

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

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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, 2010, which collectively comprise the District's basic financial statements 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, 2010, 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 17, 2011, 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, Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 14 and 43 through 45 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 six years ended June 30, 2009, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 17, 2011

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, 2010. 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

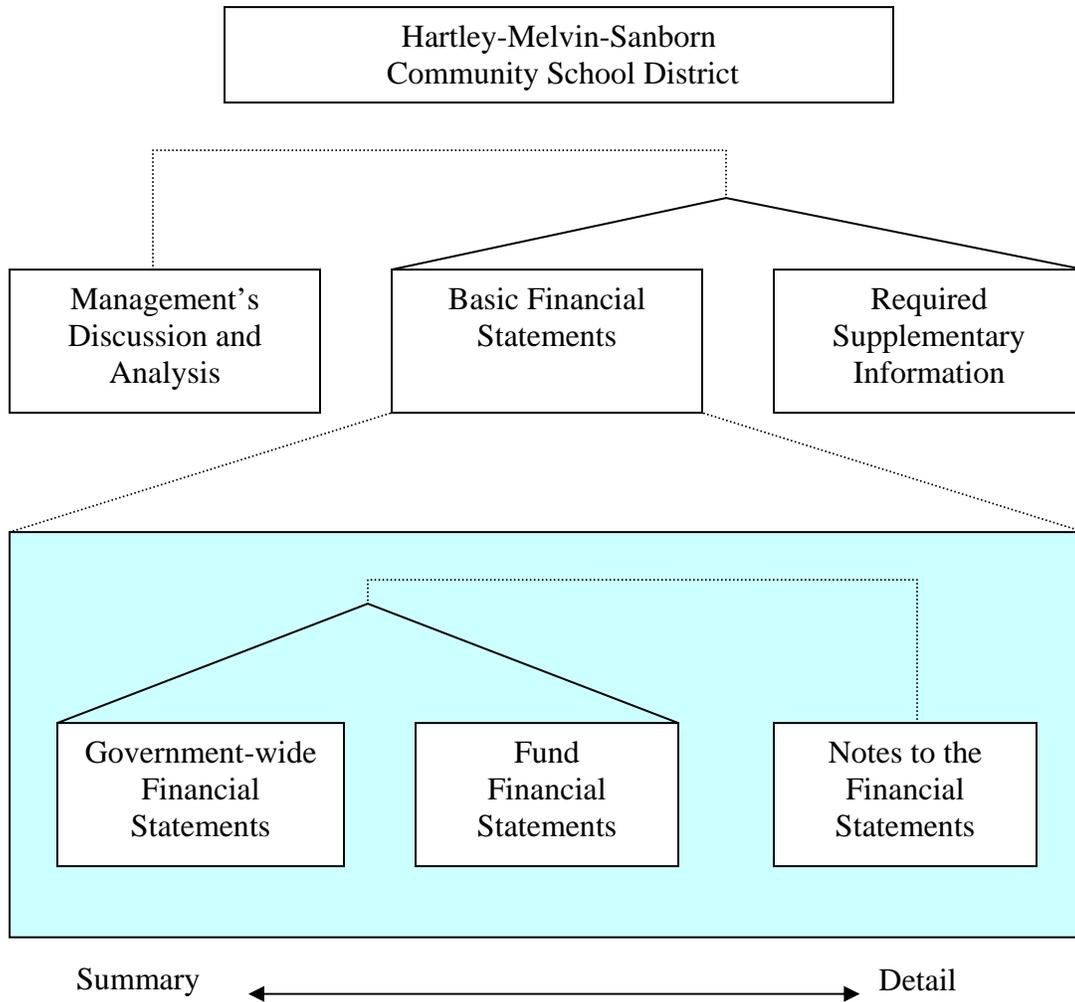


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents 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, 2010 compared to June 30, 2009.

<i>Figure A-3</i>							
Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2009	2010	2009	2010	2009	2010	2009-2010
Current and other assets	\$5,368,899	\$5,030,102	\$34,088	\$30,561	\$5,402,987	\$5,060,663	(6.34%)
Capital assets	\$5,440,989	\$5,345,638	\$15,660	\$12,491	\$5,456,649	\$5,358,129	(1.81%)
Total Assets	\$10,809,888	\$10,375,740	\$49,748	\$43,052	\$10,859,636	\$10,418,792	(4.06%)
Long-term liabilities	\$2,165,158	\$1,828,748	0	\$2,810	\$2,165,158	\$1,831,558	(15.41%)
Other liabilities	\$3,775,084	\$3,894,273	\$27,394	\$26,675	\$3,802,478	\$3,920,948	3.12%
Total liabilities	\$5,940,242	\$5,723,021	\$27,394	\$29,485	\$5,967,636	\$5,752,506	(3.60%)
Net Assets:							
Invested in capital assets, net of related debt	\$3,345,989	\$3,625,638	\$15,660	\$12,491	\$3,361,649	\$3,638,129	8.22%
Restricted	\$1,642,166	\$1,585,362	0	0	\$1,642,166	\$1,585,362	(3.46%)
Unrestricted	(\$118,509)	(\$558,281)	\$6,694	\$1,076	(\$111,815)	(\$557,205)	(398.33%)
TOTAL NET ASSETS	\$4,869,646	\$4,652,719	\$22,354	\$13,567	\$4,892,000	\$4,666,286	(4.61%)

The District's combined net assets were less on June 30, 2010, than they were the year before; decreasing 4.61% (*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 2010.

Figure A-4

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	2009	2010	2009	2010	2009	2010
Revenues						
Program Revenues						
Charges for services	\$671,373	\$522,806	\$184,307	\$158,019	\$855,680	\$680,825
Operating Grants & Contributions	\$957,553	\$1,186,151	\$146,847	\$166,702	\$1,104,400	\$1,352,853
Capital Grants & Contributions	\$5,000	0	0	0	\$5,000	0
General Revenues						
Property taxes & other taxes	\$3,013,260	\$3,222,563	0	0	\$3,013,260	\$3,222,563
Unrestricted State Grants	\$2,515,759	\$2,131,168	0	0	\$2,515,759	\$2,131,168
Unrestricted Investment Earnings	\$65,949	\$48,207	\$298	\$213	\$66,247	\$48,420
Other Revenue	\$96,023	\$14,393	0	0	\$96,023	\$14,393
Total Revenues	\$7,324,917	\$7,125,288	\$331,452	\$324,934	\$7,656,369	\$7,450,222
Expenses						
Instruction	\$5,059,222	\$5,073,206	\$0	\$0	\$5,059,222	\$5,073,206
Support Services	\$1,635,373	\$1,634,043	\$0	\$0	\$1,635,373	\$1,634,043
Non-Instructional Programs	\$0	\$0	\$321,620	\$333,721	\$321,620	\$333,721
Other Expenses	\$647,564	\$634,966			\$647,564	\$634,966
Total Expenses	\$7,342,159	\$7,342,215	\$321,620	\$333,721	\$7,663,779	\$7,675,936
Transfers	(\$8,434)	0	\$8,434	0	0	0
Change in Net Assets	(\$25,676)	(\$216,927)	\$18,266	(\$8,787)	(\$7,410)	(\$225,714)

Governmental Activities -

Referring to *Figure A-4*, revenues for the District's governmental activities were \$7,125,288 for fiscal year 2010. Total governmental expenditures were \$7,342,215.

Expenses were kept to a minimum in an attempt to match available revenues. A 10% across-the-board cut from the State of Iowa was not anticipated at the time the budget was set. Additionally, enrollment continued to decline for the eighth consecutive year.

Figure A-5

Net Cost of Governmental Activities

	Total Cost of Services 2009	Total Cost of Services 2010	Net Cost of Services 2009	Net Cost of Services 2010
Instruction	\$5,059,222	\$5,073,206	\$3,712,160	\$3,662,063
Support Services	\$1,635,373	\$1,634,043	\$1,622,488	\$1,626,382
Non-instructional Programs	\$0	\$0	\$0	\$0
Other Expenses	\$647,564	\$634,966	\$373,585	\$344,813
TOTAL	\$7,342,159	\$7,342,215	\$5,708,233	\$5,633,258

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 \$7,342,215.
- Some of the cost was financed by the users of the District’s programs (\$522,806).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$1,186,151).
- Most of the District’s costs (\$5,633,258), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$3,222,563 in property and other taxes, and \$2,131,168 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

Business-Type Activities -

The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income. The District’s business-type activities show a decrease in net assets with revenue exceeding expenses \$8,787 (refer to Figure A-4). The Board of Education did increase school meal prices for fiscal year 2011, as well as decrease expenses through employee cost by eliminating two part time dishwashing positions.

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 \$902,893, which is less than last year’s ending fund balances of \$1,408,650.

Governmental Fund Highlights

The General Fund balance decreased from (\$87,307) to (\$499,957), due in large part to the reduction in student enrollment, increase in negotiated salary and benefit settlement, additional increased operational costs, the under funding of the announced allowable growth and the mid year 10% across-the-board cuts issued by the State of Iowa.

Business Type Fund Highlights

The School Nutrition Fund net assets decreased from \$22,354 at June 30, 2009 to \$13,567 at June 30, 2010, representing a decrease of 39.3 %. Overall operating expenses increased by \$12,101 and revenues decreased by \$6,518.

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 FY10, the continued student enrollment decline along with the additional 10% reduction in the budget guarantee, under funding of the announced allowable growth figure and a mid year 10% across-the-board cut issued by the State of Iowa contributed to a decrease in revenue to the district while the cost of instruction continues to increase.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

Capital Asset and Debt Administration

Capital Assets

By the end of 2010, the District had invested \$5,358,129 net of accumulated depreciation, in a broad range of assets, including school buildings, athletic facilities, transportation equipment, and computer and audio-visual equipment (see *Figure A-6*). This amount represents a net decrease of \$98,520 or -1.81% from last year. (More detailed information about capital assets can be found in Note 6 to the financial statements.)

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business--type Activities		Total School District		Total Percentage Change 2009-10
	2009	2010	2009	2010	2009	2010	
	Land	\$81,804	\$81,804	0	0	\$81,804	
Improvements other than Buildings	\$112,306	\$95,408	0	0	\$112,306	\$95,408	(15.05%)
Buildings	\$4,880,974	\$4,716,620	0	0	\$4,880,974	\$4,716,620	(3.37%)
Equipment & Furniture	\$365,905	\$451,806	\$15,660	\$12,491	\$381,565	\$464,297	21.68%
Construction in Progress	0	0	0	0	0	0	0%
TOTAL	\$5,440,989	\$5,345,638	\$15,660	\$12,491	\$5,456,649	\$5,358,129	(1.81%)

Long-Term Debt

At June 30, 2010, the District had \$1,831,558 general obligation and other long-term debt outstanding (Figure A-7). This is a 15.41% 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 2010	Due Within One Year
Net OPEB liability	\$59,018	0
General obligation bonds	\$950,000	\$305,000
Revenue bonds	\$120,000	\$30,000
Capital Loan Notes	\$650,000	\$50,000
Early retirement	\$52,540	\$50,809
Total	\$1,831,558.00	\$435,809

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 2012, has yet to be established at the time of this writing. A 0% allowable growth is expected.
- 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, could 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, 2010

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	1,732,869	20,732	1,753,601
Receivables:			
Property tax:			
Delinquent	38,784	-	38,784
Succeeding year	2,836,844	-	2,836,844
Accounts	3,602	-	3,602
Due from other governments	418,003	-	418,003
Inventories	-	9,829	9,829
Capital assets, net of accumulated depreciation	5,345,638	12,491	5,358,129
Total assets	10,375,740	43,052	10,418,792
Liabilities			
Accounts payable	119,858	155	120,013
Salaries and benefits payable	685,752	21,990	707,742
Accrued interest payable	4,724	-	4,724
Deferred revenue:			
Succeeding year property tax	2,836,844	-	2,836,844
Other	247,095	4,530	251,625
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	305,000	-	305,000
Revenue bonds payable	30,000	-	30,000
Capital loan notes payable	50,000	-	50,000
Termination benefits	50,809	-	50,809
Portion due after one year:			
General obligation bonds payable	645,000	-	645,000
Revenue bonds payable	90,000	-	90,000
Capital loan notes payable	600,000	-	600,000
Termination benefits	1,731	-	1,731
Net OPEB liability	56,208	2,810	59,018
Total liabilities	5,723,021	29,485	5,752,506

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	3,625,638	12,491	3,638,129
Restricted for:			
Categorical funding	139,197	-	139,197
Physical plant and equipment levy	665,172	-	665,172
Other special revenue purposes	127,102	-	127,102
Sales tax capital projects	653,891	-	653,891
Unrestricted	<u>(558,281)</u>	<u>1,076</u>	<u>(557,205)</u>
Total net assets	<u><u>4,652,719</u></u>	<u><u>13,567</u></u>	<u><u>4,666,286</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	2,987,346	298,214	577,365	-
Special	979,563	26,081	120,089	-
Other	1,106,297	198,366	191,028	-
	<u>5,073,206</u>	<u>522,661</u>	<u>888,482</u>	<u>-</u>
Support services:				
Student	111,866	-	-	-
Instructional staff	131,669	-	-	-
Administration	555,630	-	-	-
Operation and maintenance of plant	534,191	145	-	-
Transportation	300,687	-	7,516	-
	<u>1,634,043</u>	<u>145</u>	<u>7,516</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	83,050	-	-	-
Long-term debt interest	73,209	-	-	-
AEA flowthrough	290,153	-	290,153	-
Depreciation (unallocated)*	188,554	-	-	-
	<u>634,966</u>	<u>-</u>	<u>290,153</u>	<u>-</u>
Total governmental activities	7,342,215	522,806	1,186,151	-
Business type activities:				
Non-instructional programs:				
Food service operations	333,721	158,019	166,702	-
Total	<u>7,675,936</u>	<u>680,825</u>	<u>1,352,853</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

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

Net (Expense) Revenue and Changes in Net
Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(2,111,767)	-	(2,111,767)
(833,393)	-	(833,393)
(716,903)	-	(716,903)
<u>(3,662,063)</u>	<u>-</u>	<u>(3,662,063)</u>
(111,866)	-	(111,866)
(131,669)	-	(131,669)
(555,630)	-	(555,630)
(534,046)	-	(534,046)
(293,171)	-	(293,171)
<u>(1,626,382)</u>	<u>-</u>	<u>(1,626,382)</u>
(83,050)	-	(83,050)
(73,209)	-	(73,209)
-	-	-
(188,554)	-	(188,554)
<u>(344,813)</u>	<u>-</u>	<u>(344,813)</u>
(5,633,258)	-	(5,633,258)
<u>-</u>	<u>(9,000)</u>	<u>(9,000)</u>
<u>(5,633,258)</u>	<u>(9,000)</u>	<u>(5,642,258)</u>
2,365,262	-	2,365,262
133,150	-	133,150
239,869	-	239,869
484,282	-	484,282
2,131,168	-	2,131,168
48,207	213	48,420
14,393	-	14,393
<u>5,416,331</u>	<u>213</u>	<u>5,416,544</u>
(216,927)	(8,787)	(225,714)
<u>4,869,646</u>	<u>22,354</u>	<u>4,892,000</u>
<u>4,652,719</u>	<u>13,567</u>	<u>4,666,286</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2010

	General Fund	Physical Plant and Equipment Levy	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	464,092	562,863	535,654	170,260	1,732,869
Receivables:					
Property tax:					
Delinquent	35,594	1,946	-	1,244	38,784
Succeeding year	2,553,728	148,116	-	135,000	2,836,844
Accounts	-	-	-	3,602	3,602
Interfund receivable	-	29,531	-	-	29,531
Due from other governments	212,890	86,876	118,237	-	418,003
Total assets	3,266,304	829,332	653,891	310,106	5,059,633
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	99,371	16,044	-	4,443	119,858
Salaries and benefits payable	685,752	-	-	-	685,752
Interfund payable	29,531	-	-	-	29,531
Deferred revenue:					
Succeeding year property tax	2,553,728	148,116	-	135,000	2,836,844
Income surtax	115,834	86,876	-	-	202,710
Other	282,045	-	-	-	282,045
Total liabilities	<u>3,766,261</u>	<u>251,036</u>	<u>-</u>	<u>139,443</u>	<u>4,156,740</u>
Fund balances:					
Reserved for:					
Categorical funding	139,197	-	-	-	139,197
Unreserved reported in:					
General fund	(639,154)	-	-	-	(639,154)
Special revenue funds	-	578,296	-	170,663	748,959
Capital projects funds	-	-	653,891	-	653,891
Total fund balances	<u>(499,957)</u>	<u>578,296</u>	<u>653,891</u>	<u>170,663</u>	<u>902,893</u>
Total liabilities and fund balances	3,266,304	829,332	653,891	310,106	5,059,633

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

	\$
Total fund balances of governmental funds (Exhibit C)	902,893
<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.	5,345,638
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	237,660
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.	(4,724)
Long-term liabilities, including bonds payable, capital loan notes payable, termination benefits, and other postemployment benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,828,748)</u>
Net assets of governmental activities (Exhibit A)	<u><u>4,652,719</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General Fund	Physical Plant and Equipment Levy	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,415,352	231,185	484,282	79,864	3,210,683
Tuition	318,811	-	-	-	318,811
Other	19,925	15,956	17,180	210,129	263,190
State sources	2,946,073	-	-	-	2,946,073
Federal sources	335,296	-	-	-	335,296
Total revenues	<u>6,035,457</u>	<u>247,141</u>	<u>501,462</u>	<u>289,993</u>	<u>7,074,053</u>
Expenditures:					
Current:					
Instruction:					
Regular	2,902,572	-	-	64,900	2,967,472
Special	966,916	-	-	-	966,916
Other	915,957	-	-	185,245	1,101,202
	<u>4,785,445</u>	<u>-</u>	<u>-</u>	<u>250,145</u>	<u>5,035,590</u>
Support services:					
Student	111,163	-	-	-	111,163
Instructional staff	72,076	56,222	-	-	128,298
Administration	546,168	-	-	-	546,168
Operation and maintenance of plant	405,796	37,826	-	78,880	522,502
Transportation	241,711	169,128	-	-	410,839
	<u>1,376,914</u>	<u>263,176</u>	<u>-</u>	<u>78,880</u>	<u>1,718,970</u>
Other expenditures:					
Facilities acquisition	-	28,156	62,196	-	90,352
Long-term debt:					
Principal	-	-	-	375,000	375,000
Interest and fiscal charges	-	-	-	74,150	74,150
AEA flowthrough	290,153	-	-	-	290,153
	<u>290,153</u>	<u>28,156</u>	<u>62,196</u>	<u>449,150</u>	<u>829,655</u>
Total expenditures	<u>6,452,512</u>	<u>291,332</u>	<u>62,196</u>	<u>778,175</u>	<u>7,584,215</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(417,055)</u>	<u>(44,191)</u>	<u>439,266</u>	<u>(488,182)</u>	<u>(510,162)</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General Fund	Physical Plant and Equipment Levy	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Other financing sources (uses):					
Sales of equipment	4,405	-	-	-	4,405
Operating transfers in	-	-	-	449,150	449,150
Operating transfers out	-	(79,165)	(369,985)	-	(449,150)
Total other financing sources (uses)	<u>4,405</u>	<u>(79,165)</u>	<u>(369,985)</u>	<u>449,150</u>	<u>4,405</u>
Net change in fund balances	(412,650)	(123,356)	69,281	(39,032)	(505,757)
Fund balances beginning of year	<u>(87,307)</u>	<u>701,652</u>	<u>584,610</u>	<u>209,695</u>	<u>1,408,650</u>
Fund balances end of year	<u><u>(499,957)</u></u>	<u><u>578,296</u></u>	<u><u>653,891</u></u>	<u><u>170,663</u></u>	<u><u>902,893</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(505,757)
<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. Deprecitaion expense exceeded capital outlay expenditures in the current year, as follows:		
Expenditures for capital assets	176,431	
Depreciation expense	<u>(271,782)</u>	(95,351)
Income surtaxes and other revenues 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.		46,830
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.		375,000
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.		941
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits	17,618	
Other postemployment benefits	<u>(56,208)</u>	<u>(38,590)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>(216,927)</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	20,732
Inventories	9,829
Capital assets, net of accumulated depreciation	<u>12,491</u>
Total assets	<u>43,052</u>
Liabilities	
Accounts payable	155
Salaries and benefits payable	21,990
Deferred revenue	4,530
Net OPEB liability	<u>2,810</u>
Total liabilities	<u>29,485</u>
Net assets	
Invested in capital assets	12,491
Unrestricted	<u>1,076</u>
Total net assets	<u><u>13,567</u></u>

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

Year ended June 30, 2010

	Nonmajor School Nutrition <u> </u> \$
Operating revenue:	
Local sources:	
Charges for service	<u>158,019</u>
Operating expenses:	
Non-instructional programs:	
Salaries	103,746
Benefits	45,223
Purchased services	454
Supplies	181,129
Depreciation	<u>3,169</u>
Total operating expenses	<u>333,721</u>
Operating gain (loss)	<u>(175,702)</u>
Non-operating revenues:	
State sources	3,002
Federal sources	163,700
Interest income	<u>213</u>
Total non-operating revenues	<u>166,915</u>
Change in net assets	(8,787)
Net assets beginning of year	<u>22,354</u>
Net assets end of year	<u><u>13,567</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2010

	<u>Total</u>
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	159,332
Cash payments to employees for services	(148,346)
Cash payments to suppliers for goods or services	(142,698)
Net cash used by operating activities	<u>(131,712)</u>
Cash flows from non-capital financing activities:	
State grants received	3,002
Federal grants received	121,839
Net cash provided by non-capital financing activities	<u>124,841</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>213</u>
Net increase (decrease) in cash and cash equivalents	(6,658)
Cash and cash equivalents at beginning of year	<u>27,390</u>
Cash and cash equivalents at end of year	<u><u>20,732</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(175,702)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	41,861
Depreciation	3,169
Decrease (increase) in inventories	(3,131)
(Decrease) increase in accounts payable	155
(Decrease) increase in salaries and benefits payable	(2,187)
(Decrease) increase in deferred revenue	1,313
(Decrease) increase in other postemployment benefits	<u>2,810</u>
Net cash used by operating activities	<u><u>(131,712)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010 the District received \$41,861 of federal commodities.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Fund

June 30, 2010

	Private Purpose Trust
	<u>\$</u>
Assets	
Cash and pooled investments	4,108
Liabilities	
	<u>-</u>
Net Assets	
Reserved for student books	<u><u>4,108</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

Year ended June 30, 2010

	Private Purpose Trust
	<u>\$</u>
Additions:	
Local sources:	
Interest	188
Deductions	
Support services:	
Books purchased for individuals	<u>201</u>
Change in net assets	(13)
Net assets beginning of year	<u>4,121</u>
Net assets end of year	<u><u>4,108</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

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 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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 and intangibles, 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
Intangibles	25,000
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
Intangibles	2-10 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, 2010 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, 2010, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	306,137

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, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
Physical Plant and Equipment Levy Fund	General Fund	29,531

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, 2010 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
		\$
Nonmajor - Debt Service Fund	Capital Projects Sales Tax Fund	369,985
Nonmajor - Debt Service Fund	Physical Plant and Equipment Levy Fund	79,165

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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. N.A. is the trustee for the program.

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. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.50%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co., NA prime rate plus 50 basis points with a minimum interest rate of 4.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010, is as follows:

Series	Warrant Date	Final Warrant Maturity Date	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
			\$	\$	\$	\$
2009-10A	6/25/09	6/23/10	-	300,000	300,000	-
2009-10B	2/1/10	1/21/11	-	-	-	-
			-	300,000	300,000	-

During the year ended June 30, 2010, the District paid \$2,183 of interest on the ISCAP warrants.

6. Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	81,804	-	-	81,804
Capital assets being depreciated:				
Buildings	7,339,823	7,302	-	7,347,125
Improvements other than buildings	507,218	-	-	507,218
Furniture and equipment	1,296,455	169,129	124,958	1,340,626
Total capital assets being deprec.	9,143,496	176,431	124,958	9,194,969
Less accumulated depreciation for:				
Buildings	2,458,849	171,656	-	2,630,505
Improvements other than buildings	394,912	16,898	-	411,810
Furniture and equipment	930,550	83,228	124,958	888,820
Total accumulated depreciation	3,784,311	271,782	124,958	3,931,135
Total capital assets being depreciated, net	5,359,185	(95,351)	-	5,263,834
Governmental activities capital assets, net	5,440,989	(95,351)	-	5,345,638
Business type activities:				
Furniture and equipment	109,037	-	-	109,037
Less accumulated depreciation	93,377	3,169	-	96,546
Business type activities capital assets, net	15,660	(3,169)	-	12,491

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	7,281
Other	2,285
Support services:	
Instructional staff services	2,668
Administration services	4,544
Operation and maintenance of plant services	7,473
Transportation	58,977
	<u>83,228</u>
Unallocated depreciation	188,554
Total depreciation expense – governmental activities	<u><u>271,782</u></u>
Business type activities:	
Food services	<u><u>3,169</u></u>

7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
General obligation bonds	1,245,000	-	295,000	950,000	305,000
Revenue bonds	150,000	-	30,000	120,000	30,000
Capital loan notes	700,000	-	50,000	650,000	50,000
Termination benefits	70,158	44,645	62,263	52,540	50,809
Net OPEB liability	-	56,208	-	56,208	-
	<u>2,165,158</u>	<u>100,853</u>	<u>437,263</u>	<u>1,828,748</u>	<u>435,809</u>
Total					
	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Business type activities:					
Net OPEB liability	-	2,810	-	2,810	-

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 100% 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, 2010, the District has obligations to three participants with a total liability of \$52,540. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$62,263.

General Obligation Bonds

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Refunding Bond Issue of May 2008				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
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>950,000</u>	<u>60,637</u>	<u>1,010,637</u>

Revenue Bonds

Details of the District's June 30, 2010 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Bond Issue of November 2007				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
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>120,000</u>	<u>13,050</u>	<u>133,050</u>

The District has pledged future statewide sales, services and use 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 statewide sales, services and use 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 statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$133,050. For the current year, \$33,184 of principal and interest were paid on the bonds and total statewide sales, services and use tax revenues were \$484,282.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds include the following provisions:

- Proceeds from the statewide sales, services and use 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. 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:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
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	4.05	65,000	17,765	82,765
2016-2020	4.10-4.30	360,000	46,800	406,800
		<u>650,000</u>	<u>158,825</u>	<u>808,825</u>

During the year ended June 30, 2010 the District made principal and interest payments of \$78,765 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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$264,883, \$258,485 and \$231,228 respectively, equal to the required contributions for each year.

9. Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 105 active and one retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with ISEBA. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	\$
Annual required contribution	59,272
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>59,272</u>
Contributions made	<u>254</u>
Increase in net OPEB obligation	59,018
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>59,018</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$254 to the medical plan. Plan members eligible for benefits contributed \$5,861, or 96% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u> %	<u>Net OPEB Obligation</u> \$
June 30, 2010	59,272	.4%	59,018

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$535,586, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$535,586. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,984,000, and the ratio of the UAAL to covered payroll was 17.9%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 group annuity mortality table projected to 2000. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized over 30 years.

10. 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.

11. 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 \$290,153 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

12. 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 \$78,880 in premiums to this agency during the year ended June 30, 2010.

13. Deficit Fund Balances

At June 30, 2010 the District's General Fund had a \$639,154 deficit unreserved fund balance.

14. Categorical Funding

The District's reserved fund balance for categorical funding at June 30, 2010 is comprised of the following programs:

Program	Amount
	\$
Gifted and Talented	11,777
Returning dropout and dropout prevention program	24,921
Teacher salary supplement	36,153
Limited English proficiency	345
Educator quality, professional development	6,964
Market factor	2,458
Preschool	22,562
Core curriculum	21,338
At risk programs	12,679
	139,197

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, 2010

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,792,684	158,232	3,950,916	3,950,747	3,950,747	169
Intermediate sources	-	-	-	500	500	(500)
State sources	2,946,073	3,002	2,949,075	3,678,743	3,678,743	(729,668)
Federal sources	335,296	163,700	498,996	332,000	332,000	166,996
Total revenues	<u>7,074,053</u>	<u>324,934</u>	<u>7,398,987</u>	<u>7,961,990</u>	<u>7,961,990</u>	<u>(563,003)</u>
Expenditures/Expenses:						
Instruction	5,035,590	-	5,035,590	5,447,000	5,447,000	411,410
Support services	1,718,970	-	1,718,970	2,472,000	2,472,000	753,030
Non-instructional programs	-	333,721	333,721	374,000	374,000	40,279
Other expenditures	829,655	-	829,655	1,527,164	1,527,164	697,509
Total expenditures/expenses	<u>7,584,215</u>	<u>333,721</u>	<u>7,917,936</u>	<u>9,820,164</u>	<u>9,820,164</u>	<u>1,902,228</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(510,162)	(8,787)	(518,949)	(1,858,174)	(1,858,174)	1,339,225
Other financing sources (uses) net	<u>4,405</u>	<u>-</u>	<u>4,405</u>	<u>42,390</u>	<u>42,390</u>	<u>(37,985)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(505,757)	(8,787)	(514,544)	(1,815,784)	(1,815,784)	1,301,240
Balance beginning of year	<u>1,408,650</u>	<u>22,354</u>	<u>1,431,004</u>	<u>2,179,140</u>	<u>2,179,140</u>	<u>(748,136)</u>
Balance end of year	<u><u>902,893</u></u>	<u><u>13,567</u></u>	<u><u>916,460</u></u>	<u><u>363,356</u></u>	<u><u>363,356</u></u>	<u><u>553,104</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2010

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.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets (a) \$	Actuarial Accrued Liability (AAL) (b) \$	Unfunded AAL (UAAL) (b-a) \$	Funded Ratio (a/b) %	Covered Payroll (c) \$	UAAL as a Percentage of Covered Payroll ((b-a)/c) %
July 1, 2009	-	535,586	535,586	0.0%	2,984,000	17.9%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2010

	Special Revenue Funds		Total
	Management	Student	
	Levy	Activity	
	\$	\$	\$
Assets			
Cash and pooled investments	42,317	127,943	170,260
Receivables:			
Property tax:			
Delinquent	1,244	-	1,244
Succeeding year	135,000	-	135,000
Accounts	-	3,602	3,602
Total assets	<u>178,561</u>	<u>131,545</u>	<u>310,106</u>
Liabilities & Fund Balances			
Liabilities:			
Accounts payable	-	4,443	4,443
Deferred revenue:			
Succeeding year property tax	135,000	-	135,000
Total liabilities	<u>135,000</u>	<u>4,443</u>	<u>139,443</u>
Fund balances:			
Unreserved reported in:			
Special revenue funds	<u>43,561</u>	<u>127,102</u>	<u>170,663</u>
Total liabilities and fund balances	<u>178,561</u>	<u>131,545</u>	<u>310,106</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Debt Service	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	79,864	-	-	79,864
Other	10,339	199,790	-	210,129
Total revenues	<u>90,203</u>	<u>199,790</u>	<u>-</u>	<u>289,993</u>
Expenditures:				
Current:				
Instruction:				
Regular	64,900	-	-	64,900
Other	-	185,245	-	185,245
Support services:				
Operation and maintenance of plant	78,880	-	-	78,880
Other expenditures:				
Long-term debt:				
Principal	-	-	375,000	375,000
Interest and fiscal charges	-	-	74,150	74,150
Total expenditures	<u>143,780</u>	<u>185,245</u>	<u>449,150</u>	<u>778,175</u>
Excess (deficiency) of revenues over (under) expenditures	(53,577)	14,545	(449,150)	(488,182)
Other financing sources (uses):				
Operating transfers in	-	-	449,150	449,150
Net change in fund balances	(53,577)	14,545	-	(39,032)
Fund balances beginning of year	<u>97,138</u>	<u>112,557</u>	<u>-</u>	<u>209,695</u>
Fund balances end of year	<u><u>43,561</u></u>	<u><u>127,102</u></u>	<u><u>-</u></u>	<u><u>170,663</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

Account	Balance	Revenues	Expenditures	Intra-fund Transfers	Balance End
	Beginning of Year				of Year
	\$	\$	\$	\$	\$
All athletics	672	19,869	18,009	3,023	5,555
Cross country	11	853	1,339	1,125	650
Football	2,995	23,013	21,994	1,999	6,013
Volleyball	1,003	8,535	7,572	-	1,966
Boys basketball	2,863	5,267	4,881	-	3,249
Girls basketball	2,118	4,647	5,995	600	1,370
Boys track	1,162	3,098	3,411	616	1,465
Girls track	16	4,743	4,636	902	1,025
Boys golf	299	13	237	-	75
Girls golf	317	-	256	100	161
Baseball	32	5,936	8,043	2,100	25
Softball	172	8,935	9,004	1,000	1,103
Wrestling	406	4,242	5,127	2,500	2,021
Band	1,857	495	1,616	2,500	3,236
Chorus	3,213	361	2,545	3,000	4,029
Senior class	-	-	667	868	201
Junior class	829	1,676	3,530	1,699	674
Sophomore class	2,528	5,179	3,092	(2,528)	2,087
Class special	82	-	-	-	82
HS activities	594	29,739	6,426	(18,594)	5,313
Art club	1,035	1,926	2,107	400	1,254
Cheerleaders	7,133	10,152	10,668	(20)	6,597
Community youth	333	-	-	(333)	-
Computer club	418	-	-	-	418
Drama club	3,387	1,720	2,469	-	2,638
FCA	4,521	100	54	-	4,567
FFA	4,158	13,698	9,494	-	8,362
Industrial tech. club	73	272	290	-	55
Library reading club	882	284	664	-	502
Marketing club	3,517	5,902	3,671	-	5,748
Oracle yearbook	11,527	3,184	6,951	-	7,760
Science club	924	-	-	-	924
Spanish club	2,558	1,057	875	-	2,740
Student council-HS	1,852	1,582	1,714	333	2,053
Speech club	5,303	11	397	-	4,917
Student council K-4	13,856	5,313	4,816	500	14,853
Unallocated interest	4,770	965	1,261	(40)	4,434
MS all athletics	-	50	2,446	(50)	(2,446)
MS football	-	-	611	-	(611)
MS volleyball	-	-	1,695	-	(1,695)
MS basketball	-	-	2,708	-	(2,708)

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

Account	Balance	Revenues	Expenditures	Intra-fund Transfers	Balance End
	Beginning of Year				of Year
	\$	\$	\$	\$	\$
MS wrestling	-	15	408	-	(393)
MS track	-	1,918	2,203	(656)	(941)
MS golf	113	-	-	-	113
MS baseball	-	177	1,313	(177)	(1,313)
Bowling	187	-	-	-	187
MS softball	-	154	1,739	(154)	(1,739)
MS vocal music	-	-	105	-	(105)
MS band	(167)	801	1,696	(42)	(1,104)
Middle school activities	137	17,422	11,382	(645)	5,532
MS student council	12,048	3,118	2,530	(26)	12,610
Checking interest	12,293	611	-	-	12,904
Concessions	1,530	-	-	-	1,530
June 30, 2009 accrual entries	(1,000)	(845)	(1,845)	-	-
June 30, 2010 accrual entries	-	3,602	4,443	-	(841)
Totals	112,557	199,790	185,245	-	127,102

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$
Revenues:							
Local sources:							
Local tax	3,210,683	3,002,498	2,945,697	2,786,862	2,637,393	2,735,365	2,729,570
Tuition	318,811	354,080	252,675	213,057	204,989	198,123	207,060
Other	263,190	399,326	370,805	344,053	369,380	295,101	286,971
Intermediate sources	-	-	200	514	378	486	-
State sources	2,946,073	3,281,687	3,133,781	3,293,384	3,300,505	3,302,417	3,148,868
Federal sources	335,296	248,765	179,714	415,670	459,728	281,937	220,990
Total revenues	7,074,053	7,286,356	6,882,872	7,053,540	6,972,373	6,813,429	6,593,459
Expenditures:							
Instruction:							
Regular instruction	2,967,472	3,135,600	3,150,664	3,104,891	2,955,437	3,069,291	2,846,476
Special instruction	966,916	1,084,474	895,547	781,369	809,660	742,105	691,506
Other instruction	1,101,202	800,334	622,302	701,793	711,725	649,366	662,830
Support services:							
Student services	111,163	101,907	92,051	83,672	99,065	137,792	138,479
Instructional staff services	128,298	115,384	115,049	124,973	202,088	175,448	152,242
Administration services	546,168	603,770	603,694	629,847	607,126	606,568	564,238
Operation and maintenance	522,502	561,917	519,030	504,485	489,417	457,928	436,054
Transportation services	410,839	297,001	245,763	315,604	318,798	277,414	223,471
Non-instructional programs	-	-	-	-	-	4,337	-
Other expenditures:							
Facilities acquisition	90,352	998,565	424,639	151,556	137,350	55,676	66,050
Long-term debt:							
Principal	375,000	340,000	1,780,000	250,353	243,489	236,000	346,000
Interest and other charges	74,150	106,137	78,663	89,450	99,950	111,101	126,519
AEA flowthrough	290,153	268,979	262,127	257,735	252,209	252,328	255,572
Total expenditures	7,584,215	8,414,068	8,789,529	6,995,728	6,926,314	6,775,354	6,509,437

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	13,638
National School Lunch Program (non-cash)	10.555	FY10	41,861
National School Lunch Program	10.555	FY10	<u>108,201</u>
			<u>163,700</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY10	73,136
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	<u>21,347</u>
			<u>94,483</u>
Special Education Preschool Grants	84.173	FY10	979 *
Safe and Drug Free Schools and Communities - State Grants	84.186	FY10	1,404
Improving Teacher Quality State Grants	84.367	FY10	29,503
Grants for State Assessments and Related Activities	84.369	FY10	4,414
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY10	108,754
Northwest Area Education Agency			
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	FY10	38,941 *
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	80,170 *
Sheldon Community School District:			
Career and Technical Education - Basic Grants to States	84.048	FY10	<u>6,152</u>
Total			<u><u>528,500</u></u>

* Total for Special Education (IDEA) Cluster is \$120,090.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Hartley-Melvin-Sanborn Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 17, 2011. 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items 10-II-A and 10-II-B to be 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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 Questioned Costs. 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, including federal awarding agencies and pass-through entities, and 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 17, 2011

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

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

Compliance

We have audited Hartley-Melvin-Sanborn Community School District's compliance with the types of compliance requirements described in the (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Hartley-Melvin-Sanborn Community School District's major federal programs for the year ended June 30, 2010. Hartley-Melvin-Sanborn Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hartley-Melvin-Sanborn Community School District's management. Our responsibility is to express an opinion on Hartley-Melvin-Sanborn Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hartley-Melvin-Sanborn Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hartley-Melvin-Sanborn Community School District's compliance with those requirements.

In our opinion, Hartley-Melvin-Sanborn Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hartley-Melvin-Sanborn Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 10-III-A to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 10-III-B to be a significant deficiency.

Hartley-Melvin-Sanborn Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Hartley-Melvin-Sanborn Community School District's responses and, accordingly, we express no opinion on the responses.

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, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

March 17, 2011

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements. No significant deficiencies were reported.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency and material weakness in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.394 – ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
 - Child Nutrition Cluster
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Hartley-Melvin-Sanborn Community School District did not qualify as a low-risk auditee.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

10-II-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.

10-II-B 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 Questioned Costs

Year ended June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program and
Federal Award Year: 2010
U.S. Department of Agriculture
Passed through the Iowa Department of Education

10-III-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal controls over compliance through the segregation of duties and responsibilities. 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 are all done by one person. 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.

CFDA Number 84.394: ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants,
Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

10-III-B Accounting for Expenditures: Not all ARRA State Fiscal Stabilization expenditures were posted directly to the federal expenditure accounts as the expenditures were incurred. Some expenses were reclassified at year-end by journal entry.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards (continued):

Recommendation: The District should record federal expenditures to specific federal expenditures accounts as the expenditures are incurred.

District Response: We will revise our procedures for recording and documenting ARRA State Fiscal Stabilization expenditures as incurred.

Conclusion: Response accepted.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

10-IV-A Certified Budget: Expenditures for the year ended June 30, 2010, did not exceed the amounts budgeted.

10-IV-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.

10-IV-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.

10-IV-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	78,880
Daniel Duncan, employee, owner of Dan's Electric	Supplies and repairs	1,144

The transaction with Daniel Duncan does not appear to be a conflict of interest.

The transaction with the insurance agency 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.

10-IV-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.

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

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

- 10-IV-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.
- 10-IV-H Supplementary Weighting: No variances regarding supplementary weighting certified to the Department of Education were noted.
- 10-IV-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 10-IV-J Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.
- 10-IV-K Categorical Funding: Except as noted, no instances were noted of categorical funding being used to supplant rather than supplement other funds. The District allocated 100%, approximately \$93,671 of the salary and benefits for two guidance counselors to the returning dropout and dropout prevention program. Only the portion of the time that the counselors spent working specifically on the returning dropout and dropout prevention program may be charged to the program. The District did not maintain records of time spent. The District also charged \$72,373 for classroom associate salary and benefits to the program. The associates worked with special education students when they were integrated into the class and other students at other times, but a time allocation was not made. These cost allocations may not be allowable costs for these programs in accordance with Chapter 256D.2 of the Code of Iowa and Iowa Department of Education administrative rules. The District also paid \$28,841 of alternative school tuition that could have been charged to the returning dropout and dropout prevention program, but was not.

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 the returning dropout and dropout prevention program and to determine what corrective action, if any, is required.

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

District Response: As recommended, we will contact the Iowa Department of Education to determine if any corrective action is required.

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

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

Conclusion: Response accepted.

10-IV-L Statewide Sales, Services and Use Tax: No instances of non-compliance with the use of the statewide sales, services and use 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, services and use tax revenue. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

Beginning balance	\$	\$
		584,610
Statewide sales, services and use tax	484,282	
Interest revenue	<u>17,180</u>	501,462
Expenditures/transfers out:		
School infrastructure:		
Land and land improvements	1,942	
Buildings and building improvements	8,031	
Equipment	52,223	
Debt service for school infrastructure:		
General obligation debt	334,218	
Revenue debt	<u>35,767</u>	<u>432,181</u>
Ending balance		<u>653,891</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
	<u>\$</u>	<u>\$</u>
Debt service Levy	1.67982	369,985
Physical plant and equipment levy	.51894	114,297

10-IV-M Deficit Balances: The District has an unreserved deficit fund balance in the General Fund of \$639,154. The District also had several accounts in the Student Activity Fund with deficit balances at June 30, 2010.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

Recommendation: The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

District Response: Account transfers were made after June 30, 2010 to eliminate the Student Activity Fund account deficits. We are working on ways to eliminate the General Fund deficit.

Conclusion: Response accepted.

10-IV-N Signature on Student Activity Fund Checks: We noted two Student Activity Fund checks, one written in January and one written in February, that were only signed by the board secretary. All District checks are to be signed by the Board President and Board Secretary. The Board may designate another individual to sign for the Board President.

Recommendation: The District should revise its check signing procedures.

District Response: The omission for the Board President's signature from these prepaid checks was an oversight.

Conclusion: Response accepted.

10-IV-O Interfund loans: On October 22, 2009 the Iowa Department of Education issued a revised declaratory order covering interfund loans. The Order states that all loans between funds must be approved by the board of directors, interest must be paid on the interfund loan and the loan must be repaid before the October 1, after each year-end.

The General Fund owes the PPEL Fund \$29,531 for a prior year expense allocation reclassification. This interfund receivable/payable has been on the books for several years.

Recommendation: The District should follow the October 22, 2009 Declaratory Order with respect to this loan and make the repayment immediately.

District Response: We will have the General Fund repay the PPEL Fund.

Conclusion: Response accepted.