

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

June 30, 2012

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	16-17
Statement of Activities	B	18-19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	24
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	25
Statement of Revenues, Expenses, and Changes in Fund Net Assets	H	26
Statement of Cash Flows	I	27
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	28
Statement of Changes in Fiduciary Net Assets	K	29
Notes to Financial Statements		30-41
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		43
Budget to GAAP Reconciliation		
Notes to Required Supplementary Information - Budgetary Reporting		44
Schedule of Funding Progress for the Retiree Health Plan		45
Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	47
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	48
Capital Project Accounts:		
Combining Balance Sheet	3	49
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4	50
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	51-52
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	6	53
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		54-55
Schedule of Findings and Responses		56-60

Gary E. Horton CPA

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Hartley-Melvin-Sanborn Community School District, Hartley, Iowa, as of and for the year ended June 30, 2012, 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, 2012, 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 22, 2013, 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 14 and 43 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the

required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 eight years ended June 30, 2011, (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information 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 22, 2013

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, 2012. 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 and with the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary information provides detailed information about nonmajor funds.

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

Figure A-1

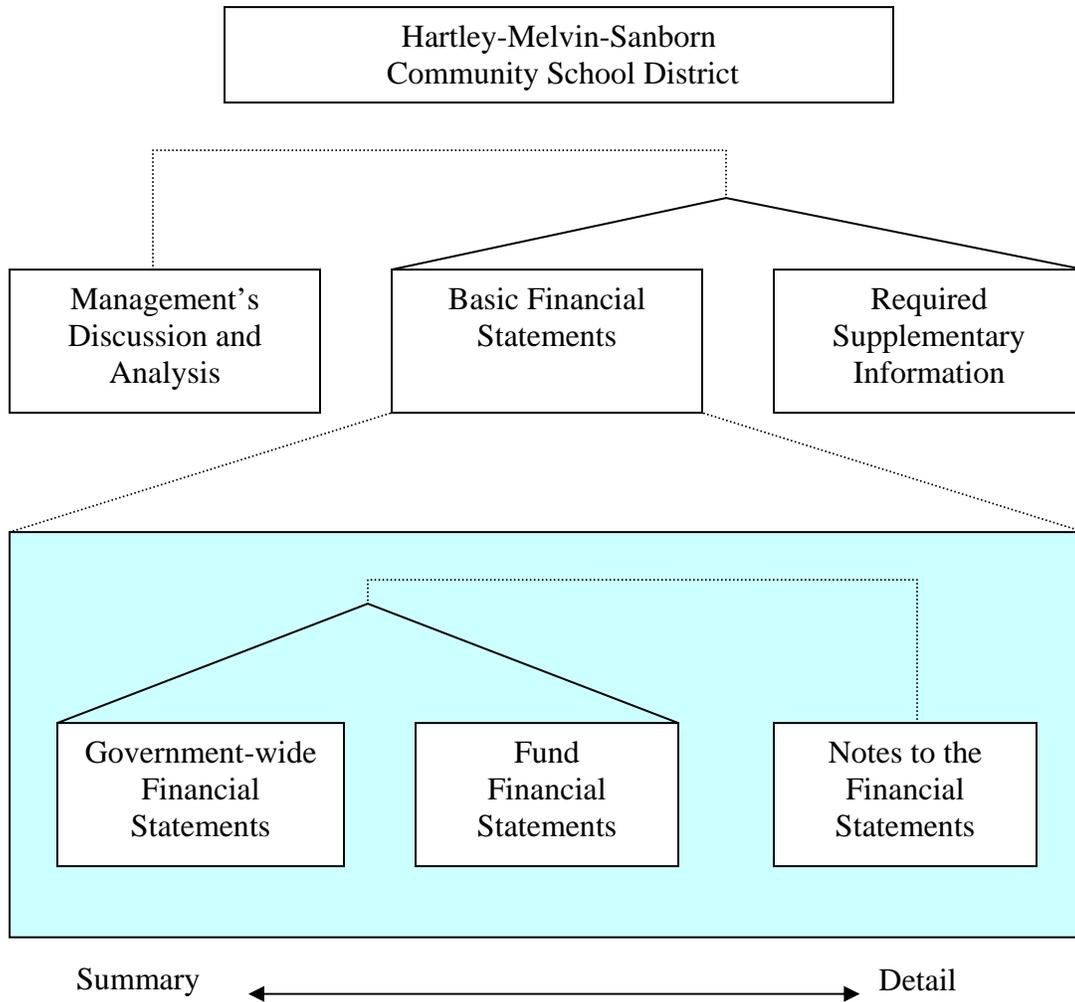


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

<i>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</i>				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private business: food services is included here	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balance 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flow 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

Financial Analysis of the District as a Whole

Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2011	2012	2011	2012	2011	2012	2011-2012
Current and other assets	\$5,675,263	\$6,338,649	\$47,789	\$48,420	\$5,723,052	\$6,387,069	11.60%
Capital assets	\$5,141,849	\$5,425,080	\$17,951	\$17,265	\$5,159,800	\$5,442,345	5.48%
Total Assets	\$10,817,112	\$11,763,729	\$65,740	\$65,685	\$10,882,852	\$11,829,414	8.70%
Long-term liabilities	\$1,682,245	\$1,542,201	\$5,702	\$8,594	\$1,687,947	\$1,550,795	(8.13%)
Other liabilities	\$3,986,071	\$4,146,720	\$26,513	\$23,700	\$4,012,584	\$4,170,420	3.93%
Total liabilities	\$5,668,316	\$5,688,921	\$32,215	\$32,294	\$5,700,531	\$5,721,215	.36%
Net Assets:							
Invested in capital assets, net of related debt	\$3,806,849	\$4,267,142	\$17,951	\$17,265	\$3,824,800	\$4,284,407	12.02%
Restricted	\$1,564,064	\$1,464,797	0	0	\$1,564,064	\$1,464,797	(6.35%)
Unrestricted	(\$222,117)	\$342,869	\$15,574	\$16,126	(\$206,543)	\$358,995	273.81%
TOTAL NET ASSETS	\$5,148,796	\$6,074,808	\$33,525	\$33,391	\$5,182,321	\$6,108,199	17.87%

The District's combined net assets were more on June 30, 2012, than they were the year before; increasing by 17.87% (see Figure A-3). An increase in current and other assets should be noted 11.60%. Another increase is noted in the unrestricted net assets area, where it is 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, 2011 and 2012.

Figure A-4

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total School District	
	2011	2012	2011	2012	2011	2012
Revenues						
Program Revenues						
Charges for services	\$640,111	\$628,839	\$157,566	\$166,283	\$797,677	\$795,122
Operating Grants & Contributions	\$1,393,396	\$1,023,105	\$163,840	\$171,194	\$1,557,236	\$1,194,299
Capital Grants & Contributions	0	15,000	0	0	0	15,000
General Revenues						
Property taxes	\$2,843,929	\$3,097,123	0	0	\$2,843,929	\$3,097,123
Income surtax	257,645	\$277,100	0	0	\$257,645	\$277,100
Sales tax	439,820	\$507,417	0	0	\$439,820	\$507,417
Unrestricted State Grants	\$2,551,369	\$2,747,823	0	0	\$2,551,369	\$2,747,823
Unrestricted Investment Earnings	\$48,166	\$60,515	\$242	\$303	\$48,408	\$60,818
Other Revenue	\$24,494	\$10,002	0	0	\$24,494	\$10,002
Total Revenues	\$8,198,930	\$8,366,924	\$321,648	\$337,780	\$8,520,578	\$8,704,704
Expenses						
Instruction	\$5,507,642	\$5,092,015	\$0	\$0	\$5,507,642	\$5,092,015
Support Services	\$1,640,910	\$1,816,826	\$0	\$0	\$1,640,910	\$1,816,826
Non-Instructional Programs	\$0	\$0	\$310,585	\$337,914	\$310,585	\$337,914
Other Expenses	\$545,406	\$532,071			\$545,406	\$532,071
Total Expenses	\$7,693,958	\$7,440,912	\$310,585	\$337,914	\$8,004,543	\$7,778,826
Transfers	(\$8,895)	0	\$8,895	0	0	0
Change in Net Assets	496,077	\$926,012	\$19,958	(\$134)	\$516,035	\$925,878
Net assets beginning of year	\$4,652,719	\$5,148,796	\$13,567	\$33,525	\$4,666,286	\$5,182,321
Net assets end of year	\$5,148,796	\$6,074,808	\$33,525	\$33,391	\$5,182,321	\$6,108,199

Governmental Activities -

Referring to *Figure A-4*, revenues for the District’s governmental activities were \$8,366,924 for fiscal year 2012. Total governmental expenditures were \$7,440,912.

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 2012	Net Cost of Services 2011	Net Cost of Services 2012
Instruction	\$5,507,642	\$5,092,015	\$3,785,245	\$3,709,747
Support Services	\$1,640,910	\$1,816,826	\$1,623,929	\$1,805,450
Non-instructional Programs	\$0	\$0	\$0	\$0
Other Expenses	\$545,406	\$532,071	\$251,277	\$258,771
TOTAL	\$7,693,958	\$7,440,912	\$5,660,451	\$5,773,968

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 \$7,440,912.
- Some of the cost was financed by the users of the District’s programs, which was \$628,839.
- The federal and state governments and private contributors subsidized certain programs with grants and contributions, which was \$1,023,105.
- Most of the District’s net costs, which was \$5,773,968, however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$3,881,640 in property and other taxes, and \$2,747,823 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 decrease in total net assets of (\$134) 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 \$1,929,516, which is more than last year's ending fund balances of \$1,436,146.

Governmental Fund Highlights

The General Fund balance increased from (\$3,668) to \$644,536, due in large part to staff reductions through early retirement and a \$300,000 cash reserve property tax levy.

The Capital Projects Fund includes revenues from the physical plant and equipment property tax levy and from the statewide sales tax. 2012 revenues increased by \$99,586 over 2011 revenues. Most of this increase was from higher sales tax revenues. 2012 expenditures are higher than 2011 expenditures due to the purchase of \$311,000 of computers with the proceeds from a capital lease.

Business Type Fund Highlights

The School Nutrition Fund net assets decreased from \$33,525 at June 30, 2011, to \$33,391 on June 30, 2012. Increases in labor and food costs were offset by increases in revenue from meal sales and federal grant revenue.

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 FY12, 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 2012, the District had invested \$5,442,345 net of accumulated depreciation, in a broad range of assets, including school buildings, athletic facilities, transportation equipment, and computer and audio-visual equipment (see *Figure A-6*). This amount represents a net increase of \$282,545 or 5.14% from last year. (More detailed information about capital assets can be found in Note 5 to the financial statements.)

The largest increases during the year occurred in the improvements other than buildings and equipment areas. During the year the District installed new athletic field lighting, resurfaced the track, constructed a concession stand, and purchased computers and playground equipment.

The June 30, 2012 construction in progress consists of initial planning costs for football facility improvements. The District has committed \$262,500 to complete the project.

Figure A-6

<i>Capital Assets (net of depreciation)</i>							
	Governmental		Business--type		Total		Total Percentage Change 2011-12
	Activities		Activities		School District		
	2011	2012	2011	2012	2011	2012	
Land	\$81,804	\$81,804	0	0	\$81,804	\$81,804	0%
Construction in progress	\$11,411	\$16,857	0	0	\$11,411	\$16,857	47.73%
Improvements other than Buildings	\$85,175	\$251,284	0	0	\$85,175	\$251,284	195.02%
Buildings	\$4,598,360	\$4,483,379	0	0	\$4,598,360	\$4,483,379	(2.50%)
Equipment & Furniture	\$365,099	\$591,756	\$17,951	\$17,265	\$383,050	\$609,021	58.99%
TOTAL	\$5,141,849	\$5,425,080	\$17,951	\$17,265	\$5,159,800	\$5,442,345	5.48%

Long-Term Debt

At June 30, 2012, the District had \$1,550,795 in general obligation and other long-term debt outstanding (Figure A-7). This is an 8.13% decrease from the prior year. Additional information about the District's long-term debt is presented in Note 6 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 19.6 million.

Figure A-7

	<i>Long-Term Debt</i>	
	Balance End of 2012	Due Within One Year
Net OPEB liability	\$180,474	0
General obligation bonds	\$330,000	\$330,000
Revenue bonds	\$60,000	\$30,000
Capital Loan Notes	\$545,000	\$60,000
Capital Leases	\$222,939	\$88,575
Early retirement	\$212,382	\$50,000
Total	\$1,550,795	\$558,575

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 2013, is set at 0% 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 sustained 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. Bill Thompson, 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, 2012

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	2,525,173	45,147	2,570,320
Receivables:			
Property tax:			
Delinquent	45,494	-	45,494
Succeeding year	3,316,211	-	3,316,211
Accounts	10	-	10
Due from other governments	451,761	-	451,761
Inventories	-	3,273	3,273
Capital assets, net of accumulated depreciation	5,425,080	17,265	5,442,345
	<u>11,763,729</u>	<u>65,685</u>	<u>11,829,414</u>
Total assets			
Liabilities			
Accounts payable	117,798	360	118,158
Salaries and benefits payable	709,689	18,463	728,152
Accrued interest payable	3,022	-	3,022
Deferred revenue:			
Succeeding year property tax	3,316,211	-	3,316,211
Other	-	4,877	4,877
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	330,000	-	330,000
Revenue bonds payable	30,000	-	30,000
Capital loan notes payable	60,000	-	60,000
Capital lease payable	88,575	-	88,575
Termination benefits	45,108	-	45,108
Portion due after one year:			
Revenue bonds payable	30,000	-	30,000
Capital loan notes payable	485,000	-	485,000
Capital lease payable	134,364	-	134,364
Termination benefits	167,274	-	167,274
Net OPEB liability	171,880	8,594	180,474
	<u>5,688,921</u>	<u>32,294</u>	<u>5,721,215</u>
Total liabilities			

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	4,267,142	17,265	4,284,407
Restricted for:			
Categorical funding	131,956	-	131,956
Physical plant and equipment levy	595,265	-	595,265
Student activities	154,619	-	154,619
School infrastructure	582,957	-	582,957
Unrestricted	342,869	16,126	358,995
Total net assets	<u>6,074,808</u>	<u>33,391</u>	<u>6,108,199</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2012

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	2,899,492	309,466	554,505	-
Special	1,108,147	65,971	37,004	-
Other	1,084,376	253,252	162,070	-
	<u>5,092,015</u>	<u>628,689</u>	<u>753,579</u>	<u>-</u>
Support services:				
Student	125,155	-	-	-
Instructional staff	163,980	-	-	-
Administration	646,365	-	-	-
Operation and maintenance of plant	533,758	150	-	-
Transportation	347,568	-	11,226	-
	<u>1,816,826</u>	<u>150</u>	<u>11,226</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	24,858	-	-	15,000
Long-term debt interest	50,725	-	-	-
AEA flowthrough	258,300	-	258,300	-
Depreciation (unallocated)*	198,188	-	-	-
	<u>532,071</u>	<u>-</u>	<u>258,300</u>	<u>15,000</u>
Total governmental activities	7,440,912	628,839	1,023,105	15,000
Business type activities:				
Food service operations	337,914	166,283	171,194	-
Total	<u>7,778,826</u>	<u>795,122</u>	<u>1,194,299</u>	<u>15,000</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				

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
\$	\$	\$
(2,035,521)	-	(2,035,521)
(1,005,172)	-	(1,005,172)
(669,054)	-	(669,054)
<u>(3,709,747)</u>	<u>-</u>	<u>(3,709,747)</u>
(125,155)	-	(125,155)
(163,980)	-	(163,980)
(646,365)	-	(646,365)
(533,608)	-	(533,608)
(336,342)	-	(336,342)
<u>(1,805,450)</u>	<u>-</u>	<u>(1,805,450)</u>
(9,858)	-	(9,858)
(50,725)	-	(50,725)
-	-	-
(198,188)	-	(198,188)
<u>(258,771)</u>	<u>-</u>	<u>(258,771)</u>
(5,773,968)	-	(5,773,968)
-	(437)	(437)
<u>(5,773,968)</u>	<u>(437)</u>	<u>(5,774,405)</u>
2,932,483	-	2,932,483
164,640	-	164,640
277,100	-	277,100
507,417	-	507,417
2,747,823	-	2,747,823
60,515	303	60,818
10,002	-	10,002
<u>6,699,980</u>	<u>303</u>	<u>6,700,283</u>
926,012	(134)	925,878
<u>5,148,796</u>	<u>33,525</u>	<u>5,182,321</u>
<u>6,074,808</u>	<u>33,391</u>	<u>6,108,199</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2012

	General	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	1,307,858	1,007,887	209,428	2,525,173
Receivables:				
Property tax:				
Delinquent	41,619	2,170	1,705	45,494
Succeeding year	2,884,903	218,743	212,565	3,316,211
Accounts	10	-	-	10
Due from other governments	266,841	184,920	-	451,761
Total assets	4,501,231	1,413,720	423,698	6,338,649
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	96,206	16,755	4,837	117,798
Salaries and benefits payable	709,689	-	-	709,689
Deferred revenue:				
Succeeding year property tax	2,884,903	218,743	212,565	3,316,211
Income surtax	165,897	99,538	-	265,435
Total liabilities	3,856,695	335,036	217,402	4,409,133
Fund balances:				
Restricted for:				
Categorical funding	131,956	-	-	131,956
Management levy	-	-	51,677	51,677
Student activities	-	-	154,619	154,619
School infrastructure	-	582,957	-	582,957
Physical plant and equipment	-	495,727	-	495,727
Unassigned	512,580	-	-	512,580
Total fund balances	644,536	1,078,684	206,296	1,929,516
Total liabilities and fund balances	4,501,231	1,413,720	423,698	6,338,649

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

June 30, 2012

	\$
Total fund balances of governmental funds (Exhibit C)	1,929,516
<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.	5,425,080
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	265,435
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.	(3,022)
Long-term liabilities, including bonds payable, capital loan notes payable, capital leases 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>(1,542,201)</u>
Net assets of governmental activities (Exhibit A)	<u><u>6,074,808</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2012

	General	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,953,675	775,098	115,397	3,844,170
Tuition	331,592	-	-	331,592
Other	110,854	45,961	225,949	382,764
State sources	3,535,665	-	-	3,535,665
Federal sources	264,101	-	-	264,101
Total revenues	<u>7,195,887</u>	<u>821,059</u>	<u>341,346</u>	<u>8,358,292</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,850,199	-	43,999	2,894,198
Special	1,095,134	-	-	1,095,134
Other	885,436	-	193,430	1,078,866
	<u>4,830,769</u>	<u>-</u>	<u>237,429</u>	<u>5,068,198</u>
Support services:				
Student	124,432	-	-	124,432
Instructional staff	72,357	370,714	-	443,071
Administration	552,289	51,531	34,674	638,494
Operation and maintenance of plant	437,813	122,669	37,310	597,792
Transportation	271,723	-	12,367	284,090
	<u>1,458,614</u>	<u>544,914</u>	<u>84,351</u>	<u>2,087,879</u>
Other expenditures:				
Facilities acquisition	-	222,024	-	222,024
Long-term debt:				
Principal	-	-	487,783	487,783
Interest and fiscal charges	-	-	51,460	51,460
AEA flowthrough	258,300	-	-	258,300
	<u>258,300</u>	<u>222,024</u>	<u>539,243</u>	<u>1,019,567</u>
Total expenditures	<u>6,547,683</u>	<u>766,938</u>	<u>861,023</u>	<u>8,175,644</u>
Excess (deficiency) of revenues over (under) expenditures	<u>648,204</u>	<u>54,121</u>	<u>(519,677)</u>	<u>182,648</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2012

	General	Capital	Nonmajor	Total
	<u> </u>	<u>Projects</u>	<u>Governmental</u>	<u> </u>
	\$	\$	\$	\$
Other financing sources (uses):				
Proceeds from capital lease	-	310,722	-	310,722
Operating transfers in	-	-	539,243	539,243
Operating transfers out	-	(539,243)	-	(539,243)
Total other financing sources (uses)	<u>-</u>	<u>(228,521)</u>	<u>539,243</u>	<u>310,722</u>
Net change in fund balances	648,204	(174,400)	19,566	493,370
Fund balances beginning of year	<u>(3,668)</u>	<u>1,253,084</u>	<u>186,730</u>	<u>1,436,146</u>
Fund balances end of year	<u><u>644,536</u></u>	<u><u>1,078,684</u></u>	<u><u>206,296</u></u>	<u><u>1,929,516</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, 2012

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		493,370
<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. Depreciation expense and capital outlay expenditures in the current year are as follows:		
Expenditures for capital assets	637,008	
Depreciation expense	<u>(353,777)</u>	283,231
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.		
		8,632
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.		
		487,783
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.		
		735
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	20,819	
Other postemployment benefits	<u>(57,836)</u>	(37,017)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		
		<u>(310,722)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>926,012</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2012

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	45,147
Inventories	3,273
Capital assets, net of accumulated depreciation	<u>17,265</u>
Total assets	<u>65,685</u>
Liabilities	
Accounts payable	360
Salaries and benefits payable	18,463
Deferred revenue	4,877
Net OPEB liability	<u>8,594</u>
Total liabilities	<u>32,294</u>
Net assets	
Invested in capital assets	17,265
Unrestricted	<u>16,126</u>
Total net assets	<u><u>33,391</u></u>

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

Year ended June 30, 2012

	Nonmajor School Nutrition
	\$
Operating revenue:	
Local sources:	
Charges for service	166,283
Operating expenses:	
Non-instructional programs:	
Salaries	98,391
Benefits	51,300
Purchased services	882
Supplies	184,306
Depreciation	3,035
Total operating expenses	337,914
Operating income (loss)	(171,631)
Non-operating revenues:	
State sources	2,934
Federal sources	168,260
Interest income	303
Total non-operating revenues	171,497
Change in net assets	(134)
Net assets beginning of year	33,525
Net assets end of year	33,391

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2012

	Nonmajor School Nutrition \$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	166,269
Cash payments to employees for services	(149,575)
Cash payments to suppliers for goods or services	(152,758)
Net cash used by operating activities	<u>(136,064)</u>
Cash flows from non-capital financing activities:	
State grants received	2,934
Federal grants received	138,041
Net cash provided by non-capital financing activities	<u>140,975</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(2,349)</u>
Cash flows from investing activities:	
Interest on investments	<u>303</u>
Net increase (decrease) in cash and cash equivalents	2,865
Cash and cash equivalents at beginning of year	<u>42,282</u>
Cash and cash equivalents at end of year	<u><u>45,147</u></u>
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	(171,631)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Commodities used	30,219
Depreciation	3,035
Decrease (increase) in inventories	2,234
(Decrease) increase in accounts payable	(23)
(Decrease) increase in salaries and benefits payable	(2,776)
(Decrease) increase in deferred revenue	(14)
(Decrease) increase in other postemployment benefits	2,892
Net cash used by operating activities	<u><u>(136,064)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012 the District received \$30,219 of federal commodities.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Fund

June 30, 2012

	Private Purpose Trust
	<u>\$</u>
Assets	
Cash and pooled investments	7,761
Liabilities	
	<u>-</u>
Net Assets	
Reserved for student books	<u><u>7,761</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

Year ended June 30, 2012

	Private Purpose Trust
	<u>\$</u>
Additions:	
Local sources:	
Interest	<u>94</u>
Deductions	
Support services:	
Scholarships	1,000
Books purchased for individuals	<u>255</u>
	<u>1,255</u>
Change in net assets	(1,161)
Net assets beginning of year	<u>8,922</u>
Net assets end of year	<u><u>7,761</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

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 and donations to be used to benefit individuals through scholarships and the purchase of a book for each kindergarten student.

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

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

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

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

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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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.

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, 2012 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, 2012, the District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$2,546 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer To	Transfer From	Amount
		\$
Nonmajor - Debt Service Fund	Capital Projects Fund	539,243

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

4. 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 Series 2011-2012A included taxable and tax-exempt warrants. The District participated in the issuance of the taxable warrants. The interest rates on the taxable Series 2011-2012A and taxable Series 2011-2012B warrants are variable rates, calculated daily, based on the one-month LIBOR rate plus 100 basis points. A summary of the District's ISCAP activity for the year ended June 30, 2012 is as follows.

Series	Warrant Date	Final Warrant Maturity Date	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
			\$	\$	\$	\$
2011-2012A	6/23/11	6/23/12	-	400,001	400,001	-
2011-2012B	1/26/12	1/25/13	-	-	-	-
			-	400,001	400,001	-

During the year ended June 30, 2012, the District paid \$1,790 of interest on the ISCAP warrants.

5. Capital Assets

Capital assets activity for the year ended June 30, 2012 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	152,655	147,209	16,857
Total capital assets not being depr.	<u>93,215</u>	<u>152,655</u>	<u>147,209</u>	<u>98,661</u>
Capital assets being depreciated:				
Buildings	7,405,825	63,692	-	7,469,517
Improvements other than buildings	507,218	185,624	-	692,842
Furniture and equipment	1,298,681	382,246	-	1,680,927
Total capital assets being deprec.	<u>9,211,724</u>	<u>631,562</u>	<u>-</u>	<u>9,843,286</u>
Less accumulated depreciation for:				
Buildings	2,807,465	178,673	-	2,986,138
Improvements other than buildings	422,043	19,515	-	441,558
Furniture and equipment	933,582	155,589	-	1,089,171
Total accumulated depreciation	<u>4,163,090</u>	<u>353,777</u>	<u>-</u>	<u>4,516,867</u>
Total capital assets being depreciated, net	<u>5,048,634</u>	<u>277,785</u>	<u>-</u>	<u>5,326,419</u>
Governmental activities capital assets, net	<u>5,141,849</u>	<u>430,440</u>	<u>147,209</u>	<u>5,425,080</u>
Business type activities:				
Furniture and equipment	117,932	2,349	-	120,281
Less accumulated depreciation	<u>99,981</u>	<u>3,035</u>	<u>-</u>	<u>103,016</u>
Business type activities capital assets, net	<u>17,951</u>	<u>(686)</u>	<u>-</u>	<u>17,265</u>
Depreciation expense was charged to the following functions:				\$
Governmental activities:				
Instruction:				
Regular				6,733
Other				2,618
Support services:				
Instructional staff services				76,099
Administration services				2,810
Operation and maintenance of plant services				3,851
Transportation				<u>63,478</u>
				155,589
Unallocated depreciation				<u>198,188</u>
Total depreciation expense – governmental activities				<u>353,777</u>
Business type activities:				
Food services				<u>3,035</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
General obligation bonds	645,000	-	315,000	330,000	330,000
Revenue bonds	90,000	-	30,000	60,000	30,000
Capital loan notes	600,000	-	55,000	545,000	60,000
Capital lease	-	310,722	87,783	222,939	88,575
Termination benefits	233,201	24,380	45,199	212,382	45,108
Net OPEB liability	114,044	57,836	-	171,880	-
Total	347,245	392,938	532,982	1,542,201	553,683
Business type activities:					
Net OPEB liability	5,702	2,892	-	8,594	-

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 \$10,000 plus a reimbursement of \$20 per day for up to 120 days of unused sick leave.

The 2012 early retirement benefits will be paid over two years.

At June 30, 2012, the District has obligations to eight participants with a total liability of \$212,382. Actual early retirement expenditures for the year ended June 30, 2012 totaled \$45,199.

General Obligation Bonds

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

Refunding Bond Issue of May 2008				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2013	3.150	330,000	10,395	340,395

Revenue Bonds

Details of the District's June 30, 2012 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Bond Issue of November 2007

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2013	4.350	30,000	2,640	32,640
2014	4.450	30,000	1,335	31,335
		<u>60,000</u>	<u>3,975</u>	<u>63,975</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$175,000 of 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 \$63,975. For the current year, \$33,915 of principal and interest were paid on the bonds and total statewide sales, services and use tax revenues were \$507,417.

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 property tax levy. Details of the capital loan notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
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	4.15	70,000	12,468	82,468
2018-2020	4.20-4.30	<u>225,000</u>	<u>19,200</u>	<u>244,200</u>
		<u>545,000</u>	<u>107,296</u>	<u>652,296</u>

During the year ended June 30, 2012 the District made principal and interest payments of \$79,765 on the notes.

Capital Leases

The District has leased computers under a capital lease. The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2012.

	<u>Year Ending June 30,</u>	<u>Amount</u>
		\$
	2013	90,383
	2014	90,383
	2015	45,191
Minimum lease payments		225,957
Less amount representing interest		3,018
Present value of minimum lease payments		<u>222,939</u>

7. Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$320,142, \$281,623 and \$264,883 respectively, equal to the required contributions for each year.

8. 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, 2012, 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>119,746</u>
 Net OPEB obligation end of year	 <u>180,474</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, 2012.

For the year ended June 30, 2012, the District contributed \$472 to the medical plan. Plan members eligible for benefits contributed \$14,920, or 97% 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, 2012 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
2012	61,200	.8%	180,474

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, 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 3,738,000, and the ratio of the UAAL to covered payroll was 14.3%. As of June 30, 2012, 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.

9. Risk Management

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

10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$258,300 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Related Party Transaction

A District board member owns a portion of the insurance agency from which the District purchases its property, liability and workmen's compensation insurance. The District paid \$84,791 in premiums to this agency during the year ended June 30, 2012.

12. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

Program	Amount
	\$
Gifted and talented	55,375
Core curriculum	28,398
Limited English proficiency	5,148
Educator quality, professional development	8,044
Preschool	34,991
	131,956

13. Construction Commitment

The District has entered into a \$262,453 contract for athletic field bleachers. Work on the project had not started at June 30, 2012.

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, 2012

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	4,558,526	166,586	4,725,112	4,857,689	4,857,689	(132,577)
State sources	3,535,665	2,934	3,538,599	3,723,563	3,723,563	(184,964)
Federal sources	264,101	168,260	432,361	400,000	400,000	32,361
Total revenues	<u>8,358,292</u>	<u>337,780</u>	<u>8,696,072</u>	<u>8,981,252</u>	<u>8,981,252</u>	<u>(285,180)</u>
Expenditures/Expenses:						
Instruction	5,068,198	-	5,068,198	6,016,000	6,016,000	947,802
Support services	2,087,879	-	2,087,879	2,092,000	2,092,000	4,121
Non-instructional programs	-	337,914	337,914	345,000	345,000	7,086
Other expenditures	1,019,567	-	1,019,567	1,034,249	1,034,249	14,682
Total expenditures/expenses	<u>8,175,644</u>	<u>337,914</u>	<u>8,513,558</u>	<u>9,487,249</u>	<u>9,487,249</u>	<u>973,691</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	182,648	(134)	182,514	(505,997)	(505,997)	688,511
Other financing sources (uses) net	<u>310,722</u>	<u>-</u>	<u>310,722</u>	<u>-</u>	<u>-</u>	<u>310,722</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	493,370	(134)	493,236	(505,997)	(505,997)	999,233
Balance beginning of year	<u>1,436,146</u>	<u>33,525</u>	<u>1,469,671</u>	<u>1,734,657</u>	<u>1,734,657</u>	<u>(264,986)</u>
Balance end of year	<u><u>1,929,516</u></u>	<u><u>33,391</u></u>	<u><u>1,962,907</u></u>	<u><u>1,228,660</u></u>	<u><u>1,228,660</u></u>	<u><u>734,247</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2012

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%
2012	July 1, 2009	-	535,586	535,586	0.0%	3,738,000	14.3%

See Note 8 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.

SUPPLEMENTARY INFORMATION

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2012

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity	Debt Service	
	\$	\$	\$	
Cash and pooled investments	49,972	159,456	-	209,428
Receivables:				
Property tax:				
Delinquent	1,705	-	-	1,705
Succeeding year	130,000	-	82,565	212,565
Total assets	181,677	159,456	82,565	423,698
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	-	4,837	-	4,837
Deferred revenue:				
Succeeding year property tax	130,000	-	82,565	212,565
Total liabilities	130,000	4,837	82,565	217,402
Fund balances:				
Restricted for:				
Management levy	51,677	-	-	51,677
Student activities	-	154,619	-	154,619
Total fund balances	51,677	154,619	-	206,296
Total liabilities and fund balances	181,677	159,456	82,565	423,698

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2012

	Special Revenue Funds			Total
	Management	Student	Debt	
	Levy	Activity	Service	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	115,397	-	-	115,397
Other	10,358	215,591	-	225,949
Total revenues	<u>125,755</u>	<u>215,591</u>	<u>-</u>	<u>341,346</u>
Expenditures:				
Current:				
Instruction:				
Regular	43,999	-	-	43,999
Other	-	193,430	-	193,430
Support services:				
Administration	34,674	-	-	34,674
Operation and maintenance of plant	37,310	-	-	37,310
Transportation	12,367	-	-	12,367
Other expenditures:				
Long-term debt:				
Principal	-	-	487,783	487,783
Interest and fiscal charges	-	-	51,460	51,460
Total expenditures	<u>128,350</u>	<u>193,430</u>	<u>539,243</u>	<u>861,023</u>
Excess (deficiency) of revenues over (under) expenditures	(2,595)	22,161	(539,243)	(519,677)
Other financing sources (uses):				
Operating transfers in	-	-	539,243	539,243
Net change in fund balances	(2,595)	22,161	-	19,566
Fund balances beginning of year	<u>54,272</u>	<u>132,458</u>	<u>-</u>	<u>186,730</u>
Fund balances end of year	<u><u>51,677</u></u>	<u><u>154,619</u></u>	<u><u>-</u></u>	<u><u>206,296</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Capital Projects Accounts

June 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets	\$	\$	\$
Cash and pooled investments	504,748	503,139	1,007,887
Receivables:			
Property tax:			
Delinquent	-	2,170	2,170
Succeeding year	-	218,743	218,743
Due from other governments	85,382	99,538	184,920
Total assets	<u>590,130</u>	<u>823,590</u>	<u>1,413,720</u>
Liabilities & Fund Balances			
Liabilities:			
Accounts payable	7,173	9,582	16,755
Deferred revenue:			
Succeeding year property tax	-	218,743	218,743
Income surtax	-	99,538	99,538
Total liabilities	<u>7,173</u>	<u>327,863</u>	<u>335,036</u>
Fund balances:			
Restricted for:			
School infrastructure	582,957	-	582,957
Physical plant and equipment	-	495,727	495,727
Total fund balances	<u>582,957</u>	<u>495,727</u>	<u>1,078,684</u>
Total liabilities and fund balances	<u>590,130</u>	<u>823,590</u>	<u>1,413,720</u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2012

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	507,417	267,681	775,098
Other	16,636	29,325	45,961
Total revenues	<u>524,053</u>	<u>297,006</u>	<u>821,059</u>
Expenditures:			
Current:			
Support services:			
Instructional staff services	-	370,714	370,714
Administration services	46,733	4,798	51,531
Operation and maintenance of plant	-	122,669	122,669
Other expenditures:			
Facilities acquisition	182,519	39,505	222,024
Total expenditures	<u>229,252</u>	<u>537,686</u>	<u>766,938</u>
Excess (deficiency) of revenues over (under) expenditures	<u>294,801</u>	<u>(240,680)</u>	<u>54,121</u>
Other financing sources (uses):			
Proceeds from capital lease	-	310,722	310,722
Operating transfers out	(368,595)	(170,648)	(539,243)
Total other financing sources (uses)	<u>(368,595)</u>	<u>140,074</u>	<u>(228,521)</u>
Net change in fund balance	(73,794)	(100,606)	(174,400)
Fund balances beginning of year	<u>656,751</u>	<u>596,333</u>	<u>1,253,084</u>
Fund balance end of year	<u><u>582,957</u></u>	<u><u>495,727</u></u>	<u><u>1,078,684</u></u>

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2012

Account	Balance	Revenues	Expenditures	Intra-fund Transfers	Balance
	Beginning of Year				End of Year
	\$	\$	\$	\$	\$
All athletics	2,236	12,598	7,079	-	7,755
Cross country	674	812	1,282	930	1,134
Football	7,521	17,519	17,452	-	7,588
Volleyball	3,196	12,872	12,507	1,500	5,061
Boys basketball	2,560	13,381	11,113	1,404	6,232
Girls basketball	3,332	6,974	6,268	984	5,022
Boys track	2,337	2,683	1,308	120	3,832
Girls track	1,540	2,023	1,563	612	2,612
Boys golf	301	12	179	800	934
Girls golf	99	1,200	1,541	1,100	858
Baseball	56	12,189	11,457	1,146	1,934
Softball	2,098	8,883	10,069	399	1,311
Wrestling	2,938	7,159	6,460	1,470	5,107
Band	3,711	1,353	2,532	1,300	3,832
Chorus	3,248	429	2,501	3,300	4,476
Senior class	208	99	495	470	282
Junior class	679	770	2,540	2,288	1,197
Sophomore class	2,967	5,810	3,235	(2,967)	2,575
Class special	108	-	240	209	77
HS activities	2,481	29,483	12,235	(16,520)	3,209
Art club	240	-	-	-	240
Cheerleaders	4,623	10,508	6,935	-	8,196
Computer club	418	-	-	-	418
Drama club	2,787	1,165	2,118	-	1,834
FCA	3,567	-	40	-	3,527
FFA	8,267	16,840	14,824	-	10,283
Industrial tech. club	353	155	-	-	508
Library reading club	620	58	-	-	678
Marketing club	4,549	2,897	3,310	-	4,136
Oracle yearbook	13,834	5,640	3,130	-	16,344
Science club	504	-	-	-	504
Spanish club	3,197	11,130	13,761	455	1,021
Student council-HS	1,629	1,857	2,288	-	1,198
Speech club	2,801	5,588	3,640	-	4,749
Student council K-4	14,821	7,788	6,766	1,000	16,843
Unallocated interest	4,643	832	616	-	4,859
MS all athletics	-	-	140	140	-
MS football	-	-	781	781	-
MS volleyball	-	-	1,300	1,300	-
MS basketball	-	-	2,173	2,173	-

See accompanying independent auditor's report.

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

Year ended June 30, 2012

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
MS wrestling	-	-	341	341	-
MS track	-	500	365	-	135
MS golf	113	-	-	-	113
MS baseball	-	-	1,366	1,366	-
Bowling	187	1,556	1,556	-	187
MS softball	-	447	1,128	681	-
MS vocal music	-	-	225	225	-
MS band	1,168	950	2,551	1,187	754
Middle school activities	2,780	10,713	8,673	(4,582)	238
MS student council	13,598	2,904	2,071	(2,082)	12,349
Checking interest	5,070	244	-	-	5,314
Concessions	1,530	-	-	(1,530)	-
June 30, 2011 accrual entries	(1,131)	(2,430)	(3,561)	-	-
June 30, 2012 accrual entries	-	-	4,837	-	(4,837)
Totals	132,458	215,591	193,430	-	154,619

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

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

For the Last Nine Years

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:									
Local sources:									
Local tax	3,844,170	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	331,592	285,033	318,811	354,080	252,675	213,057	204,989	198,123	207,060
Other	382,764	410,828	263,190	399,326	370,805	344,053	369,380	295,101	286,971
Intermediate sources	-	-	-	-	200	514	378	486	-
State sources	3,535,665	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	264,101	541,113	335,296	248,765	179,714	415,670	459,728	281,937	220,990
Total revenues	<u>8,358,292</u>	<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	2,894,198	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	1,095,134	1,018,411	966,916	1,084,474	895,547	781,369	809,660	742,105	691,506
Other instruction	1,078,866	1,119,492	1,101,202	800,334	622,302	701,793	711,725	649,366	662,830
Support services:									
Student services	124,432	94,490	111,163	101,907	92,051	83,672	99,065	137,792	138,479
Instructional staff services	443,071	45,571	128,298	115,384	115,049	124,973	202,088	175,448	152,242
Administration services	638,494	608,326	546,168	603,770	603,694	629,847	607,126	606,568	564,238
Operation and maintenance	597,792	538,339	522,502	561,917	519,030	504,485	489,417	457,928	436,054
Transportation services	284,090	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	222,024	90,538	90,352	998,565	424,639	151,556	137,350	55,676	66,050
Long-term debt:									
Principal	487,783	385,000	375,000	340,000	1,780,000	250,353	243,489	236,000	346,000
Interest and other charges	51,460	61,574	74,150	106,137	78,663	89,450	99,950	111,101	126,519
AEA flowthrough	258,300	294,129	290,153	268,979	262,127	257,735	252,209	252,328	255,572
Total expenditures	<u>8,175,644</u>	<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.

Gary E. Horton CPA

PO Box 384
Clarion, IA 50525-0384
(515)532-6681 Phone
(515) 532-2405 Fax
BETCO@mchsi.com E-mail

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, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 22, 2013. 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

The management of Hartley-Melvin-Sanborn Community School District is responsible for establishing and maintaining effective 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 Responses, 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 I of the accompanying Schedule of Findings and Responses as items 12-I-A and 12-I-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 II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Hartley-Melvin-Sanborn Community School District and other parties to whom Hartley-Melvin-Sanborn Community School District may report, 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 22, 2013

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

12-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, 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.

12-I-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 Responses

Year ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

- 12-II-A Certified Budget: Expenditures for the year ended June 30, 2012, did not exceed the amounts budgeted.
- 12-II-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.
- 12-II-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 12-II-D Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Bill Treimer, Board Member, Co-owner of local insurance agency	School insurance policy	84,791
Daniel Duncan, employee, owner of Dan's Electric	Supplies and use of boom truck	529

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

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

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

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

Conclusion: Response accepted.

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

Year ended June 30, 2012

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

12-II-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

12-II-H Supplementary Weighting: The calculation for supplemental weighting reported to the Iowa Department of Education at October 2011, incorrectly included students attending college classes that were not in session and attending college classes that were not accredited. Total supplemental weighting was overstated by 1.18 students.

Recommendation: The District should review its procedures for determining allowable classes for supplemental weighting.

District Response: We will review our procedures.

Conclusion: Response accepted.

12-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

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

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

12-II-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, 2012, the following information includes the amounts reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2012 audit:

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

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

Beginning balance	\$	\$
		656,751
Revenues/transfers in:		
Statewide sales, services and use tax revenue	507,417	
Other	<u>16,636</u>	524,053
Expenditures/transfers out:		
School infrastructure construction	229,252	
Transfers to debt service fund	<u>368,595</u>	<u>597,847</u>
Ending balance		<u>582,957</u>

For the year ended June 30, 2012, 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	1.27167	335,318

12-II-M 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.

HARTLEY-MELVIN-SANBORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

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

12-II-N Reclassification of Student Activity Fund Accounts: In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), monies in the Student Activity Fund should be used to support only the extracurricular and co-curricular activities offered as part of the District's educational program. All Student Activity accounts should be for a specific extracurricular or co-curricular activity, there should not be any miscellaneous accounts. We noted that the Student Activity Fund contains miscellaneous accounts titled High School Activities, Middle School Activities and Elementary Student Council. The transactions included in these accounts do not appear to be extracurricular or co-curricular in nature.

Recommendation: The District should review and reclassify these accounts to the appropriate fund in accordance with the Iowa Department of Education guidelines.

District Response: We will review the activity in the accounts and make any necessary fund reclassifications.

Conclusion: Response accepted.

12-II-O Public Hearing: The Code of Iowa requires that schools hold a public hearing for all capital improvements with a cost exceeding \$125,000. We noted that the Board approved a capital improvement, but minutes did not document that a public hearing was held.

Recommendation: The District should hold public hearings for all capital projects with cost in excess of \$125,000 and the board minutes should state that the public hearing was held.

District Response: We will do this in the future.

Conclusion: Response accepted.

12-II-P Physical Plant and Equipment Levy Fund Expenditures (PPEL): The PPEL property tax levy may be spent to purchase and improve grounds; to construct buildings; to purchase or lease equipment or technology exceeding \$500 in value; to repair, remodel improve, or expand buildings; for energy conservation; and to purchase transportation equipment.

We noted that the District used the PPEL Fund to pay \$1,765 for kitchen equipment repairs. Equipment repairs are not allowable from the PPEL Fund. The District did, however, pay \$2,349 for kitchen equipment from the School Nutrition Fund which could have been paid from the PPEL Fund.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from each fund and pay bills from the correct fund.

District Response: We will monitor expenditures from the PPEL Fund and not pay for any equipment repairs.

Conclusion: Response accepted.