

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

June 30, 2011

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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, 2011, 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, 2011, 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 20, 2012, 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 44 through 46 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 seven years ended June 30, 2010, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, 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 20, 2012

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, 2011. 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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other supplementary information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

Figure A-1

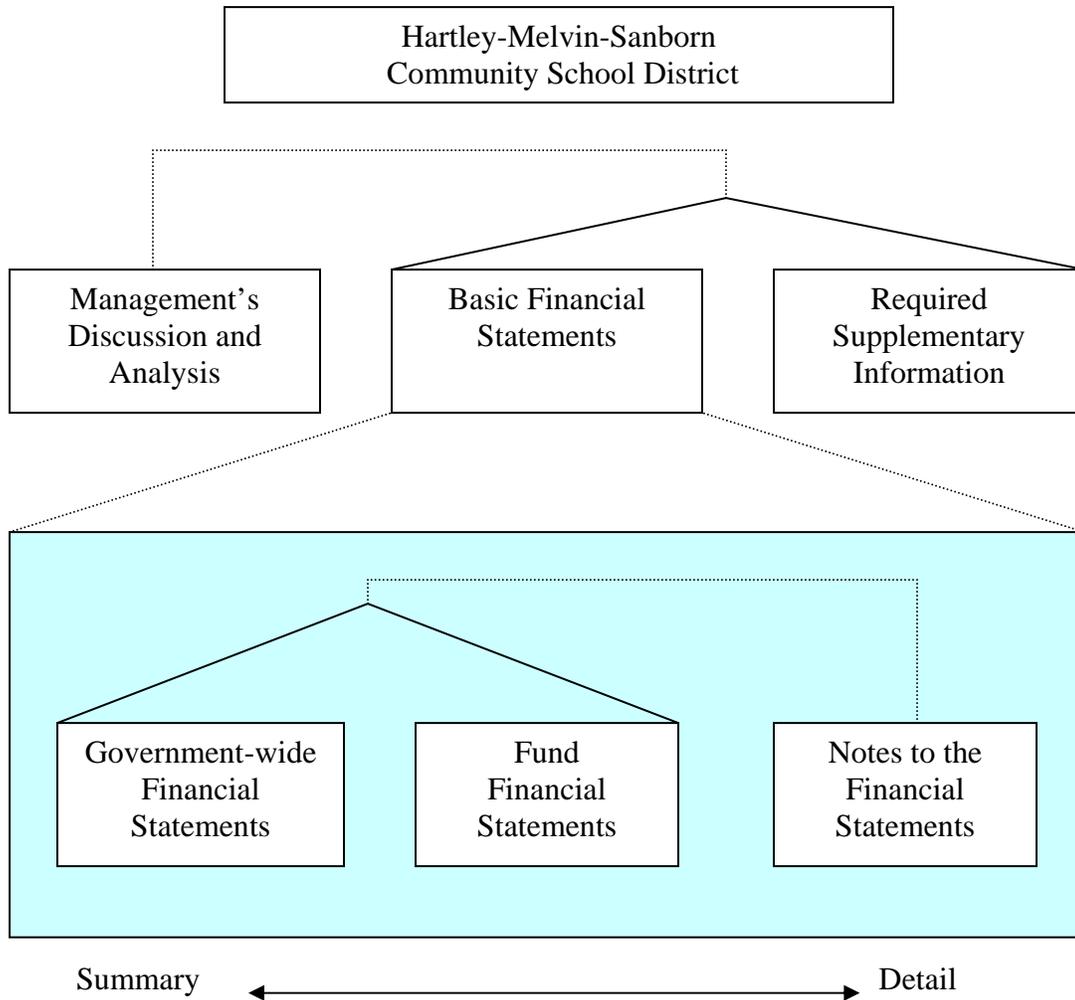


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents 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 and Management 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, 2011 compared to June 30, 2010.

Figure A-3

Condensed Statement of Net Assets

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Percentage Change |
|--|----------------------------|---------------------|-----------------------------|-----------------|--------------------------|---------------------|-------------------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2010-2011 |
| Current and other assets | \$5,675,263 | \$5,030,102 | \$47,789 | \$30,561 | \$5,723,052 | \$5,060,663 | 13.09 |
| Capital assets | \$5,141,849 | \$5,345,638 | \$17,951 | \$12,491 | \$5,159,800 | \$5,358,129 | (3.69%) |
| Total Assets | \$10,817,112 | \$10,375,740 | \$65,740 | \$43,052 | \$10,882,852 | \$10,418,792 | 4.45% |
| Long-term liabilities | \$1,682,245 | \$1,828,748 | 5,702 | \$2,810 | \$1,687,947 | \$1,831,558 | (7.84%) |
| Other liabilities | \$3,986,071 | \$3,894,273 | \$26,513 | \$26,675 | \$4,012,584 | \$3,920,948 | 2.34% |
| Total liabilities | \$5,668,316 | \$5,723,021 | \$32,215 | \$29,485 | \$5,700,531 | \$5,752,506 | (.90%) |
| Net Assets: | | | | | | | |
| Invested in capital assets, net of related debt | \$3,806,849 | \$3,625,638 | \$17,951 | \$12,491 | \$3,824,800 | \$3,638,129 | 5.13% |
| Restricted | \$1,564,064 | \$1,585,362 | 0 | 0 | \$1,564,064 | \$1,585,362 | (1.34%) |
| Unrestricted | (\$222,117) | (\$558,281) | \$15,574 | \$1,076 | (\$206,543) | (\$557,205) | 62.93% |
| TOTAL NET ASSETS | \$5,148,796 | \$4,652,719 | \$33,525 | \$13,567 | \$5,182,321 | \$4,666,286 | 11.06% |

The District's combined net assets were more on June 30, 2011, than they were the year before; increasing by 11.06% (see Figure A-3). A large increase in current and other assets should be noted (13.09%). Most of the increase in current assets is an increase in cash balances, which is the result of a cash reserve property tax levy. Another increase is noted in the unrestricted area, where it is still negative, but a significant positive increase from the previous year. 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, 2010 and 2011.

Figure A-4

Changes in Net Assets

| | Governmental | | Business-type | | Total | |
|----------------------------------|---------------------|--------------------|----------------------|------------------|--------------------|--------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for services | \$640,111 | \$522,806 | \$157,566 | \$158,019 | \$797,677 | \$680,825 |
| Operating Grants & Contributions | \$1,393,396 | \$1,186,151 | \$163,840 | \$166,702 | \$1,557,236 | \$1,352,853 |
| Capital Grants & Contributions | 0 | 0 | 0 | 0 | 0 | 0 |
| General Revenues | | | | | | |
| Property taxes & other taxes | \$3,541,394 | \$3,222,563 | 0 | 0 | \$3,541,394 | \$3,222,563 |
| Unrestricted State Grants | \$2,551,369 | \$2,131,168 | 0 | 0 | \$2,551,369 | \$2,131,168 |
| Unrestricted Investment Earnings | \$48,166 | \$48,207 | \$242 | \$213 | \$48,408 | \$48,420 |
| Other Revenue | \$24,494 | \$14,393 | 0 | 0 | \$24,494 | \$14,393 |
| Total Revenues | \$8,198,930 | \$7,125,288 | \$321,648 | \$324,934 | \$8,520,578 | \$7,450,222 |
| Expenses | | | | | | |
| Instruction | \$5,507,642 | \$5,073,206 | \$0 | \$0 | \$5,507,642 | \$5,073,206 |
| Support Services | \$1,640,910 | \$1,634,043 | \$0 | \$0 | \$1,640,910 | \$1,634,043 |
| Non-Instructional Programs | \$0 | \$0 | \$310,585 | \$333,721 | \$310,585 | \$333,721 |
| Other Expenses | \$545,406 | \$634,966 | | | \$545,406 | \$634,966 |
| Total Expenses | \$7,693,958 | \$7,342,215 | \$310,585 | \$333,721 | \$8,004,543 | \$7,675,936 |
| Transfers | (\$8,895) | 0 | \$8,895 | 0 | 0 | 0 |
| Change in Net Assets | 496,077 | (\$216,927) | \$19,958 | (\$8,787) | \$516,035 | (\$225,714) |

Governmental Activities -

Referring to *Figure A-4*, revenues for the District's governmental activities were \$8,198,930 for fiscal year 2011. Total governmental expenditures were \$7,693,958.

Expenses were kept to a minimum in an attempt to match available revenues. Allowable growth funded minimally and continued decreased enrollment was the reason to do this.

Figure A-5

Net Cost of Governmental Activities

| | Total Cost of Services 2011 | Total Cost of Services 2010 | Net Cost of Services 2011 | Net Cost of Services 2010 |
|------------------|--|--|--|--|
| Instruction | \$5,507,642 | \$5,073,206 | \$3,785,245 | \$3,662,063 |
| Support Services | \$1,640,910 | \$1,634,043 | \$1,623,929 | \$1,626,382 |
| Other Expenses | \$545,406 | \$634,966 | \$251,277 | \$344,813 |
| TOTAL | \$7,693,958 | \$7,342,215 | \$5,660,451 | \$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 \$7,693,958.
- Some of the cost was financed by the users of the District’s programs, which was \$640,111.
- The federal and state governments and private contributors subsidized certain programs with grants and contributions, which was \$1,393,396.
- Most of the District’s costs, which was \$5,660,451, however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$3,541,394 in property and other taxes, and \$2,551,369 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

Business-Type Activities -

The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income. The District’s business-type activities show an increase in total net assets of \$19,958 from the previous year (refer to *Figure A-4*). The Board of Education did increase school meal prices for fiscal year 2012, due to changes that the National School Lunch Program required.

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$1,436,146, which is more than last year's ending fund balances of \$902,893.

Governmental Fund Highlights

The General Fund balance increased from (\$499,957) to (\$3,668), due in large part to staff reductions through early retirement.

The Capital Projects Fund includes revenues from the physical plant and equipment property tax levy and sales tax. During fiscal year 2011 revenues and expenditures remained steady. The \$1,253,84 fund balance at June 30, 2011 will be used for future capital improvements and equipment purchases.

Business Type Fund Highlights

The School Nutrition Fund net assets increased from \$13,567 at June 30, 2010, to \$33,525 on June 30, 2011. \$8,895 of this increase was the result of the Capital Projects Fund purchasing equipment for the School Nutrition Fund.

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 FY11, the continued student enrollment decline along with the additional 10% reduction in the budget guarantee, and the allowable growth set at 0%, were countered by staff reductions/efficiencies, and reduced expenditures.

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 2011, the District had invested \$5,159,800 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 \$198,329 or -1.038% from last year. (More detailed information about capital assets can be found in Note 6 to the financial statements.)

At June 30, 2011 the District had incurred \$11,411 of expenditures for an athletic field lighting project. The District has committed approximately \$130,000 to complete the project.

Figure A-6

| | <i>Capital Assets (net of depreciation)</i> | | | | | | Total Percentage Change 2010-11 |
|--------------------------------------|---|--------------------|--------------------------------------|-----------------|----------------------------------|--------------------|--|
| | Governmental Activities | | Business--type Activities | | Total School District | | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | |
| Land | \$81,804 | \$81,804 | 0 | 0 | \$81,804 | \$81,804 | 0% |
| Improvements other than Buildings | \$85,175 | \$95,408 | 0 | 0 | \$85,175 | \$95,408 | (10.73%) |
| Buildings | \$4,598,360 | \$4,716,620 | 0 | 0 | \$4,598,360 | \$4,716,620 | (2.51%) |
| Equipment & Furniture | \$365,099 | \$451,806 | \$17,951 | \$12,491 | \$383,050 | \$464,297 | (17.5%) |
| Construction in Progress | 11,411 | 0 | 0 | 0 | 11,411 | 0 | 0% |
| TOTAL | \$5,141,849 | \$5,345,638 | \$17,951 | \$12,491 | \$5,159,800 | \$5,358,129 | (3.7%) |

Long-Term Debt

At June 30, 2011, the District had \$1,687,947 in general obligation and other long-term debt outstanding (Figure A-7). This is a 7.84% decrease from the prior year. Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

The District's general obligation bonds are not rated.

The constitution of the State of Iowa limits the amount of debt school districts can issue to 5% of the assessed value of all taxable property within the district. The District's outstanding bonded and note indebtedness is significantly below its constitutional debt limit of approximately \$13.5 million.

Figure A-7

| | <i>Long-Term Debt</i> | |
|--------------------------|------------------------|------------------------|
| | Balance End of 2011 | Due Within One Year |
| Net OPEB liability | \$119,746 | 0 |
| General obligation bonds | \$645,000 | \$315,000 |
| Revenue bonds | \$90,000 | \$30,000 |
| Capital Loan Notes | \$600,000 | \$55,000 |
| Early retirement | \$233,201 | \$40,857 |
| Total | \$1,687,947.00 | \$440,857.00 |

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 is set at 2% for the upcoming fiscal year.
- 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 are less than in the past, however, no substantial growth is predicted. It is critical to continue to plan for no growth in enrollment by limiting expenditures.
- We are seeing a pattern of increased open-enrolled in students into the District. If this pattern continues, it will have a positive effect on our enrollment, and eventually, spending authority.
- 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, 2011

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|--------------------------------|-------------------|
| | \$ | \$ | \$ |
| Assets | | | |
| Cash and cash equivalents | 2,030,127 | 42,282 | 2,072,409 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 52,561 | - | 52,561 |
| Succeeding year | 3,086,523 | - | 3,086,523 |
| Accounts | 2,430 | - | 2,430 |
| Due from other governments | 458,431 | - | 458,431 |
| Inventories | - | 5,507 | 5,507 |
| Prepaid expenses | 45,191 | - | 45,191 |
| Capital assets, net of accumulated depreciation | 5,141,849 | 17,951 | 5,159,800 |
| | <u>10,817,112</u> | <u>65,740</u> | <u>10,882,852</u> |
| Liabilities | | | |
| Accounts payable | 112,302 | 383 | 112,685 |
| Salaries and benefits payable | 706,580 | 21,239 | 727,819 |
| Accrued interest payable | 3,757 | - | 3,757 |
| Deferred revenue: | | | |
| Succeeding year property tax | 3,086,523 | - | 3,086,523 |
| Other | 76,909 | 4,891 | 81,800 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| General obligation bonds payable | 315,000 | - | 315,000 |
| Revenue bonds payable | 30,000 | - | 30,000 |
| Capital loan notes payable | 55,000 | - | 55,000 |
| Termination benefits | 40,857 | - | 40,857 |
| Portion due after one year: | | | |
| General obligation bonds payable | 330,000 | - | 330,000 |
| Revenue bonds payable | 60,000 | - | 60,000 |
| Capital loan notes payable | 545,000 | - | 545,000 |
| Termination benefits | 192,344 | - | 192,344 |
| Net OPEB liability | 114,044 | 5,702 | 119,746 |
| | <u>5,668,316</u> | <u>32,215</u> | <u>5,700,531</u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2011

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|--------------------------------|------------------|
| | \$ | \$ | \$ |
| Net assets | | | |
| Invested in capital assets, net of related debt | 3,806,849 | 17,951 | 3,824,800 |
| Restricted for: | | | |
| Categorical funding | 126,014 | - | 126,014 |
| Physical plant and equipment levy | 648,841 | - | 648,841 |
| Student activities | 132,458 | - | 132,458 |
| School infrastructure | 656,751 | - | 656,751 |
| Unrestricted | (222,117) | 15,574 | (206,543) |
| Total net assets | <u>5,148,796</u> | <u>33,525</u> | <u>5,182,321</u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

| Functions/Programs | Program Revenues | | | |
|---------------------------------------|------------------|----------------------|---|---|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| | \$ | \$ | \$ | \$ |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | 3,352,311 | 379,596 | 810,374 | - |
| Special | 1,031,424 | 56,433 | 66,426 | - |
| Other | 1,123,907 | 203,962 | 205,606 | - |
| | <u>5,507,642</u> | <u>639,991</u> | <u>1,082,406</u> | <u>-</u> |
| Support services: | | | | |
| Student | 95,213 | - | - | - |
| Instructional staff | 50,072 | - | - | - |
| Administration | 616,501 | - | - | - |
| Operation and maintenance of plant | 551,989 | 120 | - | - |
| Transportation | 327,135 | - | 16,861 | - |
| | <u>1,640,910</u> | <u>120</u> | <u>16,861</u> | <u>-</u> |
| Other expenditures: | | | | |
| Facilities acquisition | 3,477 | - | - | - |
| Long-term debt interest | 60,607 | - | - | - |
| AEA flowthrough | 294,129 | - | 294,129 | - |
| Depreciation (unallocated)* | 187,193 | - | - | - |
| | <u>545,406</u> | <u>-</u> | <u>294,129</u> | <u>-</u> |
| Total governmental activities | 7,693,958 | 640,111 | 1,393,396 | - |
| Business type activities: | | | | |
| Food service operations | 310,585 | 157,566 | 163,840 | - |
| Total | <u>8,004,543</u> | <u>797,677</u> | <u>1,557,236</u> | <u>-</u> |
| General Revenues: | | | | |
| Property taxes levied for: | | | | |
| General purposes | | | | |
| Capital outlay | | | | |
| Income surtax | | | | |
| Statewide sales, services and use tax | | | | |
| Unrestricted state grants | | | | |
| Unrestricted investment earnings | | | | |
| Other | | | | |
| Total general revenues | | | | |
| Transfers | | | | |
| Total general revenues and transfers | | | | |

Change in net assets

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net
Assets

| Governmental Activities | Business Type Activities | Total |
|----------------------------|-----------------------------|--------------------|
| \$ | \$ | \$ |
| (2,162,341) | - | (2,162,341) |
| (908,565) | - | (908,565) |
| (714,339) | - | (714,339) |
| <u>(3,785,245)</u> | <u>-</u> | <u>(3,785,245)</u> |
| (95,213) | - | (95,213) |
| (50,072) | - | (50,072) |
| (616,501) | - | (616,501) |
| (551,869) | - | (551,869) |
| (310,274) | - | (310,274) |
| <u>(1,623,929)</u> | <u>-</u> | <u>(1,623,929)</u> |
| (3,477) | - | (3,477) |
| (60,607) | - | (60,607) |
| - | - | - |
| <u>(187,193)</u> | <u>-</u> | <u>(187,193)</u> |
| <u>(251,277)</u> | <u>-</u> | <u>(251,277)</u> |
| (5,660,451) | - | (5,660,451) |
| - | 10,821 | 10,821 |
| <u>(5,660,451)</u> | <u>10,821</u> | <u>(5,649,630)</u> |
| 2,695,494 | - | 2,695,494 |
| 148,435 | - | 148,435 |
| 257,645 | - | 257,645 |
| 439,820 | - | 439,820 |
| 2,551,369 | - | 2,551,369 |
| 48,166 | 242 | 48,408 |
| 24,494 | - | 24,494 |
| 6,165,423 | 242 | 6,165,665 |
| (8,895) | 8,895 | - |
| <u>6,156,528</u> | <u>9,137</u> | <u>6,165,665</u> |
| 496,077 | 19,958 | 516,035 |
| <u>4,652,719</u> | <u>13,567</u> | <u>4,666,286</u> |
| <u>5,148,796</u> | <u>33,525</u> | <u>5,182,321</u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

| | General | Capital Projects | Nonmajor Governmental | Total |
|--|------------------|---------------------|--------------------------|------------------|
| | \$ | \$ | \$ | \$ |
| Assets | | | | |
| Cash and pooled investments | 708,916 | 1,135,858 | 185,353 | 2,030,127 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 47,449 | 2,604 | 2,508 | 52,561 |
| Succeeding year | 2,807,356 | 164,167 | 115,000 | 3,086,523 |
| Accounts | - | - | 2,430 | 2,430 |
| Interfund receivable | - | 10,005 | - | 10,005 |
| Due from other governments | 273,332 | 185,099 | - | 458,431 |
| Prepaid expenses | - | 45,191 | - | 45,191 |
| Total assets | 3,837,053 | 1,542,924 | 305,291 | 5,685,268 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | 80,767 | 27,974 | 3,561 | 112,302 |
| Salaries and benefits payable | 706,580 | - | - | 706,580 |
| Interfund payable | 10,005 | - | - | 10,005 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 2,807,356 | 164,167 | 115,000 | 3,086,523 |
| Income surtax | 130,266 | 97,699 | - | 227,965 |
| Other | 105,747 | - | - | 105,747 |
| Total liabilities | 3,840,721 | 289,840 | 118,561 | 4,249,122 |
| Fund balances: | | | | |
| Nonspendable: | | | | |
| Prepaid expenses | - | 45,191 | - | 45,191 |
| Restricted for: | | | | |
| Categorical funding | 126,014 | - | - | 126,014 |
| Management levy | - | - | 54,272 | 54,272 |
| Student activities | - | - | 132,458 | 132,458 |
| School infrastructure | - | 656,751 | - | 656,751 |
| Physical plant and equipment | - | 551,142 | - | 551,142 |
| Unassigned | (129,682) | - | - | (129,682) |
| Total fund balances | (3,668) | 1,253,084 | 186,730 | 1,436,146 |
| Total liabilities and fund balances | 3,837,053 | 1,542,924 | 305,291 | 5,685,268 |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

June 30, 2011

| | |
|--|-------------------------|
| | \$ |
| Total fund balances of governmental funds (Exhibit C) | 1,436,146 |
| <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. | 5,141,849 |
| Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. | 256,803 |
| 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. | (3,757) |
| 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>(1,682,245)</u> |
| Net assets of governmental activities (Exhibit A) | <u><u>5,148,796</u></u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

| | General | Capital Projects | Nonmajor Governmental | Total |
|---|------------------|---------------------|--------------------------|------------------|
| | \$ | \$ | \$ | \$ |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | 2,692,615 | 688,183 | 135,341 | 3,516,139 |
| Tuition | 285,033 | - | - | 285,033 |
| Other | 164,535 | 33,290 | 213,003 | 410,828 |
| State sources | 3,409,764 | - | - | 3,409,764 |
| Federal sources | 541,113 | - | - | 541,113 |
| Total revenues | <u>7,093,060</u> | <u>721,473</u> | <u>348,344</u> | <u>8,162,877</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,081,311 | - | 53,275 | 3,134,586 |
| Special | 1,018,411 | - | - | 1,018,411 |
| Other | 919,868 | - | 199,624 | 1,119,492 |
| | <u>5,019,590</u> | <u>-</u> | <u>252,899</u> | <u>5,272,489</u> |
| Support services: | | | | |
| Student | 94,490 | - | - | 94,490 |
| Instructional staff | 26,723 | 18,848 | - | 45,571 |
| Administration | 544,049 | 31,552 | 32,725 | 608,326 |
| Operation and maintenance of plant | 391,225 | 113,064 | 34,050 | 538,339 |
| Transportation | 243,475 | - | 12,603 | 256,078 |
| | <u>1,299,962</u> | <u>163,464</u> | <u>79,378</u> | <u>1,542,804</u> |
| Other expenditures: | | | | |
| Facilities acquisition | - | 90,538 | - | 90,538 |
| Long-term debt: | | | | |
| Principal | - | - | 385,000 | 385,000 |
| Interest and fiscal charges | - | - | 61,574 | 61,574 |
| AEA flowthrough | 294,129 | - | - | 294,129 |
| | <u>294,129</u> | <u>90,538</u> | <u>446,574</u> | <u>831,241</u> |
| Total expenditures | <u>6,613,681</u> | <u>254,002</u> | <u>778,851</u> | <u>7,646,534</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>479,379</u> | <u>467,471</u> | <u>(430,507)</u> | <u>516,343</u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

| | General | Capital Projects | Nonmajor Governmental | Total |
|--|-----------------------|-------------------------|--------------------------|-------------------------|
| | \$ | \$ | \$ | \$ |
| Other financing sources (uses): | | | | |
| Compensation for loss of fixed assets | 16,340 | - | - | 16,340 |
| Sales of equipment | 570 | - | - | 570 |
| Operating transfers in | - | - | 446,574 | 446,574 |
| Operating transfers out | - | (446,574) | - | (446,574) |
| Total other financing sources (uses) | <u>16,910</u> | <u>(446,574)</u> | <u>446,574</u> | <u>16,910</u> |
| Net change in fund balances | 496,289 | 20,897 | 16,067 | 533,253 |
| Fund balances beginning of year, as restated | <u>(499,957)</u> | <u>1,232,187</u> | <u>170,663</u> | <u>902,893</u> |
| Fund balances end of year | <u><u>(3,668)</u></u> | <u><u>1,253,084</u></u> | <u><u>186,730</u></u> | <u><u>1,436,146</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, 2011

| | \$ | \$ |
|---|------------------|-----------------------|
| Net change in fund balances - total governmental funds (Exhibit E) | | 533,253 |
| <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 | 78,166 | |
| Depreciation expense | <u>(281,955)</u> | (203,789) |
| 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. | | |
| | | 19,143 |
| 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. | | |
| | | 385,000 |
| 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. | | |
| | | 967 |
| 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 | (180,661) | |
| Other postemployment benefits | <u>(57,836)</u> | <u>(238,497)</u> |
| Changes in net assets of governmental activities (Exhibit B) | | <u><u>496,077</u></u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2011

| | Nonmajor School Nutrition |
|---|---------------------------------|
| | <u>\$</u> |
| Assets | |
| Cash and cash equivalents | 42,282 |
| Inventories | 5,507 |
| Capital assets, net of accumulated depreciation | <u>17,951</u> |
| Total assets | <u>65,740</u> |
| Liabilities | |
| Accounts payable | 383 |
| Salaries and benefits payable | 21,239 |
| Deferred revenue | 4,891 |
| Net OPEB liability | <u>5,702</u> |
| Total liabilities | <u>32,215</u> |
| Net assets | |
| Invested in capital assets | 17,951 |
| Unrestricted | <u>15,574</u> |
| Total net assets | <u><u>33,525</u></u> |

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

Year ended June 30, 2011

| | Nonmajor School Nutrition |
|------------------------------------|---------------------------------|
| | \$ |
| Operating revenue: | |
| Local sources: | |
| Charges for service | 157,566 |
| Operating expenses: | |
| Non-instructional programs: | |
| Salaries | 92,115 |
| Benefits | 47,087 |
| Purchased services | 701 |
| Supplies | 167,247 |
| Depreciation | 3,435 |
| Total operating expenses | 310,585 |
| Operating income (loss) | (153,019) |
| Non-operating revenues: | |
| State sources | 2,727 |
| Federal sources | 161,113 |
| Interest income | 242 |
| Total non-operating revenues | 164,082 |
| Income (loss) before contributions | 11,063 |
| Capital contributions | 8,895 |
| Change in net assets | 19,958 |
| Net assets beginning of year | 13,567 |
| Net assets end of year | 33,525 |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2011

| | Nonmajor School Nutrition |
|--|---------------------------------|
| | <u>\$</u> |
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | 157,927 |
| Cash payments to employees for services | (137,061) |
| Cash payments to suppliers for goods or services | (135,614) |
| Net cash used by operating activities | <u>(114,748)</u> |
| Cash flows from non-capital financing activities: | |
| State grants received | 2,727 |
| Federal grants received | 133,329 |
| Net cash provided by non-capital financing activities | <u>136,056</u> |
| Cash flows from capital and related financing activities | <u>-</u> |
| Cash flows from investing activities: | |
| Interest on investments | <u>242</u> |
| Net increase (decrease) in cash and cash equivalents | 21,550 |
| Cash and cash equivalents at beginning of year | <u>20,732</u> |
| Cash and cash equivalents at end of year | <u><u>42,282</u></u> |

Reconciliation of operating income (loss) to net cash used by operating activities:

| | |
|---|-------------------------|
| Operating income (loss) | (153,019) |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities: | |
| Commodities used | 27,784 |
| Depreciation | 3,435 |
| Decrease (increase) in inventories | 4,322 |
| (Decrease) increase in accounts payable | 228 |
| (Decrease) increase in salaries and benefits payable | (751) |
| (Decrease) increase in deferred revenue | 361 |
| (Decrease) increase in other postemployment benefits | <u>2,892</u> |
| Net cash used by operating activities | <u><u>(114,748)</u></u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011 the District received \$27,784 of federal commodities.

During the year, the School Nutrition Fund received \$8,895 of equipment that was purchased by other funds.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Fund

June 30, 2011

| | Private Purpose Trust |
|-----------------------------|-----------------------------|
| | <u> </u> |
| Assets | \$ |
| Cash and pooled investments | 8,922 |
| Liabilities | <u> </u> |
| | - |
| Net Assets | |
| Reserved for student books | <u><u>8,922</u></u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

Year ended June 30, 2011

| | Private Purpose Trust |
|---------------------------------|-----------------------------|
| | <u>\$</u> |
| Additions: | |
| Local sources: | |
| Gifts and contributions | 5,000 |
| Interest | 77 |
| Total additions | <u>5,077</u> |
| Deductions | |
| Support services: | |
| Books purchased for individuals | <u>263</u> |
| Change in net assets | 4,814 |
| Net assets beginning of year | <u>4,108</u> |
| Net assets end of year | <u><u>8,922</u></u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

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. Combining schedules are also included for the Capital Project Fund accounts.

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

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the district's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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 fund balances are classified as follows:

Non-spendable – Amounts which cannot be spent because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in other classifications.

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, 2011 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, 2011, the District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$99,658 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, 2011 is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|---------------|
| | | \$ |
| Capital Projects | General Fund | 10,005 |

These interfund transactions represent expenditure reclassifications between funds at year-end.

4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

| <u>Transfer To</u> | <u>Transfer From</u> | <u>Amount</u> |
|------------------------------|-----------------------|---------------|
| | | \$ |
| Nonmajor - Debt Service Fund | Capital Projects Fund | 446,574 |

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. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for the 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 the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2010-11A warrants is 1.2% plus the one-month LIBOR rate, adjusted daily. The interest rate on the Series 2010-11B warrants is a variable rate, calculated daily based upon the

LIBOR rate plus 120 basis points. A summary of the District's ISCAP activity for the year ended June 30, 2011, is as follows:

| Series | Warrant Date | Final Warrant Maturity Date | Balance Beginning of Year | Advances Received | Advances Repaid | Balance End of Year |
|----------|--------------|-----------------------------|---------------------------|-------------------|-----------------|---------------------|
| | | | \$ | \$ | \$ | \$ |
| 2010-11A | 6/23/10 | 6/28/11 | - | 685,000 | 685,000 | - |
| 2010-11B | 1/26/11 | 1/25/12 | - | - | - | - |
| | | | - | 685,000 | 685,000 | - |

During the year ended June 30, 2011, the District paid \$2,130 of interest on the ISCAP warrants.

6. Capital Assets

Capital assets activity for the year ended June 30, 2011 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 |
| Construction in progress | - | 11,411 | - | 11,411 |
| Total capital assets not being depr. | 81,804 | 11,411 | - | 93,215 |
| Capital assets being depreciated: | | | | |
| Buildings | 7,347,125 | 58,700 | - | 7,405,825 |
| Improvements other than buildings | 507,218 | - | - | 507,218 |
| Furniture and equipment | 1,340,626 | 8,055 | 50,000 | 1,298,681 |
| Total capital assets being deprec. | 9,194,969 | 66,755 | 50,000 | 9,211,724 |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,630,505 | 176,960 | - | 2,807,465 |
| Improvements other than buildings | 411,810 | 10,233 | - | 422,043 |
| Furniture and equipment | 888,820 | 94,762 | 50,000 | 933,582 |
| Total accumulated depreciation | 3,931,135 | 281,955 | 50,000 | 4,163,090 |
| Total capital assets being depreciated, net | 5,263,834 | (215,200) | - | 5,048,634 |
| Governmental activities capital assets, net | 5,345,638 | (203,789) | - | 5,141,849 |
| Business type activities: | | | | |
| Furniture and equipment | 109,037 | 8,895 | - | 117,932 |
| Less accumulated depreciation | 96,546 | 3,435 | - | 99,981 |
| Business type activities capital assets, net | 12,491 | 5,460 | - | 17,951 |

Depreciation expense was charged to the following functions:

| | |
|--|-----------------------|
| | \$ |
| Governmental activities: | |
| Instruction: | |
| Regular | 5,978 |
| Other | 1,523 |
| Support services: | |
| Instructional staff services | 3,778 |
| Administration services | 3,114 |
| Operation and maintenance of plant services | 9,312 |
| Transportation | 71,057 |
| | <u>94,762</u> |
| Unallocated depreciation | 187,193 |
| Total depreciation expense – governmental activities | <u><u>281,955</u></u> |
| Business type activities: | |
| Food services | <u><u>3,435</u></u> |

7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|---------------------------|---------------------------------|----------------|----------------|------------------------|------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Governmental activities: | | | | | |
| General obligation bonds | 950,000 | - | 305,000 | 645,000 | 315,000 |
| Revenue bonds | 120,000 | - | 30,000 | 90,000 | 30,000 |
| Capital loan notes | 650,000 | - | 50,000 | 600,000 | 55,000 |
| Termination benefits | 52,540 | 230,636 | 49,975 | 233,201 | 40,857 |
| Net OPEB liability | 56,208 | 57,836 | - | 114,044 | - |
| | <u>1,828,748</u> | <u>288,472</u> | <u>434,975</u> | <u>1,682,245</u> | <u>440,857</u> |
| Total | | | | | |
| Business type activities: | | | | | |
| Net OPEB liability | <u>2,810</u> | <u>2,892</u> | <u>-</u> | <u>5,702</u> | <u>-</u> |

Termination Benefits

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

Early retirement benefits are equal to \$35,000 plus a reimbursement of \$20 per day for up to 120 days of unused sick leave.

Early retirement benefits will be paid over seven years.

At June 30, 2011, the District has obligations to seven participants with a total liability of \$233,201. Actual early retirement expenditures for the year ended June 30, 2011 totaled \$49,975.

General Obligation Bonds

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

| Refunding Bond Issue of May 2008 | | | | |
|----------------------------------|-----------------------|------------------|-----------------|----------------|
| <u>Year Ending June 30,</u> | <u>Interest Rates</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| | % | \$ | \$ | \$ |
| 2012 | 3.150 | 315,000 | 20,317 | 335,317 |
| 2013 | 3.150 | 330,000 | 10,395 | 340,395 |
| | | <u>645,000</u> | <u>30,712</u> | <u>675,712</u> |

Revenue Bonds

Details of the District's June 30, 2011 statewide sales, services and use tax revenue bonded indebtedness are as follows:

| Bond Issue of November 2007 | | | | |
|---------------------------------|-----------------------|------------------|-----------------|---------------|
| <u>Year Ending June 30,</u> | <u>Interest Rates</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| | % | \$ | \$ | \$ |
| 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>90,000</u> | <u>7,890</u> | <u>97,890</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 \$97,890. For the current year, \$35,160 of principal and interest were paid on the bonds and total statewide sales, services and use tax revenues were \$439,820.

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 physical plant and equipment levy. Details of the capital loan notes are as follows:

| Year Ending June 30, | Interest Rates | Principal | Interest | Total |
|-------------------------|----------------|----------------|----------------|----------------|
| | % | \$ | \$ | \$ |
| 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 | 4.10 | 65,000 | 15,133 | 80,133 |
| 2017-2020 | 4.15-4.30 | 295,000 | 31,667 | 326,667 |
| | | <u>600,000</u> | <u>132,060</u> | <u>732,060</u> |

During the year ended June 30, 2011 the District made principal and interest payments of \$76,765 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 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$281,623, \$264,883 and \$258,485 respectively, equal to the required contributions for each year.

9. Other Postemployment Benefits (OPEB)

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. 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, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | |
|--|--------------------|
| | \$ |
| Annual required contribution | 64,548 |
| Interest on net OPEB obligation | 1,475 |
| Adjustment to annual required contribution | <u>(4,823)</u> |
| Annual OPEB cost | 61,200 |
| Contributions made | <u>472</u> |
| Increase in net OPEB obligation | 60,728 |
| Net OPEB obligation beginning of year | <u>59,018</u> |
| Net OPEB obligation end of year | <u>119,746</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, 2011.

For the year ended June 30, 2011, the District contributed \$472 to the medical plan. Plan members eligible for benefits contributed \$5,886, or 93% 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, 2011 are summarized as follows:

| <u>Year Ended June 30,</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|----------------------------|-----------------------------|---|--------------------------------|
| | \$ | % | \$ |
| 2010 | 59,272 | .4% | 59,018 |
| 2011 | 61,200 | .8% | 119,746 |

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, 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 \$3,767,000, and the ratio of the UAAL to covered payroll was 14.2%. As of June 30, 2011, 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.

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 \$294,129 for the year ended June 30, 2011 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 \$79,429 in premiums to this agency during the year ended June 30, 2011.

13. Deficit Fund Balances

At June 30, 2011 the District's General Fund had a \$129,682 deficit unassigned fund balance.

14. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

| Program | Amount |
|--|---------|
| | \$ |
| Gifted and talented | 29,610 |
| Returning dropout and dropout prevention program | 8,192 |
| Limited English proficiency | 3,664 |
| Educator quality, professional development | 9,835 |
| Market factor | 889 |
| Preschool | 46,784 |
| Core curriculum | 27,040 |
| | 126,014 |

15. Construction Commitment

The District has entered into contracts totaling \$140,911 for athletic field lighting. As of June 30, 2011 costs of \$11,411 had been incurred against the contracts. The balances remaining at June 30, 2011 will be paid as work on the project progresses.

16. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund type Definitions, was implemented during the year ended 2011. The effect of fund type reclassifications is as follows:

| | Capital Projects | Special Revenue, Physical Plant and Equipment Levy |
|---|-------------------------|--|
| Balances June 30, 2010, as previously reported | \$ 653,891 | \$ 578,296 |
| Change in fund type classification per implementation of GASB Statement No. 54 | <u>578,296</u> | <u>(578,296)</u> |
| Balances July 1, 2010, as restated | <u><u>1,232,187</u></u> | <u><u>-</u></u> |

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, 2011

| | Governmental Fund Actual | Proprietary Fund Actual | Total Actual | Budgeted Amounts | | Final to Actual Variance - Positive (Negative) |
|---|-----------------------------|----------------------------|-------------------------|-----------------------|-----------------------|---|
| | | | | Original | Final | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues: | | | | | | |
| Local sources | 4,212,000 | 157,808 | 4,369,808 | 4,565,125 | 4,565,125 | (195,317) |
| Intermediate sources | - | - | - | 4,500 | 4,500 | (4,500) |
| State sources | 3,409,764 | 2,727 | 3,412,491 | 4,006,722 | 4,006,722 | (594,231) |
| Federal sources | 541,113 | 161,113 | 702,226 | 530,000 | 530,000 | 172,226 |
| Total revenues | <u>8,162,877</u> | <u>321,648</u> | <u>8,484,525</u> | <u>9,106,347</u> | <u>9,106,347</u> | <u>(621,822)</u> |
| Expenditures/Expenses: | | | | | | |
| Instruction | 5,272,489 | - | 5,272,489 | 5,940,000 | 5,940,000 | 667,511 |
| Support services | 1,542,804 | - | 1,542,804 | 2,342,000 | 2,342,000 | 799,196 |
| Non-instructional programs | - | 310,585 | 310,585 | 340,000 | 340,000 | 29,415 |
| Other expenditures | 831,241 | - | 831,241 | 1,130,748 | 1,130,748 | 299,507 |
| Total expenditures/expenses | <u>7,646,534</u> | <u>310,585</u> | <u>7,957,119</u> | <u>9,752,748</u> | <u>9,752,748</u> | <u>1,795,629</u> |
| Excess (deficiency) of revenues over (under) expenditures/expenses | 516,343 | 11,063 | 527,406 | (646,401) | (646,401) | 1,173,807 |
| Other financing sources (uses) net | <u>16,910</u> | <u>8,895</u> | <u>25,805</u> | <u>-</u> | <u>-</u> | <u>25,805</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses | 533,253 | 19,958 | 553,211 | (646,401) | (646,401) | 1,199,612 |
| Balance beginning of year | <u>902,893</u> | <u>13,567</u> | <u>916,460</u> | <u>1,165,422</u> | <u>1,165,422</u> | <u>(248,962)</u> |
| Balance end of year | <u><u>1,436,146</u></u> | <u><u>33,525</u></u> | <u><u>1,469,671</u></u> | <u><u>519,021</u></u> | <u><u>519,021</u></u> | <u><u>950,650</u></u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2011

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

| Year Ended June 30, | 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) % |
|------------------------|--------------------------------|--|---|---|---------------------------------|-----------------------------------|---|
| 2010 | July 1, 2009 | - | 535,586 | 535,586 | 0.0% | 2,984,000 | 17.9% |
| 2011 | July 1, 2009 | - | 535,586 | 535,586 | 0.0% | 3,767,000 | 14.2% |

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

Year ended June 30, 2011

| | Special Revenue Funds | | | Total |
|---|-----------------------|-----------------------|-----------------|-----------------------|
| | Management | Student | Debt Service | |
| | Levy | Activity | | |
| | \$ | \$ | \$ | \$ |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | 135,341 | - | - | 135,341 |
| Other | 8,023 | 204,980 | - | 213,003 |
| Total revenues | <u>143,364</u> | <u>204,980</u> | <u>-</u> | <u>348,344</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 53,275 | - | - | 53,275 |
| Other | - | 199,624 | - | 199,624 |
| Support services: | | | | |
| Administration | 32,725 | - | - | 32,725 |
| Operation and maintenance of plant | 34,050 | - | - | 34,050 |
| Transportation | 12,603 | - | - | 12,603 |
| Other expenditures: | | | | |
| Long-term debt: | | | | |
| Principal | - | - | 385,000 | 385,000 |
| Interest and fiscal charges | - | - | 61,574 | 61,574 |
| Total expenditures | <u>132,653</u> | <u>199,624</u> | <u>446,574</u> | <u>778,851</u> |
| Excess (deficiency) of revenues over (under) expenditures | 10,711 | 5,356 | (446,574) | (430,507) |
| Other financing sources (uses): | | | | |
| Operating transfers in | <u>-</u> | <u>-</u> | <u>446,574</u> | <u>446,574</u> |
| Net change in fund balances | 10,711 | 5,356 | - | 16,067 |
| Fund balances beginning of year | <u>43,561</u> | <u>127,102</u> | <u>-</u> | <u>170,663</u> |
| Fund balances end of year | <u><u>54,272</u></u> | <u><u>132,458</u></u> | <u><u>-</u></u> | <u><u>186,730</u></u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Capital Projects Accounts

June 30, 2011

| | Capital Projects | | |
|--|--|--|------------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| Assets | \$ | \$ | \$ |
| Cash and pooled investments | 580,762 | 555,096 | 1,135,858 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 2,604 | 2,604 |
| Succeeding year | - | 164,167 | 164,167 |
| Interfund receivable | - | 10,005 | 10,005 |
| Due from other governments | 87,400 | 97,699 | 185,099 |
| Prepaid expenses | - | 45,191 | 45,191 |
| Total assets | 668,162 | 874,762 | 1,542,924 |
| | | | |
| Liabilities & Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | 11,411 | 16,563 | 27,974 |
| Deferred revenue: | | | |
| Succeeding year property tax | - | 164,167 | 164,167 |
| Income surtax | - | 97,699 | 97,699 |
| Total liabilities | 11,411 | 278,429 | 289,840 |
| Fund balances: | | | |
| Nonspendable prepaid expenses | - | 45,191 | 45,191 |
| Restricted for: | | | |
| School infrastructure | 656,751 | - | 656,751 |
| Physical plant and equipment | - | 551,142 | 551,142 |
| Total fund balances | 656,751 | 596,333 | 1,253,084 |
| Total liabilities and fund balances | 668,162 | 874,762 | 1,542,924 |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Capital Projects Accounts

Year ended June 30, 2011

| | Capital Projects | | Total |
|---|--|--|-------------------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | |
| | \$ | \$ | \$ |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | 439,820 | 248,363 | 688,183 |
| Other | 17,805 | 15,485 | 33,290 |
| Total revenues | <u>457,625</u> | <u>263,848</u> | <u>721,473</u> |
| Expenditures: | | | |
| Current: | | | |
| Support services: | | | |
| Instructional staff services | - | 18,848 | 18,848 |
| Administration services | 31,552 | - | 31,552 |
| Operation and maintenance of plant | - | 113,064 | 113,064 |
| Other expenditures: | | | |
| Facilities acquisition | 53,854 | 36,684 | 90,538 |
| Total expenditures | <u>85,406</u> | <u>168,596</u> | <u>254,002</u> |
| Excess (deficiency) of revenues over (under) expenditures | 372,219 | 95,252 | 467,471 |
| Other financing sources (uses): | | | |
| Operating transfers out | <u>(369,359)</u> | <u>(77,215)</u> | <u>(446,574)</u> |
| Net change in fund balance | 2,860 | 18,037 | 20,897 |
| Fund balances beginning of year, as restated | <u>653,891</u> | <u>578,296</u> | <u>1,232,187</u> |
| Fund balance end of year | <u><u>656,751</u></u> | <u><u>596,333</u></u> | <u><u>1,253,084</u></u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

| Account | Balance | Revenues | Expenditures | Intra-fund Transfers | Balance End |
|-----------------------|----------------------|----------|--------------|-------------------------|-------------|
| | Beginning of Year | | | | of Year |
| | \$ | \$ | \$ | \$ | \$ |
| All athletics | 5,555 | 12,285 | 10,304 | (5,300) | 2,236 |
| Cross country | 650 | 865 | 1,305 | 464 | 674 |
| Football | 6,013 | 20,462 | 18,954 | - | 7,521 |
| Volleyball | 1,966 | 13,370 | 8,908 | (3,232) | 3,196 |
| Boys basketball | 3,249 | 4,169 | 5,551 | 693 | 2,560 |
| Girls basketball | 1,370 | 3,556 | 3,424 | 1,830 | 3,332 |
| Boys track | 1,465 | 1,507 | 2,528 | 1,893 | 2,337 |
| Girls track | 1,025 | 1,148 | 3,572 | 2,939 | 1,540 |
| Boys golf | 75 | 24 | 223 | 425 | 301 |
| Girls golf | 161 | 1,185 | 1,586 | 339 | 99 |
| Baseball | 25 | 4,000 | 6,391 | 2,422 | 56 |
| Softball | 1,103 | 3,861 | 6,308 | 3,442 | 2,098 |
| Wrestling | 2,021 | 13,262 | 13,857 | 1,512 | 2,938 |
| Band | 3,236 | 1,558 | 3,083 | 2,000 | 3,711 |
| Chorus | 4,029 | 668 | 3,449 | 2,000 | 3,248 |
| Senior class | 201 | - | 521 | 528 | 208 |
| Junior class | 674 | 1,320 | 2,728 | 1,413 | 679 |
| Sophomore class | 2,087 | 5,312 | 2,345 | (2,087) | 2,967 |
| Class special | 82 | - | 121 | 147 | 108 |
| HS activities | 5,313 | 26,538 | 20,551 | (8,819) | 2,481 |
| Art club | 1,254 | 187 | 1,201 | - | 240 |
| Cheerleaders | 6,597 | 10,133 | 11,027 | (1,080) | 4,623 |
| Computer club | 418 | - | - | - | 418 |
| Drama club | 2,638 | 1,853 | 1,704 | - | 2,787 |
| FCA | 4,567 | - | - | (1,000) | 3,567 |
| FFA | 8,362 | 16,543 | 16,638 | - | 8,267 |
| Industrial tech. club | 55 | 537 | 239 | - | 353 |
| Library reading club | 502 | 118 | - | - | 620 |
| Marketing club | 5,748 | 7,407 | 6,217 | (2,389) | 4,549 |
| Oracle yearbook | 7,760 | 7,712 | 4,027 | 2,389 | 13,834 |
| Science club | 924 | - | 420 | - | 504 |
| Spanish club | 2,740 | 1,729 | 1,272 | - | 3,197 |
| Student council-HS | 2,053 | 1,537 | 1,961 | - | 1,629 |
| Speech club | 4,917 | 59 | 1,175 | (1,000) | 2,801 |
| Student council K-4 | 14,853 | 6,802 | 7,334 | 500 | 14,821 |
| Unallocated interest | 4,434 | 1,104 | 865 | (30) | 4,643 |
| MS all athletics | (2,446) | 702 | 881 | 2,625 | - |
| MS football | (611) | - | 1,455 | 2,066 | - |
| MS volleyball | (1,695) | 390 | 2,100 | 3,405 | - |
| MS basketball | (2,708) | - | 2,570 | 5,278 | - |

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

Year ended June 30, 2011

| <u>Account</u> | Balance Beginning of Year | Revenues | Expenditures | Intra-fund Transfers | Balance End of Year |
|-------------------------------|---------------------------------|----------------|----------------|-------------------------|------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| MS wrestling | (393) | - | 343 | 736 | - |
| MS track | (941) | 180 | 1,355 | 2,116 | - |
| MS golf | 113 | - | - | - | 113 |
| MS baseball | (1,313) | 320 | 1,205 | 2,198 | - |
| Bowling | 187 | 1,615 | 1,615 | - | 187 |
| MS softball | (1,739) | 507 | 1,748 | 2,980 | - |
| MS vocal music | (105) | - | 164 | 269 | - |
| MS band | (1,104) | 1,492 | 1,956 | 2,736 | 1,168 |
| Middle school activities | 5,532 | 26,954 | 13,216 | (16,490) | 2,780 |
| MS student council | 12,610 | 2,919 | 2,109 | 178 | 13,598 |
| Checking interest | 12,904 | 262 | - | (8,096) | 5,070 |
| Concessions | 1,530 | - | - | - | 1,530 |
| June 30, 2011 accrual entries | - | 2,430 | 3,561 | - | (1,131) |
| June 30, 2010 accrual entries | (841) | (3,602) | (4,443) | - | - |
| Totals | <u>127,102</u> | <u>204,980</u> | <u>199,624</u> | <u>-</u> | <u>132,458</u> |

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

For the Last Eight Years

| | Modified Accrual Basis | | | | | | | |
|------------------------------|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues: | | | | | | | | |
| Local sources: | | | | | | | | |
| Local tax | 3,516,139 | 3,210,683 | 3,002,498 | 2,945,697 | 2,786,862 | 2,637,393 | 2,735,365 | 2,729,570 |
| Tuition | 285,033 | 318,811 | 354,080 | 252,675 | 213,057 | 204,989 | 198,123 | 207,060 |
| Other | 410,828 | 263,190 | 399,326 | 370,805 | 344,053 | 369,380 | 295,101 | 286,971 |
| Intermediate sources | - | - | - | 200 | 514 | 378 | 486 | - |
| State sources | 3,409,764 | 2,946,073 | 3,281,687 | 3,133,781 | 3,293,384 | 3,300,505 | 3,302,417 | 3,148,868 |
| Federal sources | 541,113 | 335,296 | 248,765 | 179,714 | 415,670 | 459,728 | 281,937 | 220,990 |
| Total revenues | <u>8,162,877</u> | <u>7,074,053</u> | <u>7,286,356</u> | <u>6,882,872</u> | <u>7,053,540</u> | <u>6,972,373</u> | <u>6,813,429</u> | <u>6,593,459</u> |
| Expenditures: | | | | | | | | |
| Instruction: | | | | | | | | |
| Regular instruction | 3,134,586 | 2,967,472 | 3,135,600 | 3,150,664 | 3,104,891 | 2,955,437 | 3,069,291 | 2,846,476 |
| Special instruction | 1,018,411 | 966,916 | 1,084,474 | 895,547 | 781,369 | 809,660 | 742,105 | 691,506 |
| Other instruction | 1,119,492 | 1,101,202 | 800,334 | 622,302 | 701,793 | 711,725 | 649,366 | 662,830 |
| Support services: | | | | | | | | |
| Student services | 94,490 | 111,163 | 101,907 | 92,051 | 83,672 | 99,065 | 137,792 | 138,479 |
| Instructional staff services | 45,571 | 128,298 | 115,384 | 115,049 | 124,973 | 202,088 | 175,448 | 152,242 |
| Administration services | 608,326 | 546,168 | 603,770 | 603,694 | 629,847 | 607,126 | 606,568 | 564,238 |
| Operation and maintenance | 538,339 | 522,502 | 561,917 | 519,030 | 504,485 | 489,417 | 457,928 | 436,054 |
| Transportation services | 256,078 | 410,839 | 297,001 | 245,763 | 315,604 | 318,798 | 277,414 | 223,471 |
| Non-instructional programs | - | - | - | - | - | - | 4,337 | - |
| Other expenditures: | | | | | | | | |
| Facilities acquisition | 90,538 | 90,352 | 998,565 | 424,639 | 151,556 | 137,350 | 55,676 | 66,050 |
| Long-term debt: | | | | | | | | |
| Principal | 385,000 | 375,000 | 340,000 | 1,780,000 | 250,353 | 243,489 | 236,000 | 346,000 |
| Interest and other charges | 61,574 | 74,150 | 106,137 | 78,663 | 89,450 | 99,950 | 111,101 | 126,519 |
| AEA flowthrough | 294,129 | 290,153 | 268,979 | 262,127 | 257,735 | 252,209 | 252,328 | 255,572 |
| Total expenditures | <u>7,646,534</u> | <u>7,584,215</u> | <u>8,414,068</u> | <u>8,789,529</u> | <u>6,995,728</u> | <u>6,926,314</u> | <u>6,775,354</u> | <u>6,509,437</u> |

See accompanying independent auditor's report.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

| <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 | FY11 | 16,785 |
| National School Lunch Program (non-cash) | 10.555 | FY11 | 27,784 |
| National School Lunch Program | 10.555 | FY11 | 116,544 |
| | | | <u>161,113</u> |
| U.S. Department of Education: | | | |
| Iowa Department of Education: | | | |
| Title I, Part A Cluster: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | FY11 | 79,572 |
| ARRA - Title I Grants to Local Educational Agencies, Recovery Act | 84.389 | FY11 | 27,222 |
| | | | <u>106,794</u> |
| Safe and Drug Free Schools and Communities - State Grants | 84.186 | FY11 | 553 |
| Improving Teacher Quality State Grants | 84.367 | FY11 | 28,839 |
| Grants for State Assessments and Related Activities | 84.369 | FY11 | 4,258 |
| State Fiscal Stabilization Fund Cluster: | | | |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | FY11 | 230,351 |
| ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act | 84.397 | FY11 | 32,976 |
| | | | <u>263,327</u> |
| Education Jobs Fund | 84.410 | FY11 | 63,568 |
| Northwest Area Education Agency | | | |
| Special Education Cluster (IDEA) | | | |
| Special Education - Grants to States | 84.027 | FY11 | 40,116 |
| ARRA - Special Education Grants to States, Recovery Act | 84.391 | FY11 | 26,310 |
| | | | <u>66,426</u> |
| English Language Acquisition Grants | 84.365 | FY11 | 974 |
| Sheldon Community School District: | | | |
| Career and Technical Education - Basic Grants to States | 84.048 | FY11 | 5,710 |
| Total | | | <u><u>701,562</u></u> |

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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 20, 2012. 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 11-II-A and 11-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, 2011 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 20, 2012

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Independent Auditor's Report on Compliance with Requirements That Could Have a Direct
and Material Effect on 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, 2011. 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 noncompliance 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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 the 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 that 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.

A deficiency in 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 that 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 Part III of the accompanying Schedule of Findings and Questioned Costs as items 11-III-A to be a material weakness.

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 response and, accordingly, we express no opinion on the response.

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 20, 2012

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was 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:
 - State Fiscal Stabilization Fund Cluster
 - CFDA Number 84.394 – ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
 - CFDA Number 84.397 – ARRA – State Fiscal Stabilization Fund – Government Services, Recovery Act
 - Title I Cluster
 - CFDA Number 84.010 Title I Grants to Local Educational Agencies
 - CFDA Number 84.389 ARRA – Title I Grants to Local Educational Agencies, Recovery Act
- (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, 2011

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

11-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, processing payroll, 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.

11-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, 2011

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Noncompliance:

No matters were noted.

Internal Control Deficiencies:

CFDA Number 84.394: ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
CFDA Number 84.397 ARRA – State Fiscal Stabilization Fund – Government Services, Recovery Act
Federal Award Year: 2011
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
CFDA Number 84.389: ARRA – Title I Grants to Local Educational Agencies, Recovery Act
Federal Award Year: 2011
U.S. Department of Education
Passed through the Iowa Department of Education

11-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, processing payroll, 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.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

- 11-IV-A Certified Budget: Expenditures for the year ended June 30, 2011, did not exceed the amounts budgeted.
- 11-IV-B Questionable Expenditures: No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- 11-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.
- 11-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 | 79,429 |
| Daniel Duncan, employee, owner of Dan's Electric | Supplies and repairs | 2,287 |

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

Conclusion: Response accepted.

- 11-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.
- 11-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, 2011

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

11-IV-G Certified Enrollment: The number of resident students reported to the Iowa Department of Education at October 2010, was overstated by 4.8 students. The count included 6 students that should not have been counted and omitted 2 preschool students at a weighting of 1.2.

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

District Response: We have contacted these departments.

Conclusion: Response accepted.

11-IV-H Supplementary Weighting: No variances regarding supplementary weighting certified to the Department of Education were noted.

11-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.

11-IV-J Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.

11-IV-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.

11-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. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

| | | |
|---|----------------|-----------------------|
| Beginning balance | \$ | \$ |
| | | 653,891 |
| Revenues/transfers in: | | |
| Statewide sales, services and use tax revenue | 439,820 | |
| Interest | <u>17,805</u> | 457,625 |
| Expenditures/transfers out: | | |
| Equipment | 52,645 | |
| Other | 32,761 | |
| Transfers to debt service fund | <u>369,359</u> | <u>454,765</u> |
| Ending balance | | <u><u>656,751</u></u> |

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E of 423F of the Code of Iowa:

| | Rate of Levy Reduction Per \$1,000 of Taxable Valuation | Property Tax Dollars Reduced |
|-------------------|--|---------------------------------------|
| | <u>\$</u> | <u>\$</u> |
| Debt service Levy | 1.36251 | 334,925 |

11-IV-M Deficit Balances: The District has an unassigned deficit fund balance in the General Fund of \$129,682 at June 30, 2011.

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

District Response: The General Fund deficit unassigned fund balance went from \$639,154 at June 30, 2010 to \$129,682 at June 30, 2011. We accomplished this through the use of the cash reserve property tax levy and cost containment measures. These same methods are also being used in fiscal year 2012.

Conclusion: Response accepted.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

11-IV-N Fees Charged: A Iowa Department of Education declaratory order limits fees that schools may charge to the following: textbooks, school supplies, eye protective devices, ear protective devices, summer school courses, driver education courses and discretionary transportation. We noted that the District is charging a registration fee and a gymnastics fee.

Recommendation: The District should review the fees it charges with its attorney to ensure compliance.

District Response: We will review our fees and make any necessary changes to be in compliance with the Code of Iowa.

Conclusion: Response accepted.

11-IV-O Physical Plant and Equipment Levy (PPEL): The Physical Plant and Equipment Levy may be used to purchase or improve grounds, construct buildings, purchase or lease-purchase equipment or technology exceeding \$500, acquire library facilities, repair and remodel buildings, for energy conservation and for rental of facilities. We noted that the District used \$6,206 of PPEL for a copy machine maintenance contract. Equipment repairs and maintenance is not an allowable use of PPEL.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund and should reimburse the Physical Plant and Equipment account for the purchases.

District Response: We will monitor the expenditures from the PPEL account and have General Fund make the reimbursement.

Conclusion: Response accepted.

11-IV-P Sale of Equipment: During the year ended June 30, 2011 the District sold a bus. The District did not publish notice of the sale for two consecutive weeks in accordance with Chapter 297.22 of the Code of Iowa.

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

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

Conclusion: Response accepted.