u>	<u>8,095,902</u>	<u>(478,094)</u>
Expenditures/Expenses:						
Instruction	5,020,408	-	5,020,408	5,572,215	5,572,215	551,807
Support services	1,679,979	-	1,679,979	2,372,000	2,372,000	692,021
Non-instructional programs	-	321,620	321,620	332,692	332,692	11,072
Other expenditures	1,713,681	-	1,713,681	1,822,194	1,822,194	108,513
Total expenditures/expenses	<u>8,414,068</u>	<u>321,620</u>	<u>8,735,688</u>	<u>10,099,101</u>	<u>10,099,101</u>	<u>1,363,413</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(1,127,712)	9,832	(1,117,880)	(2,003,199)	(2,003,199)	885,319
Other financing sources (uses) net	<u>36,049</u>	<u>8,434</u>	<u>44,483</u>	<u>6,000</u>	<u>6,000</u>	<u>38,483</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(1,091,663)	18,266	(1,073,397)	(1,997,199)	(1,997,199)	923,802
Balance beginning of year	<u>2,500,313</u>	<u>4,088</u>	<u>2,504,401</u>	<u>2,731,766</u>	<u>2,731,766</u>	<u>(227,365)</u>
Balance end of year	<u><u>1,408,650</u></u>	<u><u>22,354</u></u>	<u><u>1,431,004</u></u>	<u><u>734,567</u></u>	<u><u>734,567</u></u>	<u><u>696,437</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2009

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.

OTHER SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2009

Assets	Special Revenue Funds		Total
	Management	Student	
	Levy	Activity	
	\$	\$	\$
Cash and pooled investments	94,537	113,557	208,094
Receivables:			
Property tax:			
Delinquent	2,361	-	2,361
Succeeding year	80,000	-	80,000
Accounts	240	845	1,085
Total assets	177,138	114,402	291,540
Liabilities & Fund Balances			
Liabilities:			
Accounts payable	-	1,845	1,845
Deferred revenue:			
Succeeding year property tax	80,000	-	80,000
Total liabilities	80,000	1,845	81,845
Fund balances:			
Unreserved reported in:			
Special revenue funds	97,138	112,557	209,695
Total liabilities and fund balances	177,138	114,402	291,540

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	Special Revenue Funds			Total
	Management	Student	Debt	
	Levy	Activity	Service	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	130,183	-	-	130,183
Other	11,967	225,726	-	237,693
State sources	109	-	-	109
Total revenues	<u>142,259</u>	<u>225,726</u>	<u>-</u>	<u>367,985</u>
Expenditures:				
Current:				
Instruction:				
Regular	17,631	-	-	17,631
Other	-	234,665	-	234,665
Support services:				
Operation and maintenance of plant	77,910	-	-	77,910
Other expenditures:				
Long-term debt:				
Principal	-	-	340,000	340,000
Interest and fiscal charges	-	-	106,137	106,137
Total expenditures	<u>95,541</u>	<u>234,665</u>	<u>446,137</u>	<u>776,343</u>
Excess (deficiency) of revenues over (under) expenditures	<u>46,718</u>	<u>(8,939)</u>	<u>(446,137)</u>	<u>(408,358)</u>
Other financing sources (uses):				
Operating transfers in	-	-	446,137	446,137
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>446,137</u>	<u>446,137</u>
Net change in fund balances	46,718	(8,939)	-	37,779
Fund balances beginning of year	<u>50,420</u>	<u>121,496</u>	<u>-</u>	<u>171,916</u>
Fund balances end of year	<u><u>97,138</u></u>	<u><u>112,557</u></u>	<u><u>-</u></u>	<u><u>209,695</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2009

Account	Balance	Revenues	Expenditures	Intra-fund Transfers	Balance
	Beginning of Year				End of Year
	\$	\$	\$	\$	\$
All athletics	638	12,951	10,955	(1,962)	672
Cross country	-	949	1,318	380	11
Football	4,177	25,782	29,464	2,500	2,995
Volleyball	2,533	6,077	7,607	-	1,003
Boys basketball	3,858	6,183	7,112	(66)	2,863
Girls basketball	5,419	5,796	6,597	(2,500)	2,118
Boys track	112	4,473	3,423	-	1,162
Girls track	172	3,724	4,720	840	16
Boys golf	354	17	218	146	299
Girls golf	526	-	229	20	317
Baseball	251	2,167	5,686	3,300	32
Softball	100	5,614	8,442	2,900	172
Wrestling	578	3,828	4,614	614	406
Band	1,451	858	3,569	3,117	1,857
Chorus	801	5,840	8,903	5,475	3,213
Un-named	-	-	299	299	-
Senior class	497	-	1,290	793	-
Junior class	1,411	1,550	2,282	150	829
Sophomore class	1,561	6,125	3,597	(1,561)	2,528
Class special	154	-	689	617	82
HS activities	515	24,566	8,341	(16,146)	594
Art club	1,183	1,412	2,040	480	1,035
Cheerleaders	4,444	11,894	9,216	11	7,133
Community youth	333	-	-	-	333
Computer club	1,270	-	852	-	418
Drama club	3,289	2,258	2,160	-	3,387
FCA	4,532	99	110	-	4,521
FFA	5,382	12,767	13,991	-	4,158
Industrial tech. club	96	326	349	-	73
Library reading club	766	145	29	-	882
Marketing club	1,691	8,009	6,155	(28)	3,517
Oracle yearbook	12,972	5,209	6,654	-	11,527
Science club	924	-	-	-	924
Spanish club	5,715	14,362	17,150	(369)	2,558
Student council-HS	1,041	7,885	7,338	264	1,852
Speech club	5,824	-	521	-	5,303
Student council K-4	13,982	5,344	6,495	1,025	13,856
Unallocated interest	4,660	1,723	1,068	(545)	4,770
MS all athletics	-	11	662	651	-
MS football	-	-	4,404	4,404	-
MS volleyball	-	-	514	514	-

See accompanying independent auditor's report.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2009

<u>Account</u>	Balance	Revenues	Expenditures	Intra-fund Transfers	Balance
	Beginning of Year				End of Year
	\$	\$	\$	\$	\$
MS basketball	-	-	2,375	2,375	-
MS wrestling	-	-	358	358	-
MS track	-	540	629	89	-
MS golf	113	-	-	-	113
MS baseball	-	-	1,469	1,469	-
Bowling	187	1,734	1,734	-	187
MS softball	-	-	1,519	1,519	-
MS vocal music	-	1,478	1,644	166	-
MS band	413	1,116	2,868	1,172	(167)
Middle school activities	718	23,694	15,922	(8,353)	137
MS student council	11,528	7,402	7,545	663	12,048
Checking interest	15,876	1,198	-	(4,781)	12,293
Concessions	1,530	-	-	-	1,530
June 30, 2009 accrual entries	-	845	1,845	-	(1,000)
June 30, 2008 accrual entries	(2,081)	(225)	(2,306)	-	-
Totals	121,496	225,726	234,665	-	112,557

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

For the Last Six Years

	Modified Accrual Basis					
	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	3,002,498	2,945,697	2,786,862	2,637,393	2,735,365	2,729,570
Tuition	354,080	252,675	213,057	204,989	198,123	207,060
Other	399,326	370,805	344,053	369,380	295,101	286,971
Intermediate sources	-	200	514	378	486	-
State sources	3,281,687	3,133,781	3,293,384	3,300,505	3,302,417	3,148,868
Federal sources	248,765	179,714	415,670	459,728	281,937	220,990
Total revenues	<u>7,286,356</u>	<u>6,882,872</u>	<u>7,053,540</u>	<u>6,972,373</u>	<u>6,813,429</u>	<u>6,593,459</u>
Expenditures:						
Instruction:						
Regular instruction	3,135,600	3,150,664	3,104,891	2,955,437	3,069,291	2,846,476
Special instruction	1,084,474	895,547	781,369	809,660	742,105	691,506
Other instruction	800,334	622,302	701,793	711,725	649,366	662,830
Support services:						
Student services	101,907	92,051	83,672	99,065	137,792	138,479
Instructional staff services	115,384	115,049	124,973	202,088	175,448	152,242
Administration services	603,770	603,694	629,847	607,126	606,568	564,238
Operation and maintenance	561,917	519,030	504,485	489,417	457,928	436,054
Transportation services	297,001	245,763	315,604	318,798	277,414	223,471
Non-instructional programs	-	-	-	-	4,337	-
Other expenditures:						
Facilities acquisition	998,565	424,639	151,556	137,350	55,676	66,050
Long-term debt:						
Principal	340,000	1,780,000	250,353	243,489	236,000	346,000
Interest and other charges	106,137	78,663	89,450	99,950	111,101	126,519
AEA flowthrough	268,979	262,127	257,735	252,209	252,328	255,572
Total expenditures	<u>8,414,068</u>	<u>8,789,529</u>	<u>6,995,728</u>	<u>6,926,314</u>	<u>6,775,354</u>	<u>6,509,437</u>

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

To the Board of Education of
Hartley-Melvin-Sanborn Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Hartley-Melvin-Sanborn Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 30, 2010. 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 09-I-A, 09-I-B, 09-I-C and 09-I-D 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, 2009 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 30, 2010

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

09-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.

09-I-B Financial Reporting: During the audit, we identified material amounts of cash, 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.

09-I-C Bank Reconciliations: One of the main internal controls over the cash balances reported in the accounting records is the preparation of a monthly reconciliation of the bank statements to the cash balances in the financial records. The cash balances in the computer financial accounting records were not reconciled to the bank monthly.

Recommendation: Bank reconciliations should be prepared monthly. Any variances between the bank reconciliation and the cash balances in the financial statements should be investigated and resolved.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

District Response: Monthly bank reconciliations will be prepared.

Conclusion: Response accepted.

09-I-D

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

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

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part II: Other Findings Related to Statutory Reporting:

09-II-A Certified Budget: Expenditures for the year ended June 30, 2009, did not exceed the amounts budgeted.

09-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.

09-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.

09-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	77,570

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

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

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

Conclusion: Response accepted.

09-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.

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

09-II-G Certified Enrollment: The calculations for supplemental weighting on line 12 of the October 2008 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.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

District Response: We will review our procedures.

Conclusion: Response accepted.

09-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.

09-II-I Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.

09-II-J Categorical Funding – Except as noted, no instances were noted of categorical funding being used to supplant rather than supplement other funds. The District allocated \$52,938 for charter school community college class expenditures to the District's Returning Dropouts and Dropout Prevention program. The District also allocated 28% of one employee's salary, \$11,549, to the Limited English Proficiency Program, but an interview with that employee revealed that only 5% of that employee's time, \$2,062 was spent on the Limited English Proficiency Program. These cost allocations do not appear to be allowable costs for these programs in accordance with Chapter 256D.2 of the Code of Iowa and Iowa Department of Education administrative rules.

According to proposed administrative rules, "Categorical funding shall not be commingled with other funding. School districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year some categorical funding expenditures were commingled with other General Fund expenditures, then were reclassified as categorical spending at the end of the year.

Recommendation – The District should contact the Iowa Department of Education to clarify what may be charged to these programs and to determine corrective action required. The questioned costs of \$62,425 should be reported as reserved fund balance.

All categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred.

Response – As recommended, we will contact the Iowa Department of Education to determine the corrective action required.

We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts as incurred.

Conclusion – Response accepted.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

09-II-K Statewide Sales and Services Tax – No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance	\$	\$	-
Statewide sales and services tax revenue			480,105
Expenditures/transfers out:			
School infrastructure:			
Buildings and building improvements	86,914		
Debt service for school infrastructure:			
General obligation debt	335,336		
Revenue debt	36,103	458,353	
		<u> </u>	<u> </u>
Ending balance			<u>21,752</u>

09-II-L Deficit Balances: The District has a unreserved deficit fund balance in the General Fund of \$221,890.

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

District Response: We are working on ways to eliminate the deficit.

Conclusion: Response accepted.

09-II-M Construction Contract Change Orders: We noted that the Board of Directors did not approve change orders.

Recommendation: All contract changes should be approved by the Board and documented in the minutes.

District Response: All future contract changes will be documented in the minutes.

Conclusion: Response accepted.